Case Number: 2012-0659-F

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Somalia Files, 1992-1993 [loose] [5]				
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. memo	Tim Tyler to the Interagency Working Group, re: Draft International Programs and Resources (1 page)	04/00/1993	P1/b(1)
001b. paper	Where We Go With Security Assistance (8 pages)	04/07/1993	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Security Council
Transnational Threats (Clarke, Richard)
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Somalia Files, 1992 - 1993 [loose] [5]

2012-0659-F
ke4211

RESTRICTION CODES

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Richard A. Clarke
IWG Meeting on PRD-20
Thursday, April 8, 1993, 3:00 P.M.
OEOB, Room 208

DRAFT

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

April 7, 1993

TO: MEMBERS OF IWG FOR PRD 20

FROM: ERNEST J. WILSON III

SUBJECT: PRD 20: **GOALS AND OBJECTIVES** FOR INTERNATIONAL PROGRAMS AND RESOURCES

The President has, on a number of occasions, set forth broad goals for his Administration. Most generally, these include the 'three pillars' of **economic growth, security, and democratization**. American international programs should promote these goals and resources should be allocated to them accordingly.

Stated in more operational terms, the broadest national goals are:

1) **Economic Growth at Home, Abroad & in the Global System:** Our national goals should start with raising Americans' standard of living and expanding their economic opportunity, while remaining internationally competitive; expanding markets abroad is the main way to achieve these efficiencies. Also, the fruits of domestic and global growth should be equitably distributed to narrow income gaps and sustain economic expansion. Restoring prosperity at home will sustain U.S. leadership abroad and stoke the main engine of global growth -- the U.S. economy.

2) **Global and Regional Security**
American values and American interests cannot thrive in a world beset by military conflicts, cross border battles and civil wars. Regional and global insecurity undercuts American opportunities for trade and commerce, creates refugee problems and pulls money and attention away from other national and global problems. The threat of nuclear war remains, even if diminished, and terrorism remains a clear and present danger. As the remaining superpower, we have an interest in not letting small security problems get to be larger ones into which the U.S. might be drawn, or be forced to expend financial or diplomatic resources. (e.g., Bosnia).

Therefore, our goal is to maintain qualitatively superior defense forces as we substantially re-design our force structure to reflect new realities.

3) **Open, Humane and Democratic Global System**
President Clinton has stated that democracy is a guiding principle of the Administration. He has declared that "Our strategic interests and our moral values are both rooted in

this goal. As we help democracy expand, we make ourselves and our allies safer. Democracies rarely go to war with each other or traffic in terrorism. They make more reliable partners in trade and diplomacy. Growing market economies expand individual opportunity and social tolerance."

Concentrating on democratic values and processes will also strengthen democratic traditions in the United States; an open, humane and democratic global system also requires enhanced communications and coordination among the industrial democracies through the G-7 and other means.

NGOs and PVOs could be relied on more heavily to reach populations more directly. NGOs could gain greater access to policy making and implementation in this country and abroad. This might help 'democratize' policy.

FROM THREE BROAD GOALS TO POLICY OBJECTIVES

In order to relate these broad national goals to particular policies and institutions we have identified several **intermediate national objectives** that tie concrete USG activities to our broadest goals. In addition, these policy objectives tie together the three major goals we seek. These important intermediate goals include the following:

Democratic Sustainable Development

Democratic sustainable development is a policy objective that should define much of America's relationships with former communist countries and with the world's poor countries. Democratic Sustainable Development is as relevant for our relationships with Russia as they are for Rwanda. (Since different goals with different kinds of countries.)

The term has several key aspects. Democratic sustainable development is a stool that stands on three legs -- economic sustainability; political/democratic sustainability; and resource and environmental sustainability.

"Economic sustainability" means that countries can obtain the requisite inputs into the economy which can bring about sustainability, including appropriate technology, appropriate capital levels and instruments, and 'appropriate' labor inputs (healthy and educated work force). The socio-economic aspect is important as well -- our objective should be societies where inequalities are being reduced -- where income gaps are shrinking between rich and poor, and gender discrimination is reduced. Long-term inequalities do not promote sustainability.

The second leg is environmental and resource sustainability. We cannot envision growth in Eastern Europe or East Africa if the physical environment is consumed and degraded. The third leg is democratic political sustainability. Dictatorships are stable in the short-term but eventually crumble. Democratic regimes are more open and have ways for citizens to make known their views to government, and government can be changed peacefully.

This process of development can also promote U.S. economic, political and security interests, as well as meet our humanitarian concerns.

Finally, democratic sustainable development is long-term in nature. The development process creates profound challenges that cannot be solved overnight. (This is in the interest of America.) To support democratization seriously we must anticipate the twists and turns and ebbs and flows in the process. Democratic Sustainable Development is a policy objective which is very multi-dimensional and directly promotes all three of the Administration's goals. There are other policy objectives which are more focussed. These include:

-- **promoting U.S. international trade and investment and supporting an open and fair trading system;**

-- directly related to our global and regional security interests are **international peace-keeping and nonproliferation;**

-- other non-traditional global policy objectives are new and notable, including **refugee and humanitarian assistance, population programs, and international health matters** (such as AIDS).

The Interdependence Among our Objectives.

The sophisticated observer recognizes that these goals overlap. They may be mutually reinforcing and/or mutually undercutting. Their relevance will vary from country to country, and some goals will be more relevant at certain times than at others.

The challenge is to recognize the links between these three goals and the objectives, and to promote as much **complementarity** as possible, and to reduce the overlap and redundancy in our programs.

POLICY OBJECTIVES, PROGRAMS AND AGENCIES

The "Global 2000" Report by the State Department recognized that new global conditions demand new global goals for United States diplomacy, and these in turn require new organizational forms and relations. This holds true for all American agencies with international missions. Some of these adjustments will be internal to agencies; others will require new relations between agencies. This could involve more joint actions, funding of one agency by another, and enhanced monitoring and coordination.

One option for the latter would be an annual or semi-annual interagency meeting to discuss international program goals and to set priorities for the upcoming year. A rolling and flexible indicative plan could be prepared with a four or five-year time horizon to underline Administration medium-term objectives.

Goals and Evaluation.

We cannot divorce goals, objectives and programs from their implementation. Treasury and AID insist on, for example, much better methods of **evaluation** for international programs. Evaluations would ask, "Who actually benefits from these programs, and how much does it cost to deliver a unit of 'benefit' to the ultimate recipient?"

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

April 7, 1993

TO: MEMBERS OF IWG FOR PRD 20

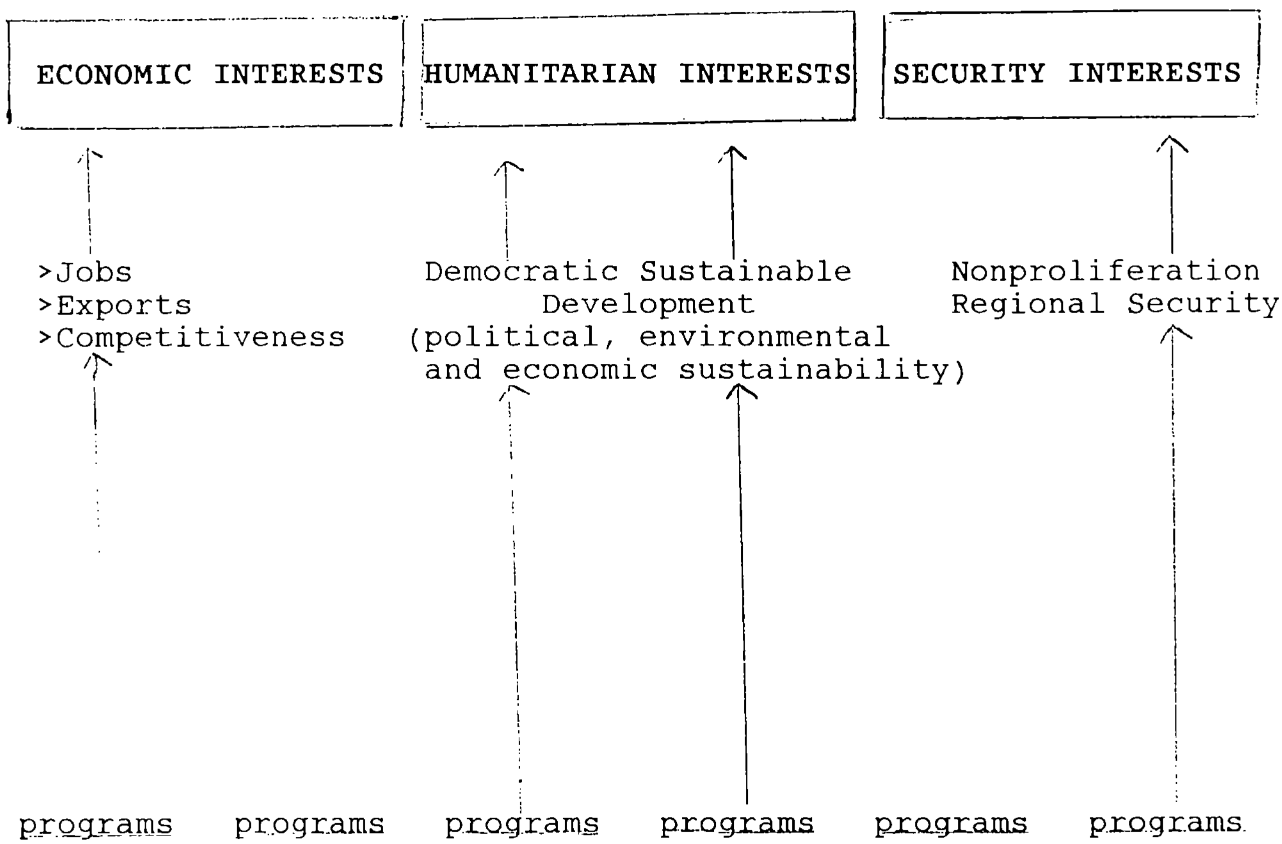
FROM: RICHARD CLARKE
BOB FAUVER

SUBJECT: International Programs and Resources - PRD 20

The attached draft paper on goals and objectives will be one of four discussed at tomorrow's meeting of the PRD 20 IWG.

The meeting will take place in Room 208, OEOB, at 3:00 p.m. Mssrs. Clarke and Fauver will chair.

U.S. INTERESTS, OBJECTIVES AND PROGRAMS



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Distribution

room: ______ date: April 7, 1993

Department of the Treasury

Office of the Assistant Secretary for International Affairs

Office of Multilateral Development Banks

PRD 20: BILATERAL AND MULTILATERAL INSTRUMENTS

Attached for your review/comment is a "staff discussion paper" (i.e., informal and uncleared) draft on the bilateral and multilateral instruments section of PRD 20.

As I noted on Monday, I would appreciate your help in filling in some of gaps on the bilateral (also UN) side. These should probably be incorporated into the text before it is circulated for wider inter-agency staff comment.

Thanks.

Distribution:

Dick Mc Call, State
Larry Saiers, USAID
Tom Engle, State

cc: Mr. Ernest Wilson, NSC

Brian G. Crowe
Deputy Director
room 5400
phone 622-1221

BILATERAL AND MULTILATERAL INSTRUMENTS

A. The Key Issues

Bilateral and multilateral assistance both make crucial and generally mutually reinforcing contributions to the Administration's international interests and objectives.

The rapidly changing international environment and tight U.S. budgetary constraints raise two key inter-related issues which will eventually have to be addressed:

(1) whether the current U.S. bilateral/multilateral mix represents the most effective balance for achieving Administration goals, and

(2) where changes, within or between the bilateral and multilateral accounts, may be needed either to: (a) strengthen the impact of U.S. assistance, or (b) to conform to U.S. budget realities.

These are complex issues, particularly given the large degree of complementarity among programs. The fact that both U.S. bilateral agencies and the multilateral development banks are undertaking comprehensive steps to improve their institutional effectiveness adds another, albeit welcome, complication in that it could take a number of years before the impact of such efforts can be meaningfully assessed.

Consequently, this paper will not make any recommendations for any immediate shifts in U.S. funding, although it does suggest considerations on which future determinations should be based.

B. Overview

Global political and economic trends suggest an uncertain and challenging world environment for the remainder of the 1990s with large and varied demands for international assistance resources from developing countries and from countries in transition to democracy and market-based economies. At the same time, the budgetary resources of the United States and many other donor countries are tightly constrained. This underscores the need to ensure cost-effective and flexible delivery mechanisms, as well as greater selectivity with regard to both objectives and the choice of individual country recipients (e.g., greater concentration on reform-minded governments able to use assistance effectively).

The intent of this section is to identify key characteristics of United States bilateral and multilateral assistance instruments, and to establish an operational framework for better assessing their importance and effectiveness in meeting U.S. foreign assistance goals and objectives.

The International Affairs Programs of Budget Function 150 cover a broad range of bilateral programs plus four multilateral programs, of which the multilateral development banks (MDBs) is the largest. As shown below, the four multilateral components account for 15.4 percent of the FY 1993 program and 18.4 percent of the FY 1994 request.

	FY 1993 Enacted		FY 1994 Budget	
	Amt ($m)	%	Amt ($m)	%
Total Bilateral of which	17,871	84.6%	17,598	81.6%
AID	2,974	14.1%	2,886	13.4%
FMF	3,395	16.1%	3,353	15.5%
ESF	2,690	12.7%	2,582	12.0%
Food Aid	1,553	7.4%	1,516	7.0%
Other	7,259	34.4%	7,261	33.7%
Total Multilateral of which	3,248	15.4%	3,969	18.4%
MDBs	1,523	7.2%	1,923	8.9%
United Nations	913	4.3%	959	4.4%
Other International	325	1.5%	390	1.8%
Peace Keeping	487	2.3%	697	3.2%
Total Program	21,119	100%	21,567	100%

Since 1977, bilateral development assistance levels have held fairly steady in real terms. Food assistance and multilateral contributions have declined in real terms, with development assistance decreasing as a foreign assistance share relative to military assistance.

Given the wide scope of U.S. bilateral programs, the discussion on the bilateral accounts which follows will be rather general, although this also reflects the fact that many of these programs have a number of characteristics in common. In the case of the multilateral accounts, the principal focus will be on the MDBs.

This review does not include a discussion of the International Monetary Fund, given the unique mandate of that institution and the fact that the Quota Increase approved last year is expected to fund its financial requirements over the medium-term.

C. Comparison with Other Donors

The foreign assistance programs of all significant donors have both bilateral and multilateral components. Focussing only on official development assistance (ODA), data compiled by the Development Assistance Committee (DAC) of the OECD show the share of U.S. ODA channelled to multilateral organizations over the period 1989-1991 at 19 percent. This is slightly below the DAC average of 21 percent. (The DAC average would be 28 percent if European Community member contributions to EC assistance programs are counted.)

G-7 Contributions to Multilateral Institutions
as a Percentage of total ODA: 1989-1991

Canada	32 %		Italy	23%	(37%)*
France	11 %	(22%)*	U.K.	22%	(44%)*
Germany	18 %	(33%)*	U.S.	19%	
Japan	23 %		**Total DAC**	**21%**	**(28%)***

* including contributions to EC programs.

DAC data also show the proportion of the total aid channelled by DAC members to multilateral programs rising in the 1970s and declining in the 1980s (See TAB 1).

D. Roles of Bilateral and Multilateral Assistance

Common Themes:

As both bilateral and multilateral programs have sought to address an increasingly complex array of demands for their services, program managers have often found it difficult to place operational priorities into a coherent policy framework based on comparative advantage. This is a key issue in the current review of AID. It is also a fundamental and on-going problem in sorting out the most appropriate division of labor between the World Bank and the regional banks.

Bilateral assistance with its many and varied components has a more diverse mandate than multilateral assistance. However, given a mutual underlying goal of promoting economic development and stability, there is often substantial overlap both in country coverage and the nature of the assistance. Thus it is not surprising that the current operations of bilateral and multilateral aid institutions in such areas as Sub-Saharan Africa, Eastern Europe, and the Former Soviet Union are in many ways complementary and characterized by active and close coordination. MDB efforts to advance policy reform and adjustment also facilitate the effectiveness of bilateral assistance.

The efforts of bilateral and multilateral instruments to advance economic and political stability also have enormous, but difficult to quantify, "preventive benefits" with respect to situations such as those currently confronting Yugoslavia and Somalia.

A breakdown of the recipients of bilateral and multilateral assistance by geographic region is as follows: **(TO BE PROVIDED)**

Bilateral:

The United States, as the world's only "superpower" with a uniquely global perspective, has independent political and economic interests and concerns in developing countries, Eastern Europe, and the Former Soviet Union that can be best served through bilateral assistance.

The FY 1994 International Affairs Budget is developed around five mutually reinforcing objectives: building democracy; promoting economic growth at home and abroad; promoting and maintaining peace; addressing global problems; and meeting urgent humanitarian needs.

There are a large number of bilateral instruments employed to implement specific tasks on this agenda including security assistance, base rights and access, Middle East Peace, development and food-aid assistance, international information exchange, and direct support for U.S. exports. Support for non-proliferation of weapons and delivery systems is an increasingly pressing priority. Population control, environmental protection, and counter-narcotics efforts are of growing importance.

While AID has a broad development mandate, the question of the extent to which its efforts should concentrate on small scale operations -- e.g., capacity building projects involving NGOs in agriculture, health and education -- is under active review. AID has also elevated its support for private sector development.

Multilateral:

The changing global political equation has revitalized the relevance of the internationally collaborative role played by the United Nations and other international organizations. The benefits of the U.N. process were particularly evident during the Gulf War, and are visible in the peacekeeping operations now underway in Somalia, Yugoslavia, and other unstable areas.

Support for the World Bank and the four regional banks -- the Inter-American Development Bank (IDB), Asian Development Bank (ADB), the African Development Bank (AFDB), and the European Bank For Reconstruction and Development (EBRD) -- accounts for 8.9 percent of the FY 1994 budget request. These institutions were specifically established to promote sustainable growth in developing countries. With the exception of the EBRD, each has both a "hard" and "soft" loan window. The hard loan windows lend on near market terms to the more advanced developing countries. Loans are largely funded by MDB borrowings in international capital markets backed by the members' capital subscriptions. The soft loan windows, the World Bank's International Development Association (IDA) being the largest, lend on highly concessional terms to the poorest and least creditworthy developing countries. "Soft" loans are financed largely from donor contributions.

The MDBs' large financial resources and technical expertise give them a central role in the economies of many developing countries. The banks pursue a broad range of inter-related activities ranging from the adoption by borrowers of sound market-based economic policies that strengthen country and regional stability and contribute to a healthy world economy environment, to the effective implementation of sustainable development policies emphasizing poverty reduction and the provision of basic social services, environmental protection, and good governance. Annual MDB lending commitments total roughly $40 billion.

The MDBs are also repositories of important technical and analytical expertise. Their non-lending activities (e.g., resource mobilization, consultative groups, economic and sector work, policy guidance, and research) are of major and growing benefit to the international community. For many developing countries, the MDBs represent the most important source of expertise in development planning. The MDBs are also well positioned to play major roles in specialized collaborative multilateral efforts such as the Mediterranean Environmental Technical Assistance Program, the Gulf Initiative, and Global Environmental Initiatives.

E. Bilateral Instruments: Comparative Advantages and Other Operational Considerations.

(a) Control: The United States maintains full control over the allocation of bilateral assistance, including the nature and composition of the assistance, the policy conditions under which it is being extended, and the country and regional distribution. Any political credit from the assistance is clearly directly attributable to the United States.

This flexibility is essential when U.S. interests either dictate:

- support for activities (e.g., military assistance, promotion of U.S. exports, democratization) that are beyond the direct mandates of the multilateral institutions, or
- allocation to countries that are ineligible for multilateral assistance (e.g., Israel) or, as in the case of Egypt, warrant funding levels above that which the multilateral instruments are able to provide.

In practice, legislative micro-management and earmarking have substantially eroded AID's operational flexibility.

In the case of some recipients, the value of the U.S. "seal of approval" conveyed by bilateral assistance may facilitate AID's ability to leverage appropriate loan conditionality.

(b) Operational Structure: Unlike most multilateral institutions, AID concentrates a significant portion of its operational staff in the field. This provides the opportunity for staff to develop local expertise and establish valuable local relationships (including with NGOs) for facilitating both day-to-day project oversight and institution building. Overseas AID personnel are also active participants in local aid-coordination efforts with other members of the donor community including the MDBs. More effective utilization of the expertise of AID missions is a major on-going priority.

F. Multilateral Instruments: Comparative Advantages and Other Operational Considerations.

(a) Policy Reform: The MDBs' emphasis on policy reform and policy dialogue is central to their development mandate. Experience has demonstrated that borrowing countries are more likely to accept and act on loan conditions set by the MDBs than on those set by bilateral donors. Although solidarity of bilateral donors has at times been an important complementary factor in inducing reforms, the World Bank has been particularly effective in orchestrating this policy coordination among donors in a way that in most cases (Kenya being a notable current exception) downplays strains on bilateral relations.

In addition, effective cross-conditionality among donor programs has proved to be a very powerful tool. This type of conditionality and donor coordination has concentrated largely on economic policies, but has considerable potential for improving donor efforts in such specific areas as poverty reduction and environmental protection. It is broadly recognized, however, that the World Bank and the regional MDBs need to do much more to strengthen operational collaboration.

b) Leveraging of U.S. Contributions

The cost effectiveness of the MDBs is demonstrated by the extent to which United States' financing generates substantially larger levels of lending.

- Because paid-in subscriptions to the hard loan windows are much smaller than the callable portions, relatively low budget outlays are highly leveraged. For example, for every dollar of U.S. paid-in capital, the World Bank has lent almost $119. There is also major leveraging in the hard loan windows of the regional MDBs: $40:1 in the IDB, $60:1 in the ADB, and $88:1 in the AFDB. (The EBRD has not been operating long enough to derive a meaningful, comparable number.)

- Leveraging in the soft loan windows is less than in the hard windows, but is still significant, e.g., for every dollar the U.S. will contribute to the Tenth Replenishment of IDA, IDA will be lending almost six dollars.

This capacity for leveraging enables the MDBs to mobilize far more assistance than is feasible from the accounts of bilateral donors. Consequently, the United States has consistently encouraged and heavily relied on the international financial institutions to address country and regional issues of critical importance to United States' interests. Examples include:

<u>past</u>
- Baker/Brady debt plans, particularly Latin America.
- Sub-Saharan Africa reform (ongoing effort).
- Assistance to countries affected by Gulf Crisis.
- Eastern Europe reform.

<u>current</u>
- Support for Russia and other FSU republics.
- Support for India's new economic reform efforts.
- Lebanon reconstruction and other Middle East initiatives.

<u>future</u>
- World Bank and ADB roles in the Asian FSU republics.
- Reconstruction of Indo-China.
- Support for new government in South Africa.

The amount of resources that the MDBs can mobilize is illustrated by the recent efforts of the World Bank and the IDB to provide financial assistance and policy guidance to help revive the economies of Latin America, the fastest growing market for United States exports. Over the last <u>five</u> years, new MDB commitments to Latin America totalled about $50 billion, with Mexico accounting for about $13.5 billion.

(c) <u>U.S. Influence</u>

<u>Process</u>: The United States needs to approach MDB issues by seeking the support of other contributor countries, especially the OECD members. The United States does not have sufficient voting power to impose change unilaterally, no matter how desirable our goals may appear to us.

The management and career staff of these institutions reflect their international character, and in some cases the biases and beliefs, of their member countries. In this respect, the process of seeking change is as important as our objectives. We need to avoid the appearance of dictating policy, which experience has demonstrated to be counterproductive, while at the same time maintaining U.S. leadership. This is a delicate balance.

Legislative restrictions that impose undesirable rigidity in bilateral programs pose an additional problem for the multilateral programs. Most MDB members, including other G-7 countries, resent U.S. pressure to implement policy initiatives that they perceive as dictated primarily by U.S. legislation. In such cases, other members argue that an international institution should not be driven by the legal prescriptions of one member country. It is far easier to sell proposals for policy changes on their merits, where a genuine dialogue makes other members feel part of the decision-making process.

Status: Despite a decline in the U.S. share of MDB contributions, we have retained a major influence in shaping MDB policies and operations. The United States exercises aggressive oversight of its interests in the MDBs. As a result, most of our key objectives -- e.g., greater MDB stress on country performance and market forces, and renewed emphasis on poverty reduction, private sector development and the environment -- are now broadly shared by other donors. This was recently reflected in the sound policy framework negotiated by more than thirty donor countries for the IDA-10 replenishment where the U.S. share of funding (20.86%) is only slightly above that of Japan (20.00%).

While moving in the right direction, the pace of progress in some areas, e.g., implementation of environmental protection procedures, access to information on MDB projects, and local participation in MDB projects, is not as fast as we would like.

The country allocation of MDB funding also accords well with U.S. interests, notable exceptions being World Bank lending to Iran, AFDB Bank lending to Sudan, and lending by both institutions to Equatorial Guinea. The issue of MDB lending to China has also posed difficulties for the United States. In another politically sensitive situation, the United States has up to now been successful in its efforts to delay a resumption of MDB lending to Vietnam.

U.S. influence -- which has also enabled us to be very responsive to key Congressional concerns -- is strongest in the World Bank and the IDB, where we have a substantially larger voting share than any other donor and where U.S. influence is most "visible", and weakest in the AFDB where regional members are most influential. In the ADB and EBRD, U.S. influence in shaping policy direction is proportionally greater than our voting share.

Influence and Financial Support: We are now at a critical point where the Europeans and Japanese are working actively to increase their own leverage in the MDBs to a level commensurate with the increased financial support they are now providing to the institutions. In this context, they have specifically pointed out the inconsistency between U.S. efforts to promote policy change in the MDBs and our declining share of financial contributions to the MDBs and our inability to meet internationally agreed funding commitments to the institutions. United States budgetary realities, including $374 million in MDB arrears, underscore the enormous challenge we face in managing our financial support for the MDBs in a way that safeguards U.S. interests and retains U.S. policy leadership in the institutions.

G. Effectiveness

The extent to which assistance achieves its intended effects is of paramount importance. For development lending, the rising incidence of unsatisfactory project performance is a serious concern. Performance problems affect all the MDBs, as well as bilateral donors, and reflect two key realities:

(1) the inherently difficult task of development, including the serious constraints posed by weaknesses in borrowers' implementing institutions. The ultimate responsibility for operational success or failure depends heavily on the borrowing countries. Managerial and institutional limitations are particularly acute in low income countries, e.g., in Sub-Saharan Africa. The fact is that countries with the greatest need for external assistance are often the ones least able to use it effectively. While efforts are underway to strengthen developing country skills and institutions, such capacity building is a difficult, long-term effort.

(2) deficiencies in donor processes and procedures, including an over-emphasis on lending quantity as compared to lending quality.

Unfortunately, most borrowers and even some donors (e.g., France with regard to Africa, Japan with regard to Asia, the Nordics, and the Netherlands) attach far too much importance to the "resource transfer" role of the MDBs as compared with their role as development institutions. This often makes these countries reluctant partners in the effort to promote quality rather than quantity, and leads to constant political pressure for ever increasing levels of MDB lending.

Among the MDBs, generally only the World Bank's management has been prepared to hold back hard loan window (IBRD) lending when the policy environment is inadequate. As a result, while lending by the hard loan windows of the regional MDBs has risen sharply in the FY 88-92 period -- in the case of the IDB, actively encouraged by the United States -- IBRD lending over the five year period has been maintained at a relatively steady level (although it will increase this year due to lending to Russia and other new borrowing country members).

There also have been occasional lapses in coordination among the MDBs, especially between the World Bank and the African Development Bank, resulting in instances of their working at cross-purposes.

The World Bank has recognized the problems in portfolio performance and commissioned a hard-hitting internal study (the "Wapenhans Report") aimed at correcting them. A comprehensive action program based on the recommendations made in the Wapenhans Report to improve portfolio performance will be initiated in May. This program has World Bank President Lewis Preston's strong personal commitment.

The United States has commended the Wapenhans process and has strongly encouraged and supported the adoption and implementation of a sound action program to carry out its recommendations. However, the need to improve project implementation still poses a major challenge for the other MDBs. The IDB and AFDB are also undertaking Wapenhans-type studies, and we are encouraging the ADB to do likewise.

The issue also poses a challenge for bilateral donors, including AID. This is underscored in a number of recent reviews of AID's program, including the December 22, 1992 report of The President's Commission on the Management of A.I.D. Resources, which noted that AID's "program effectiveness is declining and operating vulnerabilities are increasing."

H. Commercial Benefits

The most important U.S. commercial benefit from foreign assistance is the enhanced potential for U.S. trade and investment generated by increased economic growth, development, and policy reform. In addition, there are considerable procurement benefits arising from both bilateral and multilateral programs.

Within the bilateral program, efforts are made to use assistance resources whenever possible to bring in U.S. private sector capital, goods, services, and expertise. However, it is not uncommon for AID and other bilateral donors to promote the interests of domestic firms to an extent that jeopardizes sound development principles and priorities. At times, "white elephant" projects have been the result.

AID programs reflect federal government procurement policies modified to fit the unique circumstances of over 100 recipient countries. In general, competitive bidding is required. The United States and developing countries (including the recipient country) are eligible sources, although projects may impose more restrictive provisions (e.g., U.S. source procurement only). Certain sensitive commodities (e.g., food, vehicles, pharmaceutical products) must sometimes be procured from U.S. suppliers. In FY 92, U.S. suppliers received about 75 percent, or $3 billion, of goods and services contracts under AID programs, and 100 percent, or $1 billion, under the PL 480 program.

Procurement financed by the MDBs is untied resulting in procurement policies, particularly in the World Bank, that promote the use of the most economic and efficient methods of procurement. In most cases this is through international competitive bidding. International competition also seeks to ensure high quality project design and is intended to allow the borrowing country to use resources efficiently through the purchase of project consulting services, goods and equipment at the best available prices. Constant oversight of the procurement process by MDB management, the bidders, and the members' Executive Directors helps to mitigate political pressures surrounding the process. The United States attaches great importance to ensuring a level playing field.

U.S. firms have been reasonably successful in this untied competitive environment. The United States receives the largest share of overall MDB procurement. In World Bank FY 1992, U.S. firms received procurement disbursements of $1.3 billion on World Bank and IDA operations; in CY 1992, U.S. firms received approximately $900 million from the regional MDBs. USG programs to improve procurement performance include efforts to generate greater awareness and interest on the part of U.S. businesses, particularly those with existing or new products that have a competitive advantage in global markets.

I. The Issue of New Multilateral Institutions

As the nature of development challenges expands, there is a tendency to establish new institutions, e.g., there have been recent proposals for a South Asia Development Bank, and a Middle-East Development Bank. Use of existing institutions is usually highly preferable both on cost and efficiency grounds. There is also the strong probability that United States (and other G-7) influence in new institutions would be significantly less than it currently is in existing institutions.

J. Conclusion

- There are clearly defined national interests for both bilateral and multilateral lending programs. Each have different comparative advantages depending on the U.S. objectives they are intended to meet. These programs frequently complement, rather than substitute for, each other.

- The MDBs' ability to leverage U.S. funding provides them with far greater capacity to address major country, regional, and global issues than U.S. bilateral programs.

- It is critical to maintain and where possible strengthen U.S. influence in the multilateral institutions, particularly in the World Bank Group, which accounts for almost two-thirds of new MDB commitments.

- U.S. budget realities, including $374 million in outstanding MDB arrears, and the increased requirements for donor financing generated by international pressure to expand MDB lending, pose a threat to U.S. interests in the MDBs. This should be addressed in a threefold approach:

  (1) maintain a strong Administration effort to secure full funding of existing commitments;

  (2) contain future MDB financial requirements placed on donors by using new replenishment and capital increase negotiations to establish more moderate lending levels that better reflect each MDB's comparative advantage and reflect the changing needs of borrowing members; and

  (3) oppose the establishment of any new multilateral institution whose proposed mandate can be addressed effectively by existing institutions.

- Reform efforts now underway in AID and the World Bank are encouraging, should be pursued vigorously, and also should be replicated in other bilateral and multilateral institutions. Demonstrated success in improving lending processes and procedures should be a critical factor in determining the most appropriate future allocation of funding both among and between the bilateral and multilateral components of U.S. assistance.

Attachments:

(1) DAC Table on Trends in Contributions to Multilateral Institutions by DAC Countries.

(2) Recipients of bilateral and multilateral assistance by region and key country recipients. **(TO BE PROVIDED)**

TRENDS IN CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS
BY DAC COUNTRIES

	69/71	74/76	79/81	89/91
	Percentage of total ODA			
Australia	12	16	23	28
Austria	56	47	29	24
Belgium	13 (25)	16 (30)	15 (30)	25 (42)
Canada	23	34	40	32
Denmark	44 (44)	42 (45)	39 (46)	36 (42)
Finland	47	48	44	39
France	5 (11)	6 (14)	8 (16)	11 (22)
Germany	15 (24)	19 (32)	21 (33)	18 (33)
Ireland	.. ..	60 (85)	27 (66)	18 (60)
Italy	17 (34)	37 (78)	49 (83)	23 (37)
Japan	19	26	32	23
Netherlands	19 (26)	24 (34)	19 (26)	20 (29)
New Zealand	15	22	25	15
Norway	57	47	42	38
Portugal	1 ..	.. ..	.. ..	6 (24)
Spain	– –	– –	– –	16 (38)
Sweden	53	36	31	30
Switzerland	37	36	35	22
United Kingdom	23 (23)	32 (36)	24 (38)	22 (44)
United States	14	32	28	19
TOTAL DAC	16 (18)	25 (30)	25 (30)	21 (28)
As per cent of GNP	0.05 (0.06)	0.08 (0.10)	0.09 (0.11)	0.08 (0.09)
	$ million			
Total:				
In current prices and exchange rates	1 121 (1 291)	2 554 (2 970)	6 221 (7 683)	11 036 (15 410)
At 1990 prices and exchange rates	4 905 (5 649)	8 648 (10 229)	10 251 (12 657)	10 673 (15 091)
	Percentage of total multilateral			
Contributions to multilateral agencies				
IDA	35.9	33.9	32.7	27.7
UN	29.2	25.9	26.5	26.9
Regional banks	0.2	0.9	13.6	11.3
EEC	13.2	14.0	19.0	23.6
Other[a]	21.5	25.3	8.2	10.5

Note: In brackets, including EEC.
a) Mainly IFAD, IMF and small agencies active in developing countries.

Source: Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1992 Report, Table V-5, page 92.

(Still under USDOC review)

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Trade and Aid

In his campaign, President Clinton said that the United States needs to organize our economy to restore America's global economic leadership. Among other things, the export of manufactured goods and services contributes significantly to the health and competitiveness of our economy.

President Clinton has also stressed the need for government spending to focus on investment rather than consumption. In reviewing international programs through PRD 20, and trade promotion programs through the Trade Promotion Coordinating Committee, this principle should be applied.

The Importance of Trade

Since 1989, U.S. exports have grown by nearly 21% in real terms - manufactured exports have grown even faster - accounting for over 85% of the increase in the U.S. GDP. Exports are critical to job creation, and more specifically, to creating high-wage, high-tech jobs. Each $1 billion in exports creates 19,000 jobs, and export-related jobs pay better - 17% on average -- than others.

While recent years have shown strong growth in manufactured exports, there is still much ~~to do.~~ Growth slowed considerably in 1992 - from 9.3% in 1991, to 5% in 1992. Exports still account for only 7.5%of GDP, compared to much higher figures for our major trading partners. Despite an average annual export growth rate of 12% over the past 5 years, our trade deficit is growing again. It increased 29% in 1992 and continues to grow. At current trade deficit levels, U.S. exports have to grow about 20% faster than U.S. imports for the deficit to remain constant, let alone improve.

There is great potential for increasing both the volume of exports, as well as the number of exporting U.S. firms, since only 15% of U.S. merchandise exporters account for 85% of the current value of manufactured exports. The U.S. government has an important role in helping more U.S. firms become successful exporters, and developing the most effective ways of promoting U.S. exports is going to be an integral part of the Administration's economic strategy.

Virtually all of our major competitor nations have long recognized the importance of trade to their economic well being, and have invested considerable government resources to support trade promotion programs. Thirty years ago the United States was dominant in world markets, and the leader in almost every area of advanced technology. This is no longer the case,

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and U.S. firms need as much support overseas as their competitors receive from their governments, for without it they are at a competitive disadvantage.

While trade is important to the U.S. economy, it is also important to recipient countries, contributing to an improved standard of living for both, a win-win situation. Recent history has shown that developing countries which have established government policies supporting private sector development and a market economy open to international trade have grown far faster than their more reluctant counterparts.

Increasing wealth overseas can mean increasing wealth for the United States, as richer countries are more lucrative markets for U.S. goods - but only if U.S. firms are in the market. Increased trade, and the development of strong, open market economies contributes to a more stable and prosperous world for all. Thus, U.S. export promotion programs and U.S. international aid programs must work in tandem to promote faster economic development abroad, and simultaneously insure that U.S. firms participate more effectively in those developing markets.

The Trade Promotion Coordination Committee (TPCC)

As exports have assumed an increasingly important role in ensuring economic growth, the number of government agencies involved in trade promotion activities increased. In 1990 the TPCC was created by Presidential memorandum to better coordinate federal export promotion programs, to eliminate redundancies, and to focus attention on difficult and emerging markets. The Secretary of Commerce chairs this 19 agency committee.

The Export Enhancement Act of 1992 gave the TPCC statutory standing to coordinate federal export promotion and finance programs. It also requires the TPCC to provide to Congress by September 30, 1993 a strategic plan for federal export promotion efforts. The plan is to establish priorities for export promotion, and to propose budget allocations that reflect those priorities.

The broad goals of both the PRD 20 and the TPCC are to establish priorities, and focus programs and resources on those priorities - in effect make government work more effectively and efficiently. While reviewing international programs and reviewing trade promotion programs are not the same, they clearly have areas where coordination and complementarity would create a more synergistic outcome. Thus, it is appropriate for the trade promotion programs of foreign aid-related agencies to be reviewed as a part of the TPCC strategic plan.

The strategic plan will revolve around several trade promotion priorities. These include, among others, support of U.S. business interests abroad through advocacy, export financing to support the full range of U.S. companies, and business facilitation and outreach.

Issues

U.S. Commercial Interests and Economic Development:

What should be a premise of U.S. international programs - as is the case for virtually every other developed country - is the explicit recognition that U.S. economic and commercial well being and our economic assistance objectives are mutually supportive. The most important contribution the U.S. can make to economic progress in developing countries lies in our own growth and economic vitality. A strong U.S. economy generates increased markets for developing country exports. The greater the trading relationship the U.S. has with countries that are developing, the more robust their economies will be and the more quickly they will grow.

There are many areas where trade promotion and international aid can reinforce and leverage off each other, if programs are designed and implemented with the objective to maximize economic benefit for both the aid recipient country and the United States. These programs can be designed to make use of the special and distinct capabilities of each agency, without duplication or waste of limited resources, and are focused on investment rather than consumption type activities so that the long-term impact is much greater.

If we, as a nation, believe that an open, market economy is the best way for a country to develop a growing economy, able to provide for the needs of its population, then foreign assistance should be explicitly geared towards the kinds of investments that promote or support such change. There is a great opportunity for foreign aid to be applied in a way that also is designed to provide needed benefits to the U.S. economy by providing market opportunities through aid-supported projects. Our competitors are already reaping the benefits of applying assistance in this manner, placing U.S. firms are at a significant competitive disadvantage they cannot overcome on their own, and whose effects are long-term.

Virtually every other developed country recognizes that their own economic interests and their economic assistance objectives can be mutually supportive. Foreign aid programs can serve to strengthen high value jobs and export competitiveness in the United States, while supporting critical development projects necessary to the economic expansion of so many developing countries. This is particularly true of capital projects funding.

While the percentage of U.S. foreign assistance funds for capital projects has shrunk to a mere 5% of the AID budget (FY93), our competitor nations set aside up to 55% of their foreign assistance funding for capital projects. Donor countries view capital project support as an integral part of their foreign assistance programs and recognize the mutual benefits of such assistance - that is the recipient country's infrastructure is improved and the donor country's economy benefits through increased exports and employment.

Tied Aid: In 1992 the major industrial nations, through the OECD concluded a tied aid agreement intended to restrict trade distorting practices in this area. Without an overall strategy to compete for capital projects under the new OECD agreement, the U.S. export financing system will continue to have a very weak link in its chain.

This strategy, first of all, must aim at enforcing the OECD agreement and making sure that future aid projects meet the new rules. Early aggressive enforcement action is necessary for maintaining the OECD's new rules on tied aid.

Second, there is the question of how the U.S. Government is prepared to participate in tied aid projects that are allowed under the OECD agreement. The agreement permits tied aid in a middle range of developing countries for projects that are not "financially viable" (e.g., infrastructure, environmental clean up). This would be an obvious area for using foreign assistance funding in support of developmentally sound capital projects, in conjunction with a concerted USG advocacy effort in support of U.S. commercial interests relating to those projects.

Third, and additional problem is the issue of untied aid. Much of Japan's aid, for example, is officially untied, except for the engineering part of such grants. This exception is of critical importance since most equipment to be purchased is specified during the engineering phase of the project.

An overall strategy is needed to meet the competition in these areas which should involve close coordination between the aid-providing agency and trade promotion to apply the resources of the government in a concerted, coordinated fashion.

Capital Project Support/Infrastructure Fund: A capital projects fund of significant size can balance sound developmental objectives, simultaneously promote and support high value-added jobs in the U.S., and serve as a key part of a strategy to compete on allowable tied aid projects. Moreover, this is an area where aid can serve multiple purposes. It can be used as an incentive for trade or market policy reforms (trade policy objective), improve the standard of living or economic infrastructure of the recipient country (development objective), and provide an opportunity for U.S. firms to enter the market (trade promotion objective). It is a mutually beneficial arrangement.

The more coordinated and complementary the activities of the various agencies involved (e.g., State, AID, EXIM, TDA for the financial and trade policy aspects, and Commerce for trade promotion and trade policy support) the more effective will be the results. Modest funding devoted to capital projects can achieve significant results if used to leverage other available funding to support U.S. participation in these projects. New, creative programs with Commerce's procurement liason officers at the multi-lateral development banks offer important potential to leverage significant project funding.

Privatization/Market Reform: Technical or financial assistance programs to a developing country to promote privatization or other market access reforms should be directly coordinated with trade promotion programs to enable U.S. firms to take advantage of business opportunities that develop. This brings needed investment, products and technology into the country, and provides market entry for U.S. firms - again a win-win situation.

Export Finance - Export Promotion Linkage:
The need for export finance - export promotion linkage has been recognized by Congress in the Export Expansion Act of 1992, which requires the trade finance agencies (EXIM, TDA, OPIC, SBA) to work with the Department of Commerce/US&FCS to provide information and training on their programs so that US&FCS personnel are better prepared to counsel exporters on all aspects of export finance options available from the Federal government. The lack of adequate export finance, especially for small and medium-sized firms, has been at or near the top of the list of exporters, or would-be exporters, complaints.

In the TPCC, the Secretary of Commerce has also recognized the importance of developing strong finance-promotion links by having Deputy Secretary designate John Rollwagen and EXIM Chairman designate Ken Brody as co-chairs of the Deputies Group of the TPCC.

U.S. INTERNATIONAL AFFAIRS PROGRAMS (150): FOURTEEN CRITICAL FUNCTIONS
A FUNCTIONAL RE-STATEMENT FROM THE PERSPECTIVE OF U.S. CITIZENS & TAXPAYERS

FUNCTIONS:	BROAD MEASURES OF SUCCESS OR FAILURE:	TARGETS OF ASSISTANCE:	LEAD AGENCIES WITHIN 150:	SUPPORTING AGENCIES WITHIN 150:	SUPPORTING AGENCIES OUTSIDE 150:
ONE: **DEFENDING & ADVANCING SHARED DEMOCRATIC VALUES** The purpose of this function is to preclude potential U.S conflicts with foreign goverments whose interests may be anuthetical to our own, which may one day result in U.S. lives lost and/or large military expenditures.	Success: Number of New Friendly Democratic Countries Failure: Number of New Hostile Undemocratic Regimes	Former USSR Central/Eastern Europe Cuba/China/Korea/Vietnam Latin America	STATE DEPARTMENT	US INFORMATION AGENCY AID	EDUCATION DEPARTMENT
Bolstering New or Weak Democratic Governments			State Department	AID	
Dissemination of Information regarding Shared Democratic Values				USIA	
Exchange Programs aimed at Promoting Shared Democratic Values				USIA	Education Department
Technical Assistance in Building Democratic Insitutions					All Arms of Government
Introducing Democratic Values in Non-Democratic Countries				USIA	
TWO: **DAMPENING CONFLICTS & PRESERVING PEACE** The purpose of this function is to preclude potential regional or global armed conflicts, or terrorist incidents, which might precipitate U.S. military action, and thereby result in U.S. lives lost and/or large military/security expenditures.	Success: Number of Avoided U.S. Military Missions Failure: Number of Unavoided U.S. Military Missions	Middle East Balkan Region Former USSR Fringe Southern Africa Southeast Asia Central America	STATE DEPARTMENT	AID	DEFENSE DEPARTMENT FBI
Preserving Established Peace Agreements		Middle East	State Department	AID	
Promoting Ongoing Regional Peace Efforts		Middle East/Southern Africa	State Department	AID	
Peacekeeping/Peacemaking to Prevent Wider Conflicts		Balkan Region/Somalia	State Department		Defense Department
Efforts to Combat International Terrorism		Middle East	State Department		Defense Department/FBI
THREE: **CONTROLLING WEAPONS PROLIFERATION** The purpose of this function is to preclude proliferation of weapons of mass destruction, including nuclear and biological weapons, which might ultimately pose a major threat to U.S. security, including U.S. lives and property.	Success: Number of States/Groups Reducing Weapons Failure: Number of States/Groups Obtaining Weapons	Former USSR Middle East East Asia	STATE DEPARTMENT	ACDA	DEFENSE DEPARTMENT ENERGY DEPARTMENT
Limiting U.S.-Russia Strategic Arms		Former USSR	State Department	ACDA	Defense Department
Dismantling/Controlling Nuclear Weapons		Former USSR	State Department	ACDA	Energy Department
Dismantling/Controlling Chemical & Bacteriological Weapons		Former USSR	State Department	ACDA	Defense Department
Dismantling/Controlling Weapons Delivery Systems		Middle East	State Department	ACDA	Defense Department
Controlling Conventional Arms		Middle East/Central Europe	State Department	ACDA	Defense Department
FOUR: **PROTECTING U.S. GLOBAL COMMERCIAL MARKET SHARE** The purpose of this function is to help U.S. business and labor compete, on at least an equal playing field, with their competitors from other advanced industrial economies, thereby preserving U.S. employment, and advancing the global reach of U.S. business	Success: Improving U.S. Share in Key Markets Failure: Declining U.S. Share in Key Markets	GLOBAL: China/East Asia Latin America Former USSR Central/Eastern Europe	EXIMBANK AGRICULTURE DEPARTMENT OPIC TDA	AID STATE DEPARTMENT	COMMERCE DEPARTMENT TREASURY DEPARTMENT
Advancing Commercial U.S Exports of Manufactured Goods and Services		Global	Eximbank		
Advancing U.S. (Concessional) Involvement in LT Basic Infrastructure		Global	Aid / Eximbank		
Advancing Commercial U.S Exports of Agricultural Products		Global	Agriculture Department		
Advancing Concessional U.S Exports of Agricultural Products		Global	Agriculture Department		
Advancing U.S. Foreign Direct Investment		Global	OPIC		
Advancing U.S. Involvement in Project Engineering & Definition		Global	TDA/Eximbank		
FIVE: **SECURING U.S. ACCESS TO GLOBAL ECONOMIC RESOURCES** The purpose of this function is to help ensure a high degree of access, through business contracts, ownership interests, and open access, by U.S. business interests to economic resources on which the U.S. is currently, or likely to be dependent, such as energy, strategic metals and minerals, medicinals, industrial intermediate products, and technological processes.	Success: Favorable/equal access by U.S. business to specific global economic resources Failure: Greater access by foreign business interests to specific global economic resources	GLOBAL: Persian/Arabian Gulf Southern Africa Former USSR China/Southeast Asia	STATE DEPARTMENT	EXIMBANK AID OPIC TDP	COMMERCE DEPARTMENT US TRADE REPRESENTATIVE TREASURY DEPARTMENT
Advancing U.S. Ownership of Global Economic Resources		Global		OPIC	Commerce Department
Advancing U.S. Contracts to Develop Global Economic Resources		Global		Eximbank	Commerce Department
Advancing U.S Engineering in Developing Resources		Global		TDA	Commerce Department
Advancing Broad U.S. Access to Global Economic Resources		Global	State Department		US Trade Representative

U.S. INTERNATIONAL AFFAIRS PROGRAMS (150): FOURTEEN CRITICAL FUNCTIONS
A FUNCTIONAL RE-STATEMENT FROM THE PERSPECTIVE OF U.S. CITIZENS & TAXPAYERS

	FUNCTIONS:	BROAD MEASURES OF SUCCESS OR FAILURE:	TARGETS OF ASSISTANCE:	LEAD AGENCIES WITHIN 150:	SUPPORTING AGENCIES WITHIN 150:	SUPPORTING AGENCIES OUTSIDE 150:
SIX:	**PARTICIPATING IN GLOBAL ECONOMIC GROWTH EFFORTS** The purpose of this function is to participate in common international efforts aimed at preserving a common global economic environment conducive to long-run economic growth, as well as short-run price and currency stability, across a range of industrialized, developing, and emerging market economies, with benefits accruing to all participants in the global economy, including the U.S.	Success: Low-Inflation High-Growth In Key Economies Failure: Inflationary Stagnation/Decline In Key Economies	GLOBAL Former USSR Central/Eastern Europe Latin America	IMF WORLD BANK GROUP ADB / IDB	EXIMBANK AID OPIC TDP STATE DEPARTMENT	TREASURY DEPARTMENT US TRADE REPRESENTATIVE
	Participating in Efforts to Promote Short-Run Economic and Currency Stability		Global	IMF		Treasury Department
	Participating in Efforts to Promote Long-Run Economic Growth & Development		Global	World Bank/ADB/IDB		Treasury Department
	Participating in Bilateral/Multilateral Efforts to Expand Global Trade		Global	GATT	State Department	US Trade Representative
	Participating in Efforts to Promote Privatization of State Enterprises		Global	World Bank/ADB/IDB	AID	Treasury Department
SEVEN:	**RESOLVING SHARED ENVIRONMENTAL PROBLEMS** The purpose of this function is to resolve at as early a stage as possible international envrommental problems which may have immediate or much larger cumulative consequences for U.S. residents and taxpayers.	Success: Avoided Foreign Environmental Crises Failure: Foreign Environmental Crises Touching U.S.	GLOBAL Mexico Former USSR Eastern Europe Asian NICs Latin American NICs Brazil	AID	EXIMBANK TDA AGRICULTURE	ENVIRONMENTAL PROTECTION AGENCY ENERGY DEPARTMENT
	Coping with Immediate Environmental Disasters		GLOBAL	AID		EPA
	Coping with Nuclear Weapons/Plant Environmental Cleanup		GLOBAL	AID		Energy Department
	Cleaning Up Existing Cumulative Environment Damage		GLOBAL	AID		EPA
	Preventing Environmental Damage through Routine Maintenance		GLOBAL	AID		EPA
	Updating for Modern Environmental Technologies		GLOBAL	AID		EPA
EIGHT:	**RESOLVING SHARED HEALTH & SOCIAL PROBLEMS** The purpose of this function is to resolve at as early a stage as possible international health & social problems, including addressing communicable diseases and the breeding grounds for these diseases, which may have immediate or cumulative consequences for U.S. residents and taxpayers.	Success; Decreases in Communicale Disease; Improvements in Basic Health Indicators Failure: Increases in Communicable Diseases; Declines in Basic Health Indicators	GLOBAL	AID	STATE DEPARTMENT	HEALTH & HUMAN SERVICES IMMIGRATION NATURALIZATION SERVICE
	Controlling the Global Spread of AIDS		Subsaharan Africa	AID		HHS
	Controlling the Global Spread of Other Infectious Diseases		Global	AID		HHS
	Improving Basic Nutrition for the Poor		LLDCs & LMICs	AID		HHS
	Improving Basic Health Care for the Poor		LLDCs & LMICs	AID		HHS
	Improving Health Literacy for the Poor		LLDCs & LMICs	AID		HHS
NINE:	**STEMMING UNCONTROLLED MIGRATION / REFUGEE PROBLEMS** The purpose of this function is to stem uncontroled migration to the U.S. and countries friendly to the U.S., and to cope with migratory or refugee movements from a political and humanitarian dimension.	Success: Reduction in Illegal Immigration to U.S. and Friendly Countries; Alleviation of Refugee Problems Failure: Increases in Illegal Immigration to U.S. and Friendly Countries; Worsening of Refugee Problems	GLOBAL Mexico/Central America Balkan Region North Africa/Middle East Southeast Asia	STATE DEPARTMENT	AID	INS
	Permitting Orderly Migration		Global	State Department	AID	INS
	Stemming Uncontrolled Migration		Global	State Department	AID	INS
	Refugee Placement		Global	State Department	AID	INS
	Refugee Relief		Global	AID		

U.S. INTERNATIONAL AFFAIRS PROGRAMS (150): FOURTEEN CRITICAL FUNCTIONS
A FUNCTIONAL RE-STATEMENT FROM THE PERSPECTIVE OF U.S. CITIZENS & TAXPAYERS

	FUNCTIONS:	BROAD MEASURES OF SUCCESS OR FAILURE:	TARGETS OF ASSISTANCE:	LEAD AGENCIES WITHIN 150:	SUPPORTING AGENCIES WITHIN 150:	SUPPORTING AGENCIES OUTSIDE 150:
TEN:	**DISCOURAGING UNSUSTAINABLE DEVELOPMENT PRACTICES** The purpose of this function is to advance priorities, both at the governmental and grassroots levels, which keep LT development on a path consistent with broad U.S. objectives in the areas of environment, health & social affairs, and global economic growth, and which advance U S. interests in all of these areas.	Success: Shift from Resource–, Energy–, Pollution–Intensive, and Eco–unfriendly Development Strategies. Failure: Shift toward Resource–, Energy–, Pollution–Intensive, and Eco–unfriendly Development Strategies.	LDCs Former USSR Central/Eastern Europe	AID	STATE DEPARTMENT	ENVIRONMENTAL PROTECTION AGENCY HEALTH & HUMAN SERVICES IMMIGRATION NATURALIZATION SERVICE TREASURY DEPARTMENT
	Launching Demonstration Projects which Promote Sustainable Development			AID		
	Facilitating Sectoral Gov't Policies which Promote Sustainable Development			AID		
	Advancing Private Sector Efforts Which Promote Sustainable Development			AID		
	Educating and Training in Sustainable Development			AID		
ELEVEN:	**STEMMING THE GLOBAL DRUG TRADE** The purpose of this function is to reduce the global production and trade of illegal drugs, to diminish the availability of these substances for U S. import and consumption.	Success: Reduced U.S. Imports of Drugs Failure: Increased U.S. Imports of Drugs	Andean Region Caribbean Mexico Southwest Asia Southeast Asia	STATE DEPARTMENT	AID	DRUG ENFORCEMENT ADMINISTRATION DEFENSE DEPARTMENT TREASURY DEPARTMENT
	Eradicating the Production of Drugs		Specific Targets	State Department		DEA/Defense Department
	Encouraging Conversion of Crop Lands		Specific Targets		AID	
	Diminishing the Transit of Drugs		Specific Targets	State Department		DEA/Defense Department
	Diminishing the Laundering of Drug Money		Specific Targets	State Department		Treasury Department
TWELVE:	**PROVIDING PURELY HUMANITARIAN RELIEF** The purpose of this function is to extend neighborly assistance to victims of natural or manmade disasters, sudden or cumulative.	Success: Timely Delivery of Needed Relief Failure: Untimely Delivery of Inappropriate Relief	Drought Regions Hurricane Zones Earthquake Zones	AID		DEFENSE DEPARTMENT FEDERAL EMERGENCY MANAGEMENT
THIRTEEN:	**INTERNATIONAL COALITION–BUILDING TO PROMOTE U.S. INTERESTS** The purpose of this function is to maintain the United Nations, its organs, and its specialized agencies as cost–effective instruments for international coalition–building to leverage U S. assistance in promoting U.S. interests in the other areas mentioned.	Success: Coalition–Building to Achieve Objectives Failure: Inability to Achieve Broad Consensus	GLOBAL	UNITED NATIONS REGIONAL ORGANIZATIONS	STATE DEPARTMENT	
	Promoting Global Coalition–Building to Promote U.S. Interests		Global	UN & Other Organizations	State Department	
	Promote Regional Coalition–Building to Promote U S. Interests		Global	UN & Other Organizations	State Department	
	Promote Specialized or Technical Coalition–Building to Promote U.S. Interests		Global	UN & Other Organizations	State Department	
FOURTEEN:	**MAINTAINING A GLOBAL PRESENCE TO PROMOTE U.S. INTERESTS** The purpose of this function is to maintain a global U S. diplomatic presence, designed to support efforts to promote U.S. interests in the other areas mentioned.	Success: Excellent Diplomatic Support for Objectives Failure: Weak Diplomatic Support for Objectives	GLOBAL	STATE DEPARTMENT	AID	COMMERCE DEPARTMENT
	Maintaining a Quality Diplomatic & Support Staff to Promote U.S. Interests		Global	State Department	AID	Commerce Department
	Maintaining a Global Network of Support Facilities to Promote U.S. Interests		Global	State Department	AID	Commerce Department

Prepared by: Clem Miller, Eximbank, 4/8/93

~~CONFIDENTIAL~~

PRD-20
NSC(G)
4-8-93

DRAFT

An Annual Interagency International Resource Planning Process

The PRD is reviewing the concept that USG international resource transfers should be related to a set of interagency approved goals and objectives. Those objectives could be articulated annually, to provide guidance for shaping agency budgets. Thus, the international resource budgets could be directly tied to policy goals and priorities explicitly approved by the President. This paper suggests one method to operationalize this concept.

ANNUAL INTERNATIONAL RESOURCE GUIDANCE

In the summer, a draft document could be prepared and reviewed on an interagency basis. This document would propose the international resource goals, objectives and priorities for the budget that the President would submit the following January and for the out years. The document would provide broad guidance as to the budgetary priorities among the goals so that agencies could adjust their plans to changes in the world and in the Administration's objectives. The document would also address policy issues, for example priorities among means of delivering resources (multilateral banks, other international institutions, bilateral).

The draft guidance would be reviewed, with issues and options identified. All agencies views would be included, options would be generated, and decisions made that would generate a final Presidential Policy Guidance.

AGENCY BUDGET PREPARATION

In the autumn, each agency with international resource programs would prepare its budget in keeping with the Policy Guidance and the fiscal instructions given by OMB . Those portions of their budgets would then be made avialable on an interagency basis to insure coordination and compliance with the Policy Guidance. At that point in the process, issue papers might be generated if there were questions about implementation or if any new developments warranted review.

BUDGET SUBMISSION

When the budget is submitted to the Congress, it could be accompanied by an explanation of the interagency International Resources component and the way in which the pieces of the budget fit together in support of explicitly decided goals, objectives, and priorities.

ANNUAL PROCESS FOR INTERNATIONAL RESOURCES
POLICY GUIDANCE

JANUARY	JUNE	DECEMBER
9. President's Budget Submitted to Congress	1. Draft Policy Guidance	5. Initial Agency Budget Circulated
	2. Issue Papers	6. Issue Papers
	3. Interagency Review	
	4. Policy Guidance Issued on Goals, Objectives, and Priorities	7. Interagency Review
		8. Policy Decisions on Budgets

IWG MEETING

DATE: April 8, 1993

LOCATION: OEOB, Room 208

TIME: 3:00 p.m. - 5:00 p.m.

INTERNATIONAL PROGRAMS AND RESOURCES

(PRESIDENTIAL REVIEW DIRECTIVE 20)

Agenda

CO-CHAIRS: RICHARD A. CLARKE AND ROBERT FAUVER

I. PRD 20 PROGRESS TO DATE ....NSC/NEC

II. INVENTORY RESPONSES TO PRD 20 REQUESTS.........OMB

III. REPORT ON AID TASK FORCE ....STATE

IV. DISCUSSION OF WORKING PAPERS

- A) GOALS AND OBJECTIVES....................NSC/NEC
- B) AID AND TRADE....................COMMERCE/STATE
- C) BILATERAL & MULTILATERAL........ TREASURY/STATE
- D) SECURITY ASSISTANCE ....DEFENSE/STATE
- E) DOMESTIC IMPACTS OF INT'L PROGRAMS......NEC/NSC

V. NEXT MEETING..............................NSC/NEC

- A) PRODUCTS
- B) DATES

EXCESS DEFENSE ARTICLES

Program and Definition

Excess Defense Articles (EDA) are defined in the Foreign Assistance Act (FAA), section 644(g) as defense articles (other than construction equipment), not purchased in anticipation of Foreign Military Sales (FMS) and in excess of the Approved Force Acquisition Objective (AFAO) and Approved Force Retention Stock (AFRS) of all DOD components. The Military Departments determine what is or is not excess, and, after surveying requirements by potential recipient countries, recommend an allocation of excess assets to the EDA Coordinating Committee. The Committee, co-chaired by DSAA and State/PM/DRSA, and with representatives from the regional policy offices in DOD, agrees on a final allocation of the articles. Equipment which has been transferred from the Military Departments to the Defense Reutilization and Marketing Service (DRMS), is also available for transfer through the EDA program if an eligible foreign government makes known its requirements for the equipment.

EDA is offered at no cost to eligible foreign recipients on an "as is, where is" basis. The foreign recipients, in most cases, are responsible for the costs of packing, handling, and transportation, as well as any restorative work and follow on support. Foreign recipients may purchase such services from the Department of Defense through the FMS program.

Authorities:

- Section 516 of the FAA (also known as the Southern Region Amendment or SRA) authorizes grant EDA transfers to certain allies along NATO's southern and southeastern flanks and to certain Persian Gulf Conflict coalition partners for defense modernization purposes. Eligible countries include Portugal, Greece, Turkey, Egypt, Israel, Morocco, Oman, and Senegal. Pakistan would also be eligible if Pressler sanctions were removed.

- Section 517, FAA, authorizes grant EDA transfers for counternarcotics purposes to major drug producing or transit countries in Latin America and the Caribbean. Such transfers are limited by a dollar ceiling of $10 million/fiscal year. The question of whether that ceiling applies to each country individually or to all 517 transfers is in dispute pending resolution by the DOD General Counsel.

- Section 518, FAA, authorizes grant transfers of EDA (and small arms) to countries for promotion of biodiversity.

- Section 519, FAA, authorizes grant transfers of non-lethal EDA for defense modernization purposes to countries justified for

Foreign Military Financing (FMF), and, under the Freedom Support Act, to Estonia, Latvia, and Lithuania.

- EDA may also be sold to foreign countries under the normal FMS system authorized by the Arms Export Control Act (AECA). When EDA is sold, the price is determined based on a percentage of the original acquisition value determined by condition.

- All grant recipients must sign agreements pursuant to Section 505 of the FAA agreeing to end use restrictions and giving the U.S. first right to proceeds of any sale.

- Total transfers through FMS and under sections 517 and 518 cannot exceed $250 million in acquisition value in any given year.

Size of Program:

In FY 92, DSAA notified Congress of EDA transfers totaling over $1.3 billion in original acquisition value of the equipment and $225 million in current value. As of 29 March 1993, FY 93 notifications amounted to approximately $830 million in acquisition value and $78 million in current value. Equipment transferred ranges from scrap metal and uniform items to aircraft, destroyers, and tanks.

Not all of this equipment is delivered. Definite information on deliveries under past notifications is not presently available, but DSAA is developing a system to track such deliveries.

Restrictions and Impediments:

- Every grant transfer or sale of EDA under the above authorities must be notified to Congress, no matter the item or the dollar value. The length of the notification period is 30 days for transfers under Sections 516 or 518 and 15 days for other grants or sales.

- Transfer of excess construction equipment was made impossible by the International Narcotics Control Act (INCA) of 1992, which changed the definition of FAA to exclude construction equipment. While the concept behind this change was to ensure that state and local governments got first choice of this equipment, the effect is that if states do not want specific pieces of equipment, they can be sold to surplus or scrap dealers overseas but may not be used to support foreign policy objectives.

- The 1992 INCA also prohibited supply of equipment under sections 518 or 519 to countries eligible to receive EDA under section 517. Since only equipment for counternarcotics purposes can be transferred under this authority, this change eliminates the capability to use EDA to fulfill other worthwhile requirements for these countries.

- As the amount of FMF decreases, the number of countries eligible for 519 transfers will also decrease dramatically, further reducing our ability to support countries facing regional threats.

- In the current fiscal environment, it is very difficult for the Military Departments to project the amounts of excess which will become available. This makes it difficult to do careful planning on how to dispose of those assets to best fill recipient requirements. This is exacerbated by the fact that the Military Departments receive no return to their budget from the transfer or sale of "excess" as opposed to "non-excess" items. They, therefore, have little incentive to retain equipment they no longer need beyond its retirement date. Instead, their incentives are to either not declare the items excess and try to sell them and retain receipts for modernization purposes (which may require separate legislation) or to simply move the equipment to the DRMS.

- The length of time required to staff and process EDA notifications and allocations causes EDA to accrue storage costs. This increases the incentives for both the Military Departments and DRMS to dispose of EDA through other means.

Prep'd by:
Jim Hursch
DSAA/OPS-MGT
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MILITARY ASSISTANCE FINANCING FOR PEACE INTERVENTION

- As the world's only global military power with global interests to defend, and an increased willingness to involve itself in "wars of conscience", the United States will continue to require the means for addressing international security challenges, especially in the area of international peace intervention, short of or as supplement to the deployment of U.S. forces.

- In that regard, the United States Government (USG) will continue to have a requirement for program(s) to provide U.S. defense articles and services to friends and allies in support of mutual security interests, and to provide assistance to certain needy friends and allies to make such acquisitions. These programs are <u>instruments</u> to achieve contemporary policy objectives.

- The Foreign Military Financing (FMF) program currently is the only means available to the USG to assist friends and allies to purchase U.S. defense articles. Unlike numerous other defense exporting nations, the USG currently has no program for guaranteeing or otherwise facilitating commercial financing for foreign defense sales, except in a limited manner for counternarcotics purposes.

- The FMF program, as currently structured and named (excepting programs for Israel and Egypt), is too closely related in the minds of key Members of Congress with the policies of the Cold War and, hence, is an irresistible target for budget reductions among generally unpopular foreign aid programs.

- A new program or programs for assisting friends and allies to acquire U.S. defense articles and services must be established (at a minimum, FMF must be renamed to sever the politically adverse perception that it represents "outdated" policies and objectives) and clearly reoriented to post-Cold War security challenges if it is to continue to be an effective instrument of U.S. national security and foreign policy and enjoy sufficient support in Congress.

- Excess defense articles transfer (EDA), whether granted or sold, clearly provide a useful means of assisting friends and allies that is well-tailored to the current reality of DoD downsizing (downsizing=increased amounts of EDA). Enhancement of current EDA authorities would increase EDA's contribution to national security objectives, e.g. making countries eligible for grant EDA irrespective of whether they are justified for an FMF program, eliminating non-lethal limitations on transfers, and removing or raising the $250M annual, aggregate ceiling on many EDA transfers.

- EDA, however, does not obviate the requirement for a financing assistance program. Like a used car, EDA's initial costs are attractively low, but mitigated by higher costs downstream for maintenance and restorative work. Many countries continue to require financing assistance to make and keep EDA useful. Otherwise, EDA may too often become rusting monuments to "halfway" U.S. aid programs.

- A military financing assistance program or programs, in combination with EDA programs, could be usefully employed in support of our interests in international peace intervention efforts.

- Regional, ethnic, and religious conflicts will continue to challenge our interests around the world for the foreseeable future, yet the United States cannot politically or financially afford to engage in each with its own forces.

- It is in the United States' interests to broaden the force contribution of other states (i.e. to put there troops on the firing line), and to ensure that those states' forces are effectively trained and outfitted and able to deploy and maintain themselves in the varied environments for these kinds of operations. Not all participating states can afford to do this on their own.

- Bilateral military financing assistance programs, in conjunction with EDA programs, can be used to assist countries to develop and maintain forces and associated support structures for peace intervention missions, while fostering the military-to-military relations and USG influence characteristic of bilateral assistance programs.

- To be most effective, such assistance programs should be geared to preparation for future peace intervention operations, rather than merely be reactive to immediate needs of current missions. The point is to regularize and improve the quality of foreign military contributions to international peace intervention operations.

- Bilateral military financing assistance programs can also be used as an inducement to countries to commit or earmark forces up front for participation in future operations, i.e. if you commit now to future participation, we'll assist you now. Indeed, it could be an important element of any U.S.-supported effort to establish what was referred to during the campaign as a "U.N. Army", but which most likely would take the form of countries agreeing to earmark forces for certain types of peace intervention operations authorized and coordinated by the United Nations.

- There would be political obstacles to overcome. For example, would Congress restrict the use of assistance provided only to peace intervention operations (reflecting an attempt to preclude benefitting forces from performing other, national missions) comparable to requirements currently imposed on military assistance for counternarcotics purposes? What to do about countries who take the aid now, but do not come through when called upon to participate in international peace intervention operations? Could this type of assistance be provided to countries otherwise barred from U.S. military aid (e.g. Pakistan)?

- These obstacles, however, must be balanced against the practical benefits of such a program; anticipation that this kind of assistance would be recognized, and thereby supported, within the Congress as a pragmatic response to a contemporary security challenge (in contrast to the current view of bilateral military financing assistance programs); and appreciation of the fact that there are no guarantees on aid programs, only educated assumptions.

- In sum, a bilateral military financing program(s) could be usefully employed to expand and enhance the quality of foreign contributions to international peace intervention missions, reduce demands on U.S. forces, and foster broader military-to-military relations and USG influence with numerous countries. Because it would mark a change with past programs and clearly relate to contemporary security challenges, it stands a substantially greater chance of gaining sufficient political and, hence, financial support in the Congress.

Dick —
Having some evidence that you not brain-dead,
you may enjoy this.
Tim Tyler

THE FALLACY OF SCENARIO-BASED PLANNING

Scenario-based planning is an intellectual trap for some and intellectual crutch for others. It provides both a rational tool for trying to size forces and sometimes specious arguments for doing things we want to do anyway. It can be useful and it can lead us far down the garden path with sadly predictable results.

Regardless of scenario, one constant that has not changed with the end of the Cold War is that there is no substitute for U.S. leadership. This is because we have a position of moral leadership--associated with the promotion of democracy and human rights--as well as status as the remaining global superpower. We may well be the only "empire" that can escape the dire analysis of Paul Kennedy. But, to continue to both survive and lead, we need to hew to the new truism that: "There is no substitute for United States' leadership, but the United States does not always have to be in the lead." This does have implications for our force planning and budgeting in the current environment of fiscal restraint and downsizing.

During the Cold War, scenario-based planning was something of a religion. We could create contingency scenarios that would demand access to airfields across all of central Africa or that mandated the targeting of grass recovery airfields in the Ukraine with multiple nuclear strikes, should deterrence fail. We never failed to see contingencies associated with the Soviets sweeping across the north German plain or through the Fulda Gap and on to the Channel in two-weeks or less.

The scenario-based approach to thinking and creating was important then because it impelled us toward the politico-economic decisions that decision-makers and legislators wanted and needed to make, and were seeking an excuse to implement. After all, back then how could one justify the national security component of the budget if we did not have a Soviet bogeyman that we could count on to do things to us. Fortunately for the scenario-based planners, the Soviets obliged us with Berlin Crises, Hungary, the Prague Spring, the Cuban Missile Crisis and the invasion of Afghanistan. We drew conclusions and built forces, and it did not turn out badly in the end.

But let us think for a moment about some of the things that happened, some the events that crashed in and gave us a peek at a reality we did not factor into our planning. The downing of KAL 007 is an interesting place to start. Were any scenarios dealing with conflict with Soviet Union adjusted after the tragedy? Were any weapons programs adjusted or altered as a result? To the best of my knowledge the answer to both questions is negative. So, why does it make a difference?

KAL 007 was not the first Korean air liner either shot down or forced down over Soviet territory. However, KAL 007 was a large, slow, high flying and unarmed Boeing 747. The Soviets (or shall we label them Russians) had trouble detecting the "target." Then they had trouble finding it. Then, just as they were about to lose it, they had trouble shooting it down. If they had that set of problems with a commercial air liner, how would they have actually dealt with something as sophisticated, fast and low as a modernized B-52 or F-111? The question is more than just rhetorical, because we have spent a lot of the public's treasure on both the B-1 and the B-2. The modern pair of bombers were necessary, of course, to get past the increasingly sophisticated and dense Soviet air defense system...which couldn't deal with a 747.

Another event that crashed in on the scenarios was the young German, Mathias Rust, who piloted a small airplane to a landing in the middle of Red Square. To succeed, he did not have to be proceeded by a wave of F-4G Wild Weasel aircraft blanking out Soviet air defenses. Again, it is highly doubtful that any scenarios--or any thing else associated with any defense program--were adjusted to reflect any conclusions that might have been drawn as a result of this real event. To adjust the scenarios, which helped provide a crucial piece of the rationale that both the military and the congress needed to justify programs, would have led to unacceptable outcomes from the perspective of those responsible for national security, given the way that they used scenarios and the associated contingency planning.

There were never any planning adjustments--or adjustments to the budget--to reflect what we knew of Soviet maintenance and logistics practices, rampant alcoholism in the Soviet armed forces, the logistics nightmare of changing railroad gauges in the middle of the Warsaw Pact logistics train, or the fact that maps of places like Western Europe and its borders were classified top secret. Any conclusions that could be drawn from these things did not square with our necessary perceptions of the Soviet threat. We also did not draw too many conclusions from the fact that the Freedom Fighters in Afghanistan did a rather credible job against Soviet forces; especially, after we gave them Stinger anti-aircraft missiles.

There were, of course, no contingency plans or scenarios that were predicated upon the fall of the Berlin Wall--the events of December 1989--and the collapse of the Soviet Union and the Warsaw Pact. One Pentagon planner, however, did say informally in January 1990, that as a result of the events of December 1989, the U.S. Army no longer needed a Main Battle Tank--and certainly not the M1A2. This was not too long before the Iraqi invasion of Kuwait (not in any scenarios) and the subsequent Desert Storm. Reality, the effect of events crashing in, is hard to deal with if you are a national security or a military planner. You can always be accused of not having enough contingencies, enough scenarios. And then, you cannot afford to do any adjusting to reflect what does happen because of the effects on vested interests in the Military Departments and on the Hill.

The Yom Kippur War was studied to death by the Defense Department and one has to wonder if any conclusions were drawn and acted upon other than those that supported the current thinking of the day or that simply rationalized buying more ammunition because of high Israeli consumption rates. Did anyone factor in the fact that the Arabs can get their act together, hide it from everybody and then execute a complicated plan with a disconnected end-game, (the surprise attack, regardless of outcome, symbolically restored the Arabs lost masculinity and made Anwar Sadat's flight to Jerusalem and the Camp David Accords possible in an Arab context.). If we had a little more respect for some aspects of Arab planning, might we have avoided the surprise of the Kuwait invasion?. We certainly did not act on any of the conclusions that could be drawn about the need for rapid sealift?

One can also posit that there are no scenarios or contingencies that evoke either the type of crisis in Somalia or the one in Bosnia. The former does not comply with traditional roles and missions requirements; the latter is just too messy and too political. It is much easier to ignore reality and rely on theoretical (or is it theological-rhetorical?) scenarios and contingencies labeled "Major Regional Contingency--Europe," or "Major Regional Contingency--East," or even, "Lesser Regional Contingency--Far."

Would it be reasonable to ask that whenever there is a real surprise in the world that the current set of conclusions drawn from planning scenarios and contingencies be re-examined, and perhaps adjusted? For example, did we ever really adjust our sights the vaunted Red Army demonstrated its feet of clay in Afghanistan?

Scenarios and contingency planning can be useful, but not to justify already and politically determined force levels. They are also not honestly useful in the budget war unless resources are unrestrained and you can play with as many scenarios and contingencies as you want. Scenarios are naturally useless as predictors of international events--but, it is mostly people who do <u>not</u> do national security planning who ridicule the chosen planning scenarios, for the purposes of their own agendas.

The big problem with contingencies and with scenario-based planning is that they tend to become mired in the process of planning. The thinking associated with them becomes too static. It is, quite simply, a lot easier to ignore reality than it is to change a scenario that has been approved in the course of the Defense Department budget process and has survived the lowest common denominator approach to military thinking embodied in the staffing process of the four military departments and the Office of the Joint Chiefs of Staff. That all did not matter much when the Defense budget was on the rise, when there was a clearly defined Soviet bogeyman as a threat, and when our domestic agenda took second place. Back then, scenarios helped in the process of providing legislators and pundits a military component to reinforce the politico-economic rationale they needed to support defense spending.

Things are very different today. It is safe to assert that we no longer have a Soviet bogeyman to threaten us immediately and credibly. We no longer have the luxury of the stability and predictability that a bipolar world delivered to us. We no longer have a public that is willing to continue the mortgaging of the future to support relatively unconstrained defense spending. We live in a severely budget constrained environment.

So, the question is transmogrified into one of whether or not we can find scenarios, reflective of the real world, that can be used to illustrate what we could do with the forces that the budget realities will enable us to keep and to build? If, for example, the budget realities drive us down to less than a hundred thousand troops in

Europe--what conclusions do we draw about how the command structure should look and how adventuresome we can afford to be? Should we change the way we organize to take account of increased reliance on multi-lateral organizations like the UN or NATO? Do budget realities force us into planning scenarios where we actually have to rely on other countries and their forces to achieve success? Does specialization become a necessity within NATO--by other countries?

The planning and budgeting process is considerably more complicated today, both for now and for the longer term. And, in some ways, it is even less amenable than in the past to "rigorous analysis". Clear thinking, commons sense, and a little luck are going to be needed. Intuitively we can identify certain priorities, for example, like fast sea lift to attenuate the effects of downsizing, fewer overseas bases and the unpredictability of crises. But, fast sea lift has never been popular with the Navy--it's not a carrier battle group.

A couple of things are likely going to happen. We will end up doing a serious review of roles and missions, even though the Military Departments will continue to find it very uncomfortable. We will have to do this because of the fiscal realities we face, which drive us to the conclusion that we will simply not be able to sustain the programs necessary to support the force structure necessary to support the status quo. As a consequence of the budget pressures, we will also end up paying a lot more attention to doing what we can within specified fiscal restraints and less time seeking increases to to the budget to support a particular force structure or set of roles and missions.

By engaging in resource restrained planning--take the pot of money, divide it up, see what force you get, test it against potential threat scenarios, and then adjust for nuance and desired result--we will probably back into a roles and missions review without a direct confrontation with the Military Departments. We simply will not be able to 'do it all,' unless we are willing to grope back in the direction of the hollow force of the '70's. That could lead to tragic results.

A key point here is that it will be important to comprehend that we may actually have to change some behavior as well as some attitudes. We may have to agree that other nations have the some of the same problems and that while one of us can not afford everything, maybe we can have it all, together. This does raise the specter of specialization within NATO, or even having American troops under the command of a non-American general. This will not be easy. Equally, we will find it harder to always claim the 'four-star job'. If or when we sink below 100,00 troops in Europe, especially absent a current Russian, Central or East European threat, our claim to the senior military job in NATO will be tenuous.

The challenge for the planners and thinkers will be to look over the horizon, unfettered by the rhetoric of the past or its perceived truisms. We will live in a resource driven environment that we have never experienced before. We will need to plan our force with the resources available and test it carefully against sets of threats and scenarios--and then adjust. And then we will need to test the results again...

Prepared by JT Tyler//Policy Planning-OUSD(P)//x75454

Dick —
Enjoy
/L—

NATO--Some Heretical Thoughts

NATO is a survivable institution. It has been declared dead and buried by skeptics and cynics more than once--for example, when De Gaulle pulled the French out of the military structure in the sixties, over the neutron bomb fiasco in the seventies, and most recently with the collapse of the Soviet Threat as glue to hold the alliance together. For the United States, NATO was a process whereby the United States got to operate in the heart of the west European politico-economic system and to influence things in Europe. For the European members, NATO was also a process that was useful in attaching the United States to Europe--not too closely, of course, but close enough for comfort. NATO still performs both of these functions. It is a survivable institution because both we and they want it to survive and because NATO was always more of a political and economic forum than it was a military one. One could well ask if we would have a G-7 without NATO?

Admittedly, NATO always wore a Joseph's cloak of politico-military rationale and that was an essential part of its mythology. We should of course, not forget that myths always do have a kernel of truth in them. The *sine qua non* for NATO was the military component--it gave the U.S. the excuse for being there and it gave the Europeans the excuse for having us. Furthermore, the military component of NATO was, as it is today, a promise of stability--in a sense, a guarantee that nothing bad will really happen. It was and is a wonderful security blanket as the guarantor of the stability that enables the range of economic and political activity that goes on in Western Europe. This is particularly important as a reunified Germany may increasingly generate political, economic, and potentially, again, military disequilibrium in Europe. Put another way, the multi-national military component of NATO is a subtle check on the forces of nationalism, regardless of its source.

A very important step that NATO could take and should take is to open its membership books. This does not have to be on the same basis as the original members. A type of consulting and observing and not always voting membership could be attractive to some former neutrals like Sweden or Finland--or maybe even Switzerland. And, something should be done to stitch the Poles, Hungarians and Czechs into the NATO fabric. Something could be done about others, like the various Balts, the Slovaks and the Slovenians later. The timing of further engaging the Russians and Ukrainians in NATO is up for debate. The key thing is to get them all engaged at some level in the NATO process--and, at the same time, to get the other Europeans who are less engaged with the East than are the Germans more involved there. If all of the players are engaged in the constant talk, maneuvering, negotiating, and developing stakes in outcomes that constitute the daily processes of a great alliance, (or of a negotiation like MBFR), then those same players are contributors to stability, which is a desireable outcome.

In some respects NATO does not have to do much of anything in order to maintain its validity. By its very existence it enables the United States to contribute a force-in-being component to European stability. However, the context for the continuation of NATO as an institution has obviously changed. This, of course, means that NATO should take note and perhaps change some too, in the sense of adapting to the new circumstances.

Some of this can be as "simple" as restructuring the NATO Infrastructure program. It will be difficult, if not impossible, to continue to sell the idea of spending more money on military infrastructure in NATO Europe. This is a truism for the majority of the European NATO governments as well as the United States and Canada. The public perception (and recall that perception equals reality) is that we are closing down bases over there and bringing the boys home, so why spend money on infrastructure projects? It is worth noting that restructuring, and not abolishing, the infrastructure program is the suggestion.

There are a lot of infrastructure programs that could be developed and implemented in places like Poland, Hungary or the Czech or Slovak Republics. This could be done if for no other reason than to infuse some capital spending into the region--a species of economic aid. It is also not too difficult to envisage moving some of NATO's force-in-being further east. That certainly could give a different degree of comfort to those even further east that might grow uncomfortable with the the reunified Germany of five, or ten, or fifteen years from now. Moving NATO, or perhaps just some NATO forces, further east does have its attractions. It could, just possibly, be a factor in attenuating a predilection by the Russians to over arm in response to a perceived, (but not real) threat from its west.

Now, in fact, if some or all of these and other things are done NATO will look like an institution that has evolved and adapted, rather than an anachronism of the Cold War. With that thought digested, or at least ingested, let us think about the possibility of sending a major political signal through the NATO body politic. It would be an interesting proposition to consider what would happen if the United States proposed to relinquish the position of Supreme Allied Commander, Europe (SACEUR), and convert it into a rotating position between the British and Germans--and, possibly, the French. The country holding the SACEUR position would be precluded from also holding the position of Chief of Staff at SHAPE or the position of Secretary General.

As political compensation for such a dramatic offer--and as a *bone fide* of continuing interest in NATO--the Americans could insist upon providing the next Secretary General. The Americans could also argue that they should have the SHAPE Chief of Staff position--at least during the transition and possibly in perpetuity. Such a move would send a complicated signal to Europe that would involve both America's interest in Europe's finding its own defense mechanism and in having Europe be a bit less reliant on the United States. At the same time, we would be sending a political signal of a desire to stay engaged and involved in Europe through stronger participation in the political leadership of NATO, i.e. by sitting in the Secretary General's chair.

At the moment, there is a fixation on maintaining a full Corps structure of American troops in Europe--with the Air Forces's attendent three fighter wings and about twelve thousand Navy people. Planners are still focused on the rhetoric and thinking of the Cold War culture. Times have changed though. It is seemingly inevitable that U.S. forces representing a forward presence in Western Europe will shrink to somewhere between 100,000 and 50,000. We will no longer be the dominant military power in Western Europe and we will have far less a natural claim to the top military position. In that context, it may well be more in our longer term security interest to be in position just to influence the military side of the equation and separately to play a larger political role in the Alliance structure.

The idea of balancing the burgeoning influence of the reunited Germany with a stronger political influence within the Alliance structure from the United States and, on the military side, giving potentially greater weight to both the British and the French has some very practical, pragmatic attractions. For one thing it may be one of the things that keeps the U.S. engaged in Europe. It may also be useful in engaging the British and the French in a truly *European* approach to developing a security structure. This is posited as a counterpoint to the development Franco-German security structure disingenuously labled as European.

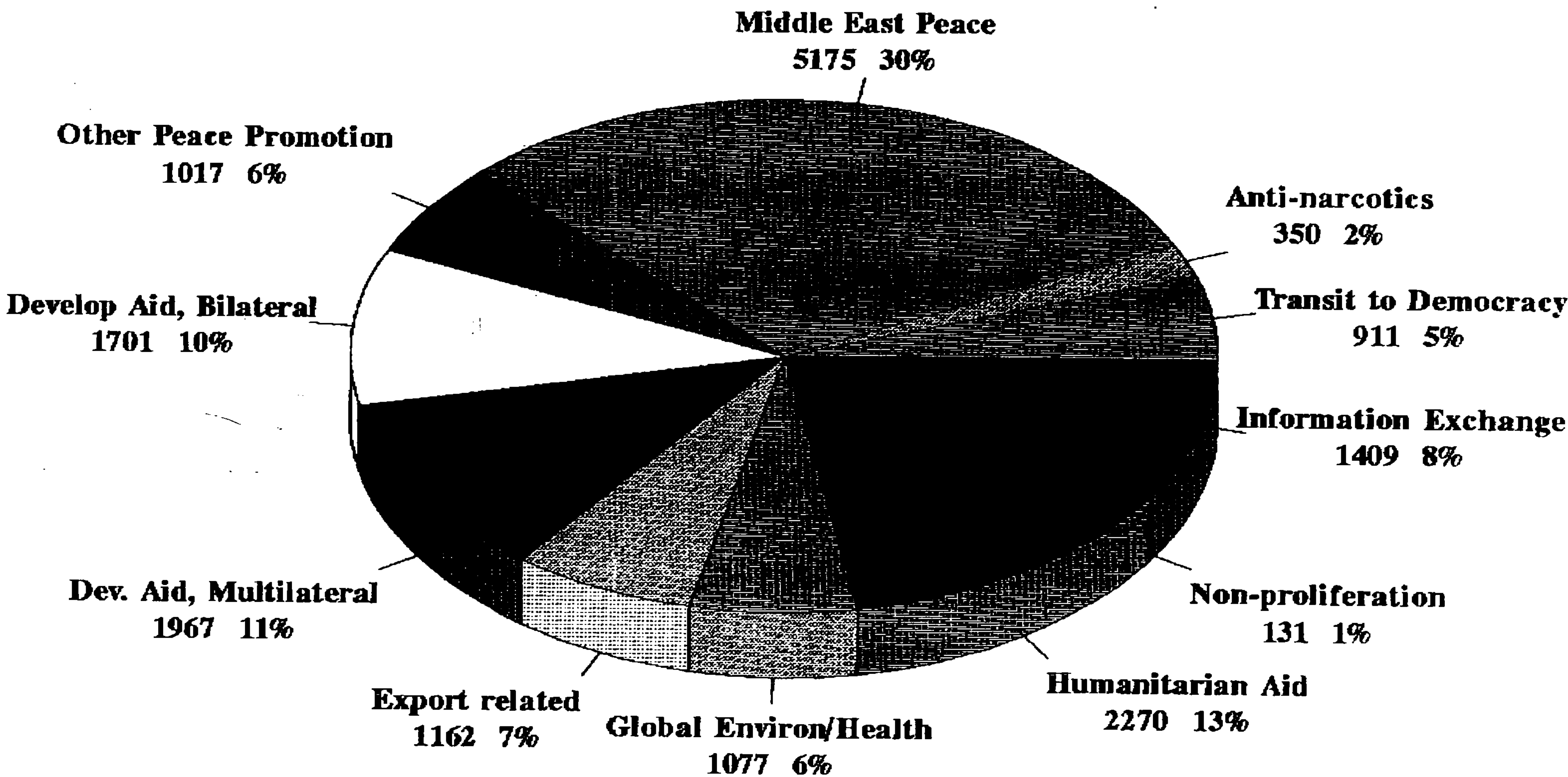
As Americans look at NATO, and indeed all of Western Europe, it is important that they keep in mind that historical memories are long over there and that problems linger for generations. The forces of nationalism (or communal strife) cause problems to pop up and surprise planners and even thinkers. It may take a while, but sooner or later people will begin talking again about attenuating German influence, or putting the German genie back in the bottle. And, it will take a long time for the Russians, Ukrainians, Poles and others to relax in the presence of a reunified and dominant Germany. For sure, one future outcome that we do not want to see developing is a spate of reactive arming in response to perceptions of an unchecked growth of German power and influence. As in the case of Japan in the Pacific, an American military presence may be a critical ingredient of stability--even if the military force is not the dominant one.

(One of the downsides to these ideas is that the generals in the Pentagon--the little ones who want to be big ones and the big ones who want to be bigger ones--may likely see this as a threat to the human race and the future of peace in our time. Nonetheless, the ideas could be explored.)

(Prepared by John T. Tyler, Jr./Policy Planning/697-5454/version 1-6-93)

FY 93 C JRRENT LEVELS

Slicing $17.2B of the International Pie



Function 150 Discretionary Programs file: NEWAid93.ch3 3/30/93

BACKUP TABLE FOR FUNCTION 150 NEW ARRAY

$ IN MILLIONS

	FY 93	FY 94
I. SECURITY		
Middle East Peace	**5175**	**5176**
Egypt ESF/FMF	2115	2115
Israel ESF/FMF	3000	3000
Other (west bank..)	60	60.5
Other Peace & Security	**1017**	**903**
CIPA/PKO Accounts	487	697
Turkey ESF	125	143
Base rights loan subsidy (FMF)	149	120.5
Morocco, Phil, Djib, et al	82	56
FMF/ESF in SE Asia, Cyprus etc	90	63.7
IMET Account	43	43
SDAF adjustment	0	-268
CIPA (NATO, NAA)	41.6	44.2
Anti-Narcotics	**350**	**285**
ESF/FMF in Andean region	178.5	114.4
Int'l Naroctics Control / ATA	164	164
DA/DFA projects	8	7
Transition to Democracy	**911**	**1284**
former Soviet Union account	393	703
Eastern Europe (SEED) account	398	409
ESF in Haiti, AF democracy, etal	26	58
DA/DFA projects on democracy	94	109
IOP/CIO: UN OAS OECD pgms	1	4
Information Exchange	**1409**	**1449**
USIA	1189	1229
BIB	220	220
Non-proliferation	**131**	**197**
ACDA	47	63
IAEA (CIO assessed)	51.7	54.1
IAEA (IOP voluntary)	30	30
Non-Proliferate account	0	50
II. HUMANITARIAN	**2270**	**2299**
PL 480 Title II (food aid)	810	832
Refugee and emerg ref accts	670	690
AID Disaster Asst accounts	149	149
Peace Corps	218	220

BACKUP TABLE FOR FUNCTION 150 NEW ARRAY

$ IN MILLIONS

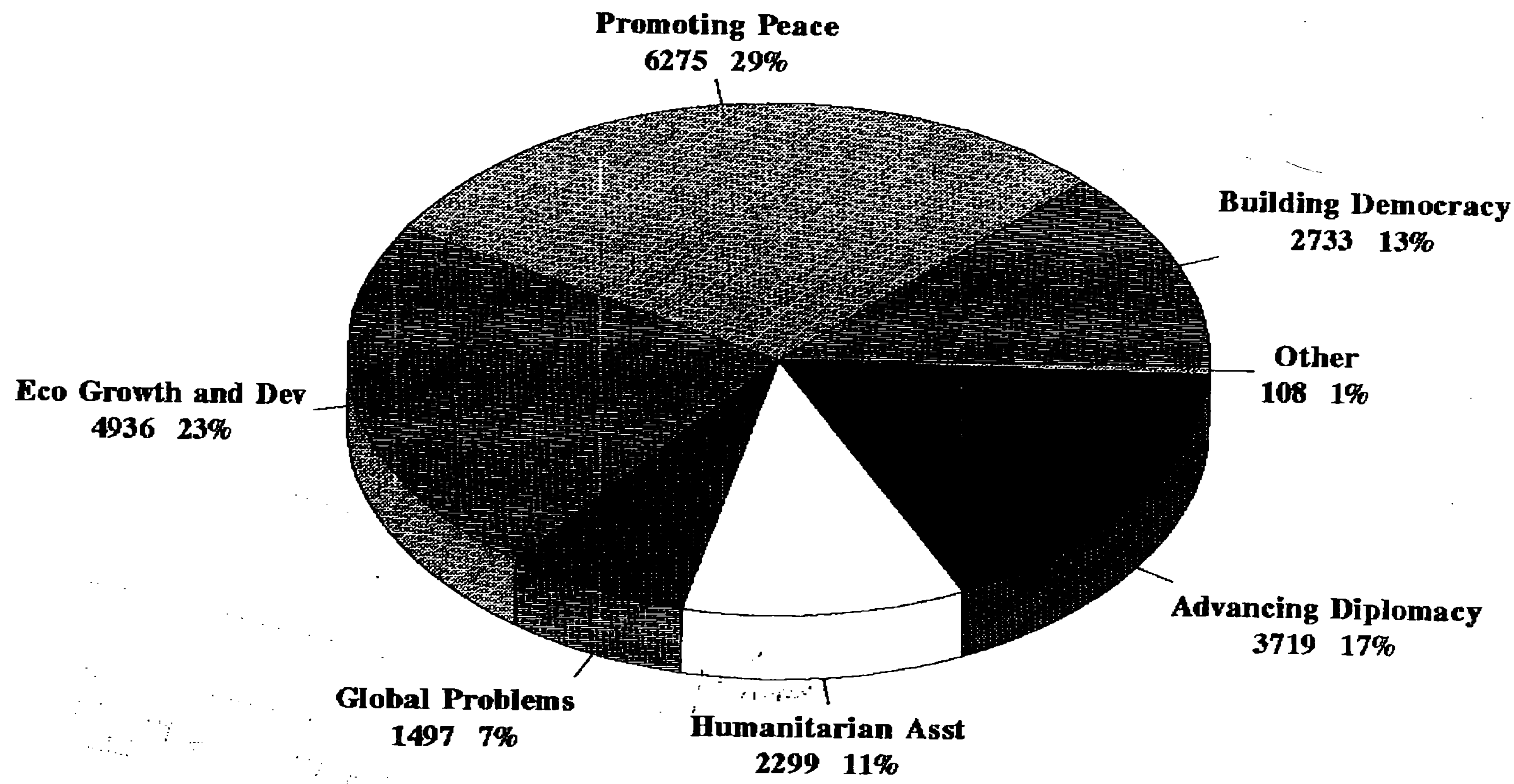
	FY 93	FY 94
IAD/ ADF	48	48
IOP (UNICEF...)	103	103
AID DA/DFA accounts (ESF)	250	257
unknown	?	--

III. TRADE

	FY 93	FY 94
Export related	**1162**	**1166**
Export Import Bank subsidy	777	751
PL 480 Title I (food export loans	345	354
Trade and development agency	40	60
Global Environ/Health	**1077**	**1186**
AID DA Population	418	463
AID DA/DFA AIDS	120	121
CIO (WHO/PAHO...)	145.4	150.5
CIO (Environment.)	11.4	10.4
IOP (UNEP, Montreal Prot. etc..)	46.8	56.5
IOP (UNFPA.)	0	50
AID DA/DFA Environment +FMF	304	299
MDB's GEF	30	31
Dev Aid, Multilaterals	**1967**	**2343**
Multilateral Dev Banks (less GEF)	1553	1923
IOP (UNDP, OAS, etc)	144	146.3
CIO (OECD, FAO, ILO, UNIDO..)	269.4	274
Dev Aid, Bilateral	**1701**	**1427**
AID DA / DFA	1019	872
AID ESF	240	175
PL 480 Title III	334	284
EAI Debt reduction	90	78
OPIC	18	18

FY 94 B[illegible]DGET REQUEST

How the $21.567 B International Pie gets sliced



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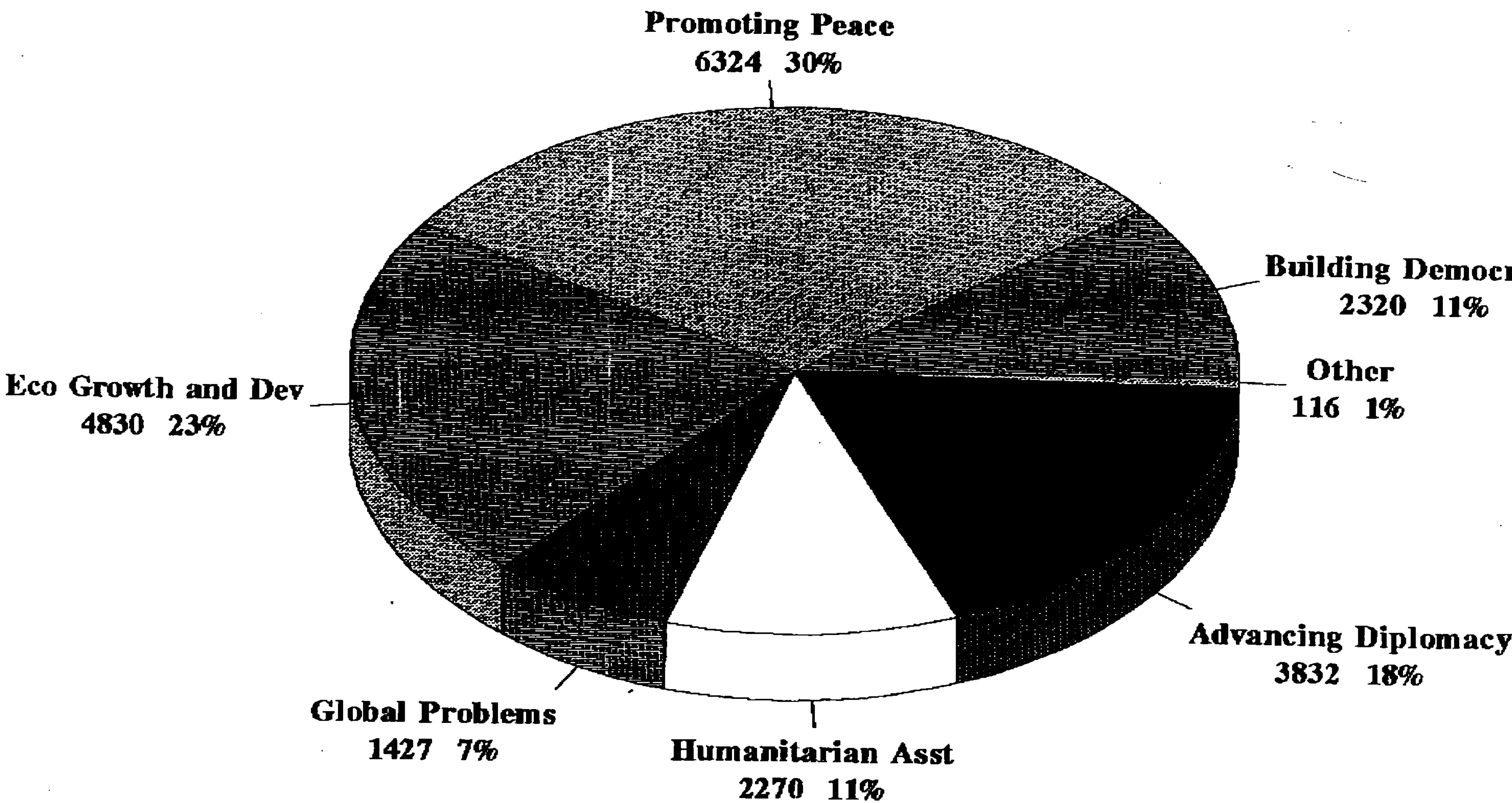
FY 93 CURRENT LEVELS

How the $21.119 B International Pie gets sliced



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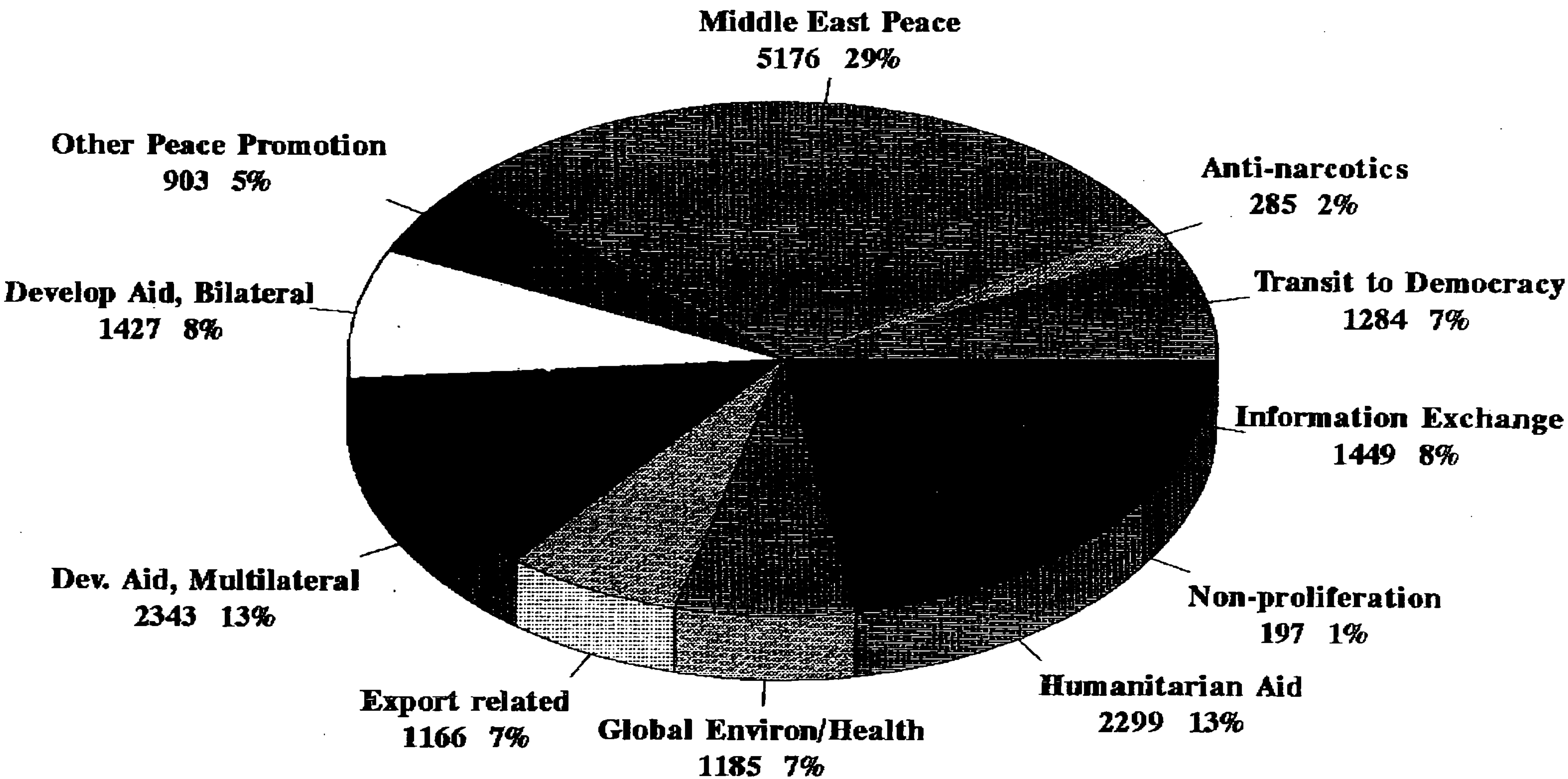
FY 94 BUDGET REQUEST

How $17.7 of the International Aid Pie gets sliced



MILITARY ASSISTANCE FINANCING FOR PEACE INTERVENTION

- As the world's only global military power with global interests to defend, and an increased willingness to involve itself in "wars of conscience", the United States will continue to require the means for addressing international security challenges, especially in the area of international peace intervention, short of or as supplement to the deployment of U.S. forces.

- In that regard, the United States Government (USG) will continue to have a requirement for program(s) to provide U.S. defense articles and services to friends and allies in support of mutual security interests, and to provide assistance to certain needy friends and allies to make such acquisitions. These programs are <u>instruments</u> to achieve contemporary policy objectives.

- The Foreign Military Financing (FMF) program currently is the only means available to the USG to assist friends and allies to purchase U.S. defense articles. Unlike numerous other defense exporting nations, the USG currently has no program for guaranteeing or otherwise facilitating commercial financing for foreign defense sales, except in a limited manner for counternarcotics purposes.

- The FMF program, as currently structured and named (excepting programs for Israel and Egypt), is too closely related in the minds of key Members of Congress with the policies of the Cold War and, hence, is an irresistible target for budget reductions among generally unpopular foreign aid programs.

- A new program or programs for assisting friends and allies to acquire U.S. defense articles and services must be established (at a minimum, FMF must be renamed to sever the politically adverse perception that it represents "outdated" policies and objectives) and clearly reoriented to post-Cold War security challenges if it is to continue to be an effective instrument of U.S. national security and foreign policy and enjoy sufficient support in Congress.

- Excess defense articles transfer (EDA), whether granted or sold, clearly provide a useful means of assisting friends and allies that is well-tailored to the current reality of DoD downsizing (downsizing=increased amounts of EDA). Enhancement of current EDA authorities would increase EDA's contribution to national security objectives, e.g. making countries eligible for grant EDA irrespective of whether they are justified for an FMF program, eliminating non-lethal limitations on transfers, and removing or raising the $250M annual, aggregate ceiling on many EDA transfers.

- EDA, however, does not obviate the requirement for a financing assistance program. Like a used car, EDA's initial costs are attractively low, but mitigated by higher costs downstream for maintenance and restorative work. Many countries continue to require financing assistance to make and keep EDA useful. Otherwise, EDA may too often become rusting monuments to "halfway" U.S. aid programs.

- A military financing assistance program or programs, in combination with EDA programs, could be usefully employed in support of our interests in international peace intervention efforts.

- Regional, ethnic, and religious conflicts will continue to challenge our interests around the world for the foreseeable future, yet the United States cannot politically or financially afford to engage in each with its own forces.

- It is in the United States' interests to broaden the force contribution of other states (i.e. to put there troops on the firing line), and to ensure that those states' forces are effectively trained and outfitted and able to deploy and maintain themselves in the varied environments for these kinds of operations. Not all participating states can afford to do this on their own.

- Bilateral military financing assistance programs, in conjunction with EDA programs, can be used to assist countries to develop and maintain forces and associated support structures for peace intervention missions, while fostering the military-to-military relations and USG influence characteristic of bilateral assistance programs.

- To be most effective, such assistance programs should be geared to preparation for future peace intervention operations, rather than merely be reactive to immediate needs of current missions. The point is to regularize and improve the quality of foreign military contributions to international peace intervention operations.

- Bilateral military financing assistance programs can also be used as an inducement to countries to commit or earmark forces up front for participation in future operations, i.e. if you commit now to future participation, we'll assist you now. Indeed, it could be an important element of any U.S.-supported effort to establish what was referred to during the campaign as a "U.N. Army", but which most likely would take the form of countries agreeing to earmark forces for certain types of peace intervention operations authorized and coordinated by the United Nations.

- There would be political obstacles to overcome. For example, would Congress restrict the use of assistance provided only to peace intervention operations (reflecting an attempt to preclude benefitting forces from performing other, national missions) comparable to requirements currently imposed on military assistance for counternarcotics purposes? What to do about countries who take the aid now, but do not come through when called upon to participate in international peace intervention operations? Could this type of assistance be provided to countries otherwise barred from U.S. military aid (e.g. Pakistan)?

- These obstacles, however, must be balanced against the practical benefits of such a program; anticipation that this kind of assistance would be recognized, and thereby supported, within the Congress as a pragmatic response to a contemporary security challenge (in contrast to the current view of bilateral military financing assistance programs); and appreciation of the fact that there are no guarantees on aid programs, only educated assumptions.

- In sum, a bilateral military financing program(s) could be usefully employed to expand and enhance the quality of foreign contributions to international peace intervention missions, reduce demands on U.S. forces, and foster broader military-to-military relations and USG influence with numerous countries. Because it would mark a change with past programs and clearly relate to contemporary security challenges, it stands a substantially greater chance of gaining sufficient political and, hence, financial support in the Congress.

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