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Appropriations for FY1998: Foreign Operations, Export Financing, and Related Programs

Updated March 2, 1998

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Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bounded by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), the Budget Enforcement Act of 1990, and current program authorizations. In addition, the line item veto takes effect for the first time in 1997.

This report is a guide to one of the 13 regular appropriations bills that Congress passes each year. It is designed to supplement the information provided by the House and Senate Foreign Operations Appropriations Subcommittees. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity. The report lists the key CRS staff relevant to the issues covered and related CRS products.

Since this report was last updated, data related to the FY1998 appropriations may have changed through supplemental appropriations or rescissions, entitlement revisions, or scorekeeping adjustments. These changes will be reflected in a subsequent report.

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Appropriations for FY1998: Foreign Operations, Export Financing, and Related Programs

Summary

The annual Foreign Operations appropriations bill is the primary legislative vehicle through which Congress reviews the U.S. foreign aid budget and influences executive branch foreign policy making generally. It contains the largest share — about 67% — of total U.S. international affairs spending.

For Foreign Operations programs, President Clinton sought $13.324 billion in discretionary budget authority for FY1998, $1.056 billion, or 8.6% higher than available for last year. Most of the increases were concentrated in three activities: multilateral development bank (MDB) contributions, especially payment of arrears; Partnership for Freedom (PFF), a new phase of U.S. aid to Russia and other former Soviet republics; and meeting emerging regional democracy, human rights, and peace making needs. In addition (and not included in the $13.324 billion), the Foreign Operations proposal included $3.521 billion for U.S. participation in the International Monetary Fund's New Arrangements to Borrow (IMF/NAB). Other issues receiving considerable attention were: bilateral development aid policy priorities, especially child survival and infectious disease programs; regional allocations of economic aid; and population assistance and congressional restrictions on abortion.

On July 17, the Senate agreed to a $13.3 billion foreign aid spending bill (S. 955), over $1 billion higher than FY1997 funding and only $24 million below the President's request. The Senate also approved the $3.5 billion IMF/NAB proposal. The House passed its version of the bill (H.R. 2159) on September 4, setting overall funding considerably lower at $12.267 billion. Compared with the President's request, the House cut funds sharply for aid to the former Soviet Union and for U.S. contributions to the World Bank's International Development Association (IDA). The House bill also excluded U.S. payments for the IMF/NAB.

After weeks of delay over policy and funding disputes, House/Senate conferees met on October 28 and agreed to a $13.15 billion Foreign Operations appropriations for FY1998 ($12.787 billion for regular programs, plus $360 million for multilateral development bank arrears). Conferees, however, could not reach an accommodation on two issues -- international family planning restrictions and U.S. participation in the IMF's New Arrangements to Borrow. Negotiations continued until Nov. 12 when conferees filed a conference report that deleted both the House-passed family planning restrictions and the Senate-passed IMF/NAB funding. Efforts to attach other Administration foreign policy priorities to the Foreign Operations bill, including funds for U.S. arrearage payments to the U.N. and State Department reorganization, also failed. H.R. 2159 passed the House on Nov. 12 (333-76), followed by Senate approval (voice) on Nov. 13. The President signed the legislation Nov. 26 (P.L. 105-118).

The Foreign Operations appropriation was influenced by a number of other bills and resolutions moving through Congress in 1997. Perhaps the most prominent was the budget resolution for FY1998. Negotiators reached agreement May 15 on final details of a five year budget plan that for FY1998 made foreign policy spending a priority budget item, fully funding the President's $19.45 billion request.

Key Policy Staff

Area of Expertise	Name	CRS Division	Telephone
Coordinator	(name redacted)	FAND	7-....
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Bosnia	(name redacted)	FAND	7-....
Development Assistance	(name redacted)	FAND	7-....
Development Assistance	(name redacted)	FAND	7-....
Drug control Programs	Raphael Perl	FAND	7-....
Export-Import Bank	James Jackson	ECON	7-....
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International Affairs Budget	(name redacted)	FAND	7-....
Middle East Assistance	Clyde Mark	FAND	7-....
Military Aid/Arms Sales	Richard Grimmett	FAND	7-....
Multilateral Development Banks	Jonathan Sanford	FAND	7-....
NATO/Partnership for Peace	(name redacted)	FAND	7-....
NIS/East Europe Aid	(name redacted)	FAND	7-....
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Overseas Private Investment Corp	James Jackson	ECON	7-....
Peace Corps	(name redacted)	FAND	7-....
Peacekeeping	Marjorie Browne	FAND	7-....
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Terrorism	Raphael Perl	FAND	7-....
Trade and Development Agency	Susan Epstein	FAND	7-....
Turkey/Greece Aid	(name redacted)	FAND	7-....
U.N. Voluntary Contributions	Lois McHugh	FAND	7-....

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Most Recent Developments

Following weeks of contentious negotiations over family planning programs and the International Monetary Fund, Congress approved on November 13 a $13.147 billion Foreign Operations spending measure (H.R. 2159) for FY1998. The legislation falls about $175 million short of the President's request, but is $880 million higher than for FY1997. This reverses a two-year sharp decline in foreign aid spending and clears all U.S. overdue payments to the World Bank's International Development Association. For family planning programs, H.R. 2159 provides $385 million, the same as last year, and deletes the House-passed restrictions concerning abortion and lobbying ("Mexico City policy), substituting language similar, but somewhat less restrictive than what was enacted for FY1997.

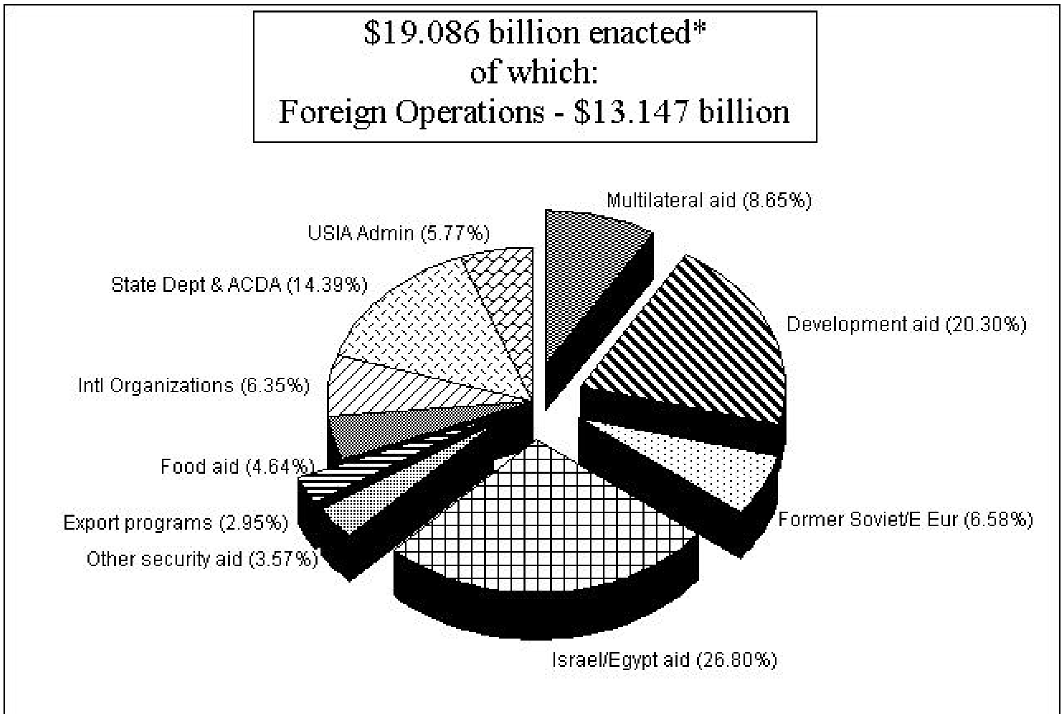
Although the President achieved several of his top priorities, Congress did not approve a $3.521 billion appropriation for U.S. participation in the IMF's New Arrangements to Borrow (NAB). Lawmakers also refused to attach to H.R. 2159 authorization to pay $819 million for U.S. arrears to the United Nations, a major Administration foreign policy initiative that had earlier been negotiated in a conference on H.R. 1757 (Foreign Relations Authorization Act, FY1998-99). Senate efforts to package Foreign Operations with these and other un-related issues in an omnibus bill was rejected by the House. House leaders made a final attempt on November 13 to gain approval of the "Mexico City" anti-abortion family planning restrictions by combining it in a new bill with IMF funds and U.N. arrears. The effort collapsed after the White House said the President would veto any legislation containing "Mexico City" policy. House Appropriations Committee Chairman Livingston said the IMF/NAB issue may come up in a supplemental spending measure early in 1998.

The President signed H.R. 2159 on November 26 (P.L. 105-118), praising Congress for including high levels of funding for multilateral programs, the Middle East, and other Administration priorities, and for dropping the House family planning provisions. President Clinton, however, expressed strong regret that Congress did not fund the IMF/NAB, and raised concerns over several aid restrictions added by Congress, including those associated with Russia's new law on religion and Moscow's support for Iran's missile program.

Introduction

The annual Foreign Operations appropriations bill is the primary legislative vehicle through which Congress reviews and votes on the U.S. foreign assistance budget and influences executive branch foreign policy making generally.[1] It contains the largest share — about 67% — of total international affairs spending by the United States (see **Figure 1**). The legislation funds all U.S. bilateral development assistance programs, managed mostly by the U.S. Agency for International Development (USAID), together with several smaller independent foreign aid agencies, such as the Peace Corps and the Inter-American and African Development Foundations. Foreign Operations includes separate accounts for aid programs in the former Soviet Union (also referred to as the New Independent States (NIS) account) and Central/Eastern Europe, activities that are jointly managed by USAID and the State Department.

Figure 1. **International Affairs Discretionary Budget Authority, FY1998**



* Includes UN and MDB arrearage funds totaling $460 million..
Source: House and Senate Appropriations Committees and CRS calculations.

Exploded slices are Foreign Operations funded activities.

Security assistance (economic and military aid) for Israel and Egypt is also part of the Foreign Operations spending measure, as are smaller security aid programs administered largely by the State Department, in conjunction with USAID and the Pentagon. U.S. contributions to the World Bank and other regional multilateral development banks, managed by the Treasury Department, and voluntary payments

[1]Although the Foreign Operations appropriations bill is often characterized as the "foreign aid" spending measure, it does not include funding for all foreign assistance programs. Food aid, administered under the P.L. 480 program and managed by the Department of Agriculture and USAID, is appropriated in the Agriculture appropriations bill. Further, the Foreign Operations measure includes funds for one activity—the Export-Import Bank—that is not regarded as "foreign assistance," but rather as a U.S. government activity promoting trade opportunities for American businesses. In most years, this results in a Foreign Operations appropriation (including the EximBank) that is slightly less (1.5% in FY1998) than the official "foreign aid" budget. Throughout this report, references to Foreign Operations and foreign aid are used interchangeably.

to international organizations, handled by the State Department, are also funded in the Foreign Operations bill. Finally, the legislation includes appropriations for three export promotion agencies: the Overseas Private Investment Corporation (OPIC), the Export-Import Bank, and the Trade and Development Agency.

From the perspective of congressional oversight and involvement in U.S. foreign aid policy making, the Foreign Operations bill has taken on even greater significance during the past decade. Congress has not enacted a foreign aid authorization bill since 1985, leaving most foreign assistance programs unauthorized. As a result, Foreign Operations spending measures increasingly have expanded their scope beyond budget issues and played a major role in shaping, authorizing, and guiding both executive and congressional foreign aid and broader foreign policy initiatives. It has been largely through Foreign Operations appropriations that the United States has modified aid policy and resource allocation priorities since the end of the Cold War. The legislation has also been a key tool used by Congress to apply restrictions and conditions on Administration management of foreign assistance, actions that have frequently resulted in executive-legislative clashes over presidential prerogatives in foreign policy making.

Status

Table 1. Status of Foreign Operations Appropriations, FY1998

Subcommittee Markup		House Report	House Passage	Senate Report	Senate Passage	Conference Report	Conference Report Approval		Public Law
House	Senate						House	Senate	
6/25/97	6/18/97	7/09/97 (H.Rept. 105-176)	9/04/97 (375-49)	6/24/97 (S.Rept. 105-35)	7/17/97* (S. 955)	11/12/97 (H.Rept. 105-401)	11/12/97 (333-76)	11/13/97 (voice)	11/26/97 P.L. 105-118

* The Senate passed S. 955 on July 17, the bill was held in the Senate awaiting House passage of H.R. 2179. Subsequently, the Senate, on Sept. 5, approved H.R. 2179 after striking the House language and inserting the Senate text of S. 955.

President Clinton submitted his FY1998 Federal budget request to Congress on February 6, 1997, including funding proposals for Foreign Operations Appropriations programs. For the next three months, House and Senate Foreign Operations Subcommittees held a series of hearings, including testimony from Secretary of State Albright, Treasury Secretary Rubin, and USAID Administrator Atwood. The first formal action was taken by the Senate Foreign Operations Subcommittee when it marked up draft legislation on June 18. The full Senate panel approved the bill (S. 955) on June 24 and the bill passed the Senate on July 17. The House Foreign Operations Subcommittee met on June 25 to issue its recommendation, an action followed by full House Appropriations Committee markup on July 9 (H.R. 2159). The House passed H.R. 2159 on September 4.

A series of House-Senate conference committee meetings, scheduled several times during the final week of September and October, were postponed because of continuing disagreement on several Foreign Operations matters, including international family planning policy.[2] Conferees met on October 28, worked out common positions on all nearly all issues, but deferred consideration of two contentious provisions -- House-passed family planning restrictions and Senate-passed $3.5 billion for U.S. participation in the IMF's New Arrangements to Borrow. Consequently, the Foreign Operations conference remained open, pending resolution of these two matters.

On-going efforts to resolve these issues, especially the family planning provision, had not resulted in a compromise arrangement when the Senate, on November 9, attached the terms of the tentative Foreign Operations conference of October 28 to H.R. 2607, the District of Columbia Appropriations, passed the measure, and sent it to the House. The Senate measure added funding for the IMF/NAB and a less-restrictive family planning provision than had passed the House, plus it attached new Administration high priority foreign policy initiatives for paying U.S. arrears to the United Nations and reorganizing the State Department and other foreign affairs agencies that had been negotiated in other legislation. The House, however, did not act on the Senate's omnibus bill, and instead filed a conference report on Foreign Operations and passed it on November 12 (333-76) without IMF funding, U.N. arrears, and agency reorganization. The Senate agreed to H.R. 2159 the next day by voice vote. President Clinton signed the measure on November 26 (P.L. 105-118).

House leaders made a final attempt on November 13 to gain approval of the "Mexico City" anti-abortion family planning restrictions by combining it in a new bill with IMF funds, U.N. arrears and agency reorganization. The effort collapsed after the White House said the President would veto any legislation containing "Mexico City" policy and Senate Minority Leader Daschle predicted the Senate would not support the bill. House Appropriations Committee Chairman Livingston said the IMF/NAB issue may come up in a supplemental spending measure early in 1998.

Foreign Operations Funding Trends

In recent years, as the United States has adjusted its foreign and defense policy to a post-Cold War environment, one of the major foreign assistance issues for Congress and executive branch policymakers has been the question of resources and how to reduce foreign aid spending while sustaining the program as an effective foreign policy tool.

After peaking in size at $20.7 billion in FY1985, Foreign Operations appropriations began a period of declining levels, falling to about $12.3 billion in FY1997, representing 0.74% of the entire federal budget and 2.4% of total discretionary budget authority. (These same figures in FY1985 were 2% and 4.6%, respectively.) Moreover, in real terms, taking into account the effects of inflation, FY1997 Foreign Operations spending was 34% below the average appropriation level approved by Congress during the late 1980s, 23% less than FY1992, a year that might

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[2] In an effort to underscore the importance of abortion restrictions for population aid programs, the House voted (233-194) on October 7 to instruct Foreign Operations conferees to insist on the House-passed prohibitions.

be considered the first post-Cold War foreign aid budget, and 14% less than FY1995 when the majority in Congress changed.

Foreign Operations appropriations, excluding funding for the Export-Import Bank, had grown steadily in real terms (taking into account the effects of inflation) during the early 1980s when the United States rapidly expanded security-related aid programs in Central America, Pakistan, and to countries providing the U.S. with military bases.[3] Funding peaked in FY1985 at $31.3 billion (in FY1998 dollars) followed by a sharp cut in FY1986 as the effects of the Gramm-Rudman deficit reduction initiative took hold and limited federal spending in most areas. For the next five years, appropriations remained relatively stable at about $18.8 billion per year (real terms). Amounts dropped again in FY1992 to about $16.4 billion, and continued to fall to $14.7 billion in FY1995 (FY1998 dollars). Appropriations for FY1997 were the smallest Foreign Operations level, in real terms, since 1975 when Congress slashed foreign assistance spending during the U.S. withdrawal from Vietnam.

Table 2. Foreign Operations Appropriations, FY1995 to FY1998

discretionary budget authority in billions of current dollars)[a]

FY1995	FY1996	FY1997	FY1998 Request	FY1998 House	FY1998 Senate	FY1998 Enacted
$13.611	$12.456	$12.267	$13.324	$12.267	$13.295	$13.147

[a] FY1998 request figure excludes $3.521 billion request for the IMF New Arrangements to Borrow (NAB) that when combined with regular Foreign Operations programs, brought the total request to $16. 845 billion. The Senate bill included the IMF/NAB request, bringing its total to $16.816 billion. The House measure did not include IMF/NAB funding, nor did the enacted bill. See Data Notes box for explanation.

Although cutting the foreign aid budget became a central theme of congressional deliberations in the 104th Congress, a relatively solid consensus also emerged within the Administration and among congressional leaders to maintain current levels of assistance for Israel and Egypt, humanitarian/refugee programs, and children activities. With nearly half of all foreign assistance allocated to these high priority categories, a significant overall budget reduction fell disproportionately on the remaining countries and programs.

Illustrative of this pattern, Congress, during debates in 1995 and 1996 on the foreign aid spending bill, protected funds for a few priority foreign aid activities but cut significantly most everything else. Under the Foreign Operations Appropriations (H.R. 3610, as enacted as part of the Omnibus Consolidated Appropriations Act, September 30, 1996, P.L. 104-208), bilateral economic assistance **outside** the Middle East and Europe fell about 16% below FY1995 amounts. Moreover, after accounting

[3]Funding for the Export-Import Bank, a program generally not regarded as "foreign aid," declined from $5.4 billion in FY1981 to $3.9 billion by FY1985, while appropriations for security aid programs grew from $5.3 billion in FY1981 to $11.9 billion in FY1985.

for earmarks that protected funding for children and disease programs from budget reductions, remaining bilateral economic aid activities declined over 19% from the FY1995 level. U.S. assistance for Africa, Latin America, and Asia, and global population and environment programs were the areas most affected. U.S. contributions to multilateral development banks (MDBs) have been another main target for funding cuts, especially the International Development Association (IDA), the arm of the World Bank lending to the poorest countries. The FY1997 Foreign Operations measure fell 41% below the funding level for multilateral programs appropriated for FY1995.

Data Notes

Unless otherwise indicated, this report expresses dollar amounts in terms of *discretionary budget authority*. The Foreign Operations Appropriations bill includes only one *mandatory* program — USAID's Foreign Service retirement fund — that is not included in figures and tables shown. For FY1997 the retirement fund received $43.8 million, with a small increase to $44.2 million enacted for FY1998.

In addition, comparisons made in the report between Foreign Operations levels for FY1998 and prior years exclude a one-time, $3.521 billion proposal to fund U.S. participation in the IMF's New Arrangements to Borrow (NAB). The NAB is a new IMF facility that will include lines of credit from about 25 potential participants, including the United States. The IMF will be able to draw on the funds in the event that an international financial crisis depletes regular IMF resources. IMF members agree to expand the institution's resources only occasionally: five times in the past 20 years. Although Congress provides new budget authority through appropriations for the full amount of U.S. participation, the transaction is considered an exchange of assets between the United States and the IMF, and results in no outlays from the U.S. treasury. In short, the appropriations are off-set by the creation of a U.S. counterpart claim on the IMF that is liquid and interest bearing. For more, see CRS Report 96-279, *U.S. Budgetary Treatment of the International Monetary Fund*.

Foreign Operations Appropriations Request, FY1998

Much of the early debate in the 105th Congress on foreign policy resources focused on the overall international affairs budget request, of which Foreign Operations, as illustrated in **Figure 1** above, accounts for over two-thirds. Administration officials, in justifying their $19.451 billion FY1998 international affairs request, placed foremost emphasis on shoring up U.S. diplomatic capabilities. Then-Secretary Christopher launched this campaign for additional foreign policy resources in a speech at West Point (October 1996) in which he argued that the United States must maintain a balanced and well-funded capability to both conduct diplomacy and apply military force when appropriate to preserve military *and* diplomatic readiness if the United States is to sustain global leadership and protect vital American interests. By diplomatic readiness, Secretary Christopher emphasized the need to remain engaged in the decisions made by international organizations, to support American businesses overseas, to promote the development prospects of emerging democracies, to combat transnational national security threats stemming from drugs, terrorism, crime, arms proliferation, and disease, and to have the necessary organizational infrastructure to operate and communicate with U.S. representatives around the world. He concluded that the United States could no longer sustain its "diplomacy on the cheap" without jeopardizing significant national interests. Upon confirmation, Secretary Albright embraced these same themes, and vigorously defended before several congressional committees, including the Foreign Operations Appropriations Subcommittee, the need to support a 6.3% increase for international affairs in FY1998.[4]

While several of the "diplomatic readiness" themes emphasized in the International Affairs budget request would be funded in the Commerce, Justice, and State Departments appropriation bill, the bulk of the $1.161 billion increase for foreign policy programs fell within the purview of the Foreign Operations funding measure. President Clinton sought $13.324 billion in discretionary budget authority for Foreign Operations programs in FY1998, $1.056 billion, or 8.6% higher than available for FY1997. Although this was roughly double the growth sought in early 1996 for FY1997, most of the increases were concentrated on only three activities:

- **Multilateral development bank (MDB) contributions, especially payment of arrears.** The Administration sought $1.523 billion for MDB contributions, up from $986 million in FY1997. About $315 million of the increase was to begin a three-year plan to clear all U.S. arrears to the World Bank and other regional development institutions. Congress had cut sharply similarly large increases each of the past two years for multilateral financial organizations.

- **Partnership for Freedom (PFF), a new phase of U.S. aid to Russia and other former Soviet republics.** With expectations that U.S. aid to the former Soviet Union would continue to decline, and eventually settle at relatively low amounts, the Administration asked Congress to support a $900 million package for FY1998, 44% higher than the $625 million for FY1997. Of the $900 million requested, $540 million would fund the new PFF initiative that aimed to shift the emphasis from technical assistance, and focus more on trade and investment projects, and those strengthening civil society. The PFF would emphasize activities in Russia and Central Asian countries.

- **Meeting emerging regional democracy, human rights, and peace making needs.** In an effort to enhance the President's ability to respond more flexibly to growing, and in some cases, unanticipated contingencies around the world,

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[4]The issue was heightened further with the release in early 1997 of several studies on the question of the foreign policy budget. See, for example, a Jan. 13, 1997, report issued by the Brookings Institution and the Council on Foreign Relations by a Task Force on Resources for International Affairs; and *False Alarm over Foreign Affairs Spending Cuts,* released by the Heritage Foundation, Backgrounder No. 1102, Jan. 31, 1997. For more details on the International Affairs budget, see CRS Report 97-384, *Foreign Affairs Budget for FY1998: Understanding the Numbers and Assessing the Request,* updated May 16, 1997.

the request included substantial increases for a series of regional democracy and peacekeeping programs funded within the Economic Support Fund and voluntary Peacekeeping accounts. In total, the President proposed $105 million for these regional activities, up from $43 million allocated in FY1997.

Table 3. Summary of Foreign Operations Appropriations
(in millions of dollars)

Bill Title & Program	FY1997 Enacted	FY1998 Request	House Bill	Senate Bill	FY1998 Enacted
Title I - Export Assistance	634.6	514.6	450.6	579.6	563.1
Title II - Bilateral Econ. Aid	7,250.4	7,727.6	7,338.9	7,712.5	7,554.6
(Of which:					
(Development aid)	*(1,992.5)*	*(2,069.0)*	*(2,076.5)*	*(2,133.1)*	*(2,088.0)*
(Africa aid)	*(665.1)*	*(700.0)*	.*	.*	.*
(Israel/Egypt economic aid)	*(2,015.0)*	*(2,015.0)*	*(2,015.0)*	*(2,015.0)*	*(2,015.0)*
(Former Soviet Union)	*(625.0)*	*(900.0)*	*(625.0)*	*(800.0)*	*(770.0)*
Title III - Military Assistance	3,226.5	3,359.3	3,340.8	3,399.0	3,378.1
(Of which:					
(Israel/Egypt military aid)	*(3,100.0)*	*(3,100.0)*	*(3,100.0)*	*(3,100.0)*	(3,100.0)
Title IV - Multilateral Aid	1,155.8	1,722.2	1,136.9	1,603.2	1,650.9
(Of which: Intl Dev Assn)	*(700.0)*	*(1,034.5)*	*(606.0)*	*(1,034.5)*	*(1,034.5)*
Total Foreign Ops (excl. IMF)	**12,267.3**	**13,323.7**	**12,267.2**	**13,294.5**	**13,146.7**
IMF/NAB	-.-	3,521.0	.0	3,521.0	.0
Total, Foreign Ops.	**12,267.3**	**16,844.7**	**12,267.2**	**16,815.5**	**13,146.7**

Source: House and Senate Appropriations Committees. Note that the structure and composition of several Foreign Operations accounts have changed in the past two years. House and Senate bills for FY1998 also adopted different account structures from one another. For comparative purposes, all columns have been adjusted to conform to the structure of the FY1998 enacted bill. Most notably, this shifts funding for UNICEF ($100 million) from Title IV to Title II in the development assistance line. For detailed funding levels of each program, see table set out in the appendix of this report.

* Not specified in bill. The Administration will allocate funds out of development assistance and Child Survival accounts.

In addition (and not included in the $13.324 billion total cited above), the Foreign Operations proposal included $3.521 billion for U.S. participation in the **International Monetary Fund's New Arrangements to Borrow (IMF/NAB).** The NAB is intended to expand the IMF's ability to assist during an international financial crisis. As noted in the box note above, IMF appropriations do not result in an outlay of U.S. funds or increase the deficit.

For most other Foreign Operations-funded programs, the FY1998 request set spending at or near FY1997 levels. **Bilateral development programs** operated by

USAID, for example, would have grown by about $66 million (+4.8%), although the change in purposes for which the funds would be used was more substantial (see below under Major Issues). The USAID operating expense budget fell by 3.1% to $473 million, reflecting among other things, savings from the closure the past four years of 26 overseas missions and fewer staff. Although USAID does not anticipate another reduction in force with reduced operating expenses for FY1998, it plans to close several more missions by the end of the year.

Peace Corps (+6.7%), **international drug control programs** (+8%), aid to **Eastern Europe** (+3.6%), and **Trade and Development Agency** (+7.5%) also received modest increases. Humanitarian assistance extended for international disasters and refugee relief activities would remain the same as for FY1997 at a combined total of $890 million. Funding for the **Export-Import Bank** fell by nearly 12%, although the Administration believed the reduced "subsidy" appropriation would support increased lending by the Bank because borrowers are expected to be more credit worthy and represent a lower risk to U.S. lending.

For military aid programs, the $50 million sought for International Military Education and Training (**IMET**) was double the FY1995 appropriation and up 15% over FY1997. With the same $20 million level appropriated in FY1997 year for **military loans for Central European countries**, the Administration believed it could increase the loan value from approximately $242 million to $402 million because of an improving economic climate in several of these prospective members of NATO.

At the country level, the FY1998 proposal did not alter significantly the FY1997 list of leading recipients of U.S. aid (see **Table 4**). In general, the roster of major recipients reflects U.S. policy emphasis on Middle East peace, democratic transition in the former Soviet Union, implementation of the Dayton Peace accords in Bosnia, and to a somewhat lesser extent, efforts to counter the drug trade in Latin America. Israel ($3 billion) and Egypt ($2.116 billion) would continue at about the same levels for FY1997, as would assistance for Greece, Turkey, Ukraine, and Bosnia.[5] Assistance to Russia under the PFF initiative would increase significantly — from $100 million allocated from FY1997 appropriations to $246 million for FY1998 — while Jordan's program would grow by over one-half. The list of top 15 recipients also reflects key U.S. policy priorities in South Africa and Haiti.

Major Foreign Operations Policy Issues for Congress

As Congress considered the President's FY1998 request, it debated a wide range of foreign aid and broader foreign policy issues. Set out below is a general overview of actions taken by both the House and Senate, including comparisons of overall and specific account funding levels. Also discussed are six major areas that received

[5] Following enactment of the Foreign Operations Appropriations, the Administration decided to provide Greece and Turkey with military aid *grants* rather than *loans*, as has been requested and earmarked by Congress. Because grants require a full appropriation and loans only a "subsidy" appropriation, the level of military grants for Greece and Turkey are about one-seventh the amount of the anticipated loan size. As a result, Greece and Turkey are no longer among the largest recipients of U.S. foreign aid for the first time since the late 1970s.

considerable attention during the FY1998 Foreign Operations debate, including details on Administration and congressional positions for each.

Table 4. Leading Recipients of U.S. Foreign Aid: FY1997 and FY1998 Estimates
(appropriation allocations — $s in millions)

	FY1997 Allocation	FY1998 Estimate
Israel	$3,000.0	$3,000.0*
Egypt	$2,107.9	$2,116.0*
Ukraine	$228.8	$229.1*
Bosnia	$218.0	$215.6*
Jordan	$55.9**	$192.8**
Russia	$100.8	$134.0
Georgia	$27.2	$92.9*
Armenia	$96.1	$88.6*
West Bank/Gaza	$75.0	$85.0
South Africa	$67.8	$73.4
Haiti	$66.9	$71.4
Colombia	$33.5	$66.9
Peru	$50.7	$62.2
Bangladesh	$47.3	$56.0
Guatemala	$43.9	$55.1

* Total or partial earmarks enacted in FY1998 Foreign Operations bill.

** In July 1997, the Administration notified Congress that Jordan would receive an additional $100 million in FY1997 (not shown here), an amount that would be drawn equally from Israel and Egypt. For FY1998, Jordan will also receive $25 million from DOD drawdowns.

Notes:

(1) Data exclude food assistance, a program not appropriated in the Foreign Operations bill. With food aid included, the rank order above would change somewhat. Food aid for FY1998 include: Peru—$54 million; Haiti—$30.2 million; Bangladesh—$20.7 million; and Guatemala—$11.8 million. Moreover, because of large food aid programs, India, Ethiopia would also rank among the lower half of the top 15 U.S. recipients.

(2) Greece and Turkey, long-standing leading recipients of U.S. aid, were earmarked to receive $105 million and $196 million, respectively in FY1998 economic and military grants and loans. The Administration decided, however, to convert military loans to grants, thereby lowering considerably the size of military assistance. Greece and Turkey will receive $14.4 million and $26.6 million, respectively in FY1998.

Overview of Congressional Action on the President's Request

Formal congressional consideration of the FY1998 Foreign Operations spending measure began in mid-June with a Senate subcommittee markup, followed by Senate passage (mid-July), and House committee work and passage (early September). A

House/Senate conference committee, meeting on October 28, negotiated common positions on nearly all issues in dispute, but deferred consideration of the most contentious matter -- restrictions on U.S. international family planning programs and abortion. Conferees resolved the remaining differences on November 12, and Congress sent to the President the FY1998 Foreign Operations spending measure in the final hours of the session.

Senate consideration. On July 17, the Senate agreed to a $13.3 billion foreign aid spending bill (S. 955), slightly more than $1 billion higher than FY1997 funding and just $29 million below the President's request. This level was closer to any Administration request than approved by Congress in several years, and higher than any foreign aid spending legislation acted on by Congress since Republicans assumed the majority over two years ago.

Many accounts, as itemized in a detailed table at the end of this report, were fully funded under the Senate recommendation. In particular, S. 955 approved the President's entire $3.5 billion request for U.S. participation in the **IMF's New Arrangements to Borrow**. Following adoption of an amendment by Senator Leahy adding $84.5 million, the Senate-passed bill further included the full $1.035 billion request for U.S. contributions to the World Bank's **International Development Association**. In other areas, S. 955 added funds beyond what was requested. Bilateral **development aid** was set about $69 million (+4%) higher than the budget submission, subsidy appropriations to back **Export-Import Bank** loans and guarantees were $68 million (+11%) more than the request, and **foreign military financing** was up $50 million (+2%) above the President's proposal. In other areas, however, the Senate bill was set below amounts proposed for key Administration initiatives, including **aid to the former Soviet Union** (-$100 million).

Earmarks in the Senate bill for country aid levels stimulated some of the sharpest controversy, especially concerning the Appropriations Committee's decision not to set aside a specific amount of assistance for **Egypt**. Breaking a practice continued since the signing of the Camp David accords in 1979, S. 955, as reported by the Committee, excluded an earmark for the $815 million ESF and $1.3 billion FMF requests for Egypt. Committee Members believed that Egyptian leaders had taken a number of steps during the past 18 months that suggested a lack of commitment to the Middle East peace process. On the other hand, the Committee expressed strong appreciation for the risks undertaken by Jordan's King Hussein in the pursuit of regional peace, and earmarked $250 million for **Jordan**, about $80 million more than the Administration anticipated providing. During floor debate, however, at the urging of Executive branch officials and key Senate leaders, the Senate approved an amendment restoring the earmarks for Egypt.

On other country-specific issues, the Senate recommended that aid to **Russia** and **Ukraine** have eligibility conditions attached--for Russia, because of its continuing support for Iran's ballistic missile and nuclear programs and because of legislation discriminating against religious minorities; for Ukraine, because of limited progress on economic reforms and evidence of corruption, some of which has had a detrimental impact on Americans investing in the country. Two amendments by Senator McConnell restricted U.S. aid to **Cambodia,** and a proposal by Senator Specter conditioned assistance to the **Palestinian Authority** on, among other things, a

Presidential certification that the Palestinian Authority is using maximum efforts to combat terrorism and has ceased using violence as part of its policy toward Israel.

During two days of debate in mid-July, the Senate adopted numerous amendments -- some of which are noted above -- but also rejected a few controversial proposals. An amendment by Senator Allard to cut back to FY1994 levels the administrative costs of the **Overseas Private Investment Corporation (OPIC)** failed 35-64. OPIC critics have argued for several years that the corporation represents one of several taxpayer-supported "corporate welfare" activities and have attempted to terminate or reduce its operations.[6] Senators Dodd and McCain proposed an amendment to suspend for two years the so-called **drug certification process** through which the President must annually certify whether drug producing/transiting countries are cooperating with U.S. efforts to counter international narcotics trafficking. During this two year suspension, the amendment called on the President to develop a new approach to achieve greater international cooperation in curbing drug production. The March 1997 certification became especially controversial when President Clinton certified Mexico as cooperating, but declined to certify Colombia. The Senate, however, rejected the Dodd-McCain proposal 38-60. The Senate further defeated (38-61) an amendment by Senator Bingaman which would have permitted family-related humanitarian aid and compassionate travel to **Cuba** by Cuban-Americans. Finally, the Senate rejected (22-77) a Senator Hutchinson amendment to express the non-binding sense of the Senate that the U.S. should revoke **China**'s MFN trade status.

House consideration. The companion measure passed by the House (H.R. 2159) was sharply different in many respects from S. 955, especially concerning overall funding levels. As approved on September 4 (375-49), the House Foreign Operations funding package held spending for FY1998 at the FY1997 $12.267 billion level. This placed H.R. 2159 over $1 billion less than the President's request and the Senate-passed level. The largest reductions from the President's proposal and the Senate recommendations came in two accounts: **aid to the former Soviet Union** and U.S. contributions to the World Bank's **International Development Association**. Moreover, the House bill did not include budget authority for the **IMF's NAB**. Like the Senate measure, H.R. 2159 provided more funding for **development assistance** than requested by USAID (+$15 million), but directed the agency to increase spending on **children and disease programs** and reduce funds for **family planning** aid. Although the legislation did not earmark funds for specific countries, the Appropriations Committee recommended that **Israel and Egypt** receive amounts as proposed by the President. The House bill further deferred program funding for the **Overseas Private Investment Corporation** because Congress had yet to take action on legislation to extend OPIC's operations beyond November 7, 1997.

The House began debate of H.R. 2159 on July 30, but after considering several amendments, the bill was set aside and not completed until after the August recess. During consideration, the House adopted, among others, an amendment by Representative Saxton that suspends U.S. aid to the **Palestinian Authority** for ninety days, an amendment by Representative Menendez to prohibit contributions to the

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[6] In a separate action, the Senate approved an amendment by Senator Hagel authorizing OPIC operations to continue through FY1999. At the time, OPIC's authority was set to expire on Sept. 30, 1997.

International Atomic Energy Agency to be used for projects in **Cuba,** an amendment by Representative Campbell transferring $25 million from the Economic Support Fund to the **African Development Bank**, and separate amendments by Representatives Rohrabacher and Bereuter prohibiting U.S. aid for the government of **Cambodia**.

The House also rejected several other amendments. Two addressed the issue of funding U.S. export promotion agencies and charges of "corporate welfare." A Royce amendment reducing **OPIC**'s administrative expenses to FY1994 levels lost 156-272, and an amendment by Representative Paul to eliminate funding for **OPIC, the Export-Import Bank, and the Trade and Development Agency** was defeated 40-387. An amendment by Representative Burton to limit U.S. aid to **India** failed 82-342, as did an amendment by Representative Fox to prohibit assistance in support of **trophy hunting** or trade in elephant ivory, hides, or rhinoceros horns (159-267).[7] The House further rejected (210-217) an amendment by Representative Torres to ban military training funds for the U.S. Army School of the Americas (see CRS Report 97-726).

On what has come to be the most contentious issue in the Foreign Operations spending bill, the House voted on three amendments concerning U.S. **family planning** programs. The House defeated (147-278) an amendment by Representative Paul that would have struck the entire $385 million funding level for population assistance. Before voting on an amendment by Representative Smith (NJ) that would ban U.S. funds for foreign organizations engaged in abortion activities, the House narrowly defeated (210-218) a substitute proposal by Representatives Gilman, Pelosi, and others. The Gilman substitute would have restricted funding only to groups that "promote" abortion as a method of family planning, but not to those performing abortions with non-U.S. money. The House then approved the Smith amendment 234-191. Subsequently, after failing for several weeks to resolve informally House-Senate and House-Administration differences over family planning restrictions, the House voted (233-194) on October 7 to instruct House conferees to insist on the Smith amendment during its deliberations with the Senate. (See below for more discussion on the family planning issue).

House/Senate Conference Committee negotiations. After nearly two months of informal discussions, House and Senate conferees met on October 28 and reached agreement on all issues except family planning restrictions and the IMF/NAB. As a result, the conference committee remained open until Members resolved the two issues on November 12 and filed a conference report.[8] The House approved the

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[7]The latter amendment was aimed at blocking USAID funding for the CAMPFIRE program, an activity supporting Zimbabwe's elephant conservation efforts, but which critics claim has promoted the killing of African elephants. For more information, see CRS Report 97-752, *African Elephant Issues: CITES and CAMPFIRE.*

[8] After several further attempts to resolve these two issues failed, the Senate attached a modified text of the tentative Foreign Operations October 28 conference agreement to H.R. 2607, the District of Columbia Appropriations and sent it to the House on Nov. 9. The Foreign Operations modifications included IMF/NAB funding and revised family planning restrictions, but with a Presidential waiver. The House, however, deleted Foreign Operations from H.R. 2607, and instead completed action on Foreign Operations as a separate bill, H.R.

(continued...)

conference agreement on the same day (333-76), followed by the Senate on November 13 (voice).

With the House and Senate bills far apart on overall funding for Foreign Operations, conferees settled on levels closer to the Senate-passed and President-requested amounts, representing a sharp increase for Foreign Operations for the first time in several years. Total discretionary spending is set at $13.15 billion, divided into two components: $12.787 billion for regular Foreign Operations programs and $360 million for U.S. arrearage payments to the World Bank and other multilateral development banks. This amount is about $175 million less than the Administration's proposed budget (-1.3%), but $880 million more than FY1997 and the House-enacted bill (+7.2%).[9] Moreover, this reverses a seven year trend during which Congress cut the regular Foreign Operations spending below the previous year's total.[10] It would also support to a large extent the Administration's year-long campaign to shore up resources for foreign policy programs.

From the Administration's perspective, the conference agreement backs one of its primary Foreign Operations initiatives -- full funding for the World Bank's **International Development Association** -- but falls well short of another priority item of expanding aid for **Russia** and launching its Partnership for Freedom activity. Restrictions attached to Russian aid by House or Senate bills, however, are modified somewhat in the conference report to provide greater Presidential flexibility. (See below under specific issues for complete discussion.)

On the most divisive Foreign Operations issue -- **family planning policy restrictions** -- the White House successfully blocked attachment of the House-passed "Mexico City" provisions, but will receive $385 million for population programs rather than the roughly $443 million requested. The legislation also apportions, or "meters" the funds at a monthly rate of $32.1 million. This arrangement is similar, but somewhat less restrictive than Congress enacted for FY1997. Funding remains

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[8](...continued)
2159.

[9] Revised "Sec. 302(b) allocations," approved by House and Senate Appropriation Committees in late September, provided Foreign Operations conferees with spending totals much closer to the Senate-passed amount. The revised House allocations gave Foreign Operations $12.8 billion, plus allowance for U.S. arrearage payments. Sec. 302 allocations refer to the process by which Congress translates actions taken on the budget resolution and the establishment of broad budget function totals into the distribution of these funds among committees with jurisdiction over spending decisions. House and Senate Appropriations Committees, as well as other congressional committees, are issued "302(a) allocations," in reference to Section 302(a) of the Congressional Budget Act of 1974. The Appropriations Committees subsequently allocate their available funding totals among each of the 13 subcommittees (the 302(b) allocations). At the initial stage of debate on the 13 spending bills, House and Senate 302(b) allocations are usually different -- sometimes widely different. Appropriation panels revise these allocations prior to conference meetings, frequently narrowing the gaps between earlier House and Senate differences.

[10] This applies only to the regular Foreign Operations bill, such as H.R. 2159. In two years (FY1991 and FY1993) supplemental appropriations for Persian Gulf war related aid and assistance to the former Soviet Union pushed Foreign Operations spending higher than the previous year.

the same, but instead of a delay until July for access to the money, as was the case last year, USAID would begin to receive the $32.1 million monthly apportionments immediately. Moreover, there is no requirement for a Presidential certification and congressional vote early next year in order to accelerate the availability of funds.

While the conference agreement excludes the House-passed abortion restrictions over which the President said he would veto the bill, it derailed passage of other major Administration foreign policy priorities. H.R. 2159 does not fund the $3.521 billion appropriation for U.S. participation in the **IMF's New Arrangements to Borrow (NAB)**, nor does it include authorization to pay $819 million for U.S. **arrears to the United Nations** that had earlier been negotiated in a conference on H.R. 1757 (Foreign Relations Authorization Act, FY1998-99) and that supporters had hoped to attach to Foreign Operations. House leaders made a final attempt on November 13 to gain approval of the "Mexico City" anti-abortion family planning restrictions by combining it in a new bill with IMF funds, U.N. arrears and foreign affairs agency reorganization. The effort collapsed after the White House said the President would veto any legislation containing "Mexico City" policy and Senate Minority Leader Daschle predicted the Senate would not support the bill. House Appropriations Committee Chairman Livingston said the IMF/NAB issue may come up in a supplemental spending measure early in 1998.

Other Executive branch proposals supported by the conference package include full funding for the **Peace Corps** ($220 million), **humanitarian disaster relief** ($190 million), **refugee assistance** ($700 million), **international narcotics programs** ($230 million) **military training** ($50 million), **OPIC** credit programs, including the extension of OPIC's authority to operate for another year, and regional development banks for Europe ($35.8 million) and North America ($56.5 million). **Development assistance** funding slightly exceeds (by about $30 million) amounts proposed by the President, although congressional add-ons for certain activities and reductions for population programs will require USAID to alter some of its strategies.

The conference agreement also protects several House and Senate priorities, plus introducing new initiatives as part of compromise solutions to contentious issues. Conferees adopted the House-approved **Child Survival and Disease** account ($650 million),increased resources for the **Export-Import Bank** ($680 million total), about 10% higher than the request, and near the Senate-passed level, and expanded military aid to the **Baltics**, as proposed by the Senate. The Conference Committee further adopted nearly the entire Senate add-ons for **Jordan** ($225 million earmarks for economic and military aid), but within the context of a new funding cap on foreign aid spending in the Middle East. Amounts for the region are limited to $5.4 billion, the same as for FY1997, which has the effect of reducing the proportion of Foreign Operations funds going to the Middle East from 44% last year to 42% in FY1998. Within the cap, the legislation earmarks $3 billion for **Israel** and $2.115 billion for **Egypt**, but permits the transfer of $50 million from each to fund part of the increases for Jordan. As a new initiative, conferees created a $250 million **Southern Caucasus** regional aid fund, with specific earmarks for Armenia ($87.5 million) and Georgia ($92.5 million), and $52.5 million to support peace efforts in the region.

Six specific major foreign operations issues addressed in the Senate and House bills are discussed below.

Policy Priorities of U.S. Development Aid

Since the end of the Cold War, a common theme of Administration discussions and congressional debates has been what should replace the anti-communist foreign aid rationale of the past 50 years. A more fundamental question raised by some, especially critics of development assistance, is whether the United States still needs to maintain an active, globally focused economic aid program, or can it be transformed as a smaller, more targeted instrument, with some elements being "privatized," that would support only the highest U.S. foreign policy interests.

Although there has been no definitive consensus reached on these questions between the executive and legislative branches, the Clinton Administration has strongly supported the retention of an activist foreign aid policy which can be used to bolster any number of U.S. foreign policy initiatives around the world. In early 1994, USAID released its blueprint for a post-Cold War development aid policy, based around the goal of "sustainable development," and its four strategies of promoting economic growth, stabilizing global population, protecting the environment, and advancing democracy.

While USAID has confronted some critics who question whether these are the right set of strategies that serve the highest U.S. interests, a more fundamental issue has emerged: given the reductions in development aid funding levels in FY1996/97, can USAID continue to pursue its sustainable development strategies in an integrative manner that has impact and produces results?

USAID has maintained since adopting these strategies in 1994 that they must operate as inter-linked, mutually re-enforcing elements of an overall U.S. effort to promote the advancement of market economies and democratic transitions in the developing world until countries reach a point of sustainability that no longer requires external aid. Funding reductions, congressional restrictions, and fluctuating Administration priorities, however, have required USAID to alter the mix of resources devoted to each of the strategies, raising questions over whether the integrative, mutually re-enforcing principles can be maintained. Congress, for example, limited development aid for population programs in FY1996 and FY1997 to roughly two-thirds the amount provided in FY1995. (See below for more discussion on family planning restrictions.) Further, the State Department's Bureau of Global Affairs places a high priority on environment programs and presses USAID to allocate the maximum amount possible to such activities. As a result, the environment sector of sustainable development probably has not declined as much as it might otherwise.

But at the center of this issue for the past two years has been differences between Congress and the executive branch regarding funding levels for programs supporting child survival, basic education, and HIV/AIDs and other infectious diseases. Despite cutting overall development aid the past two years by about 23% from FY1995 levels, Congress has earmarked children and disease programs at levels equal to or somewhat greater than those allocated in FY1995, making the cuts on all other elements of sustainable development closer to 30%. Congressional proponents of the child survival earmark argue that even though budget pressures require the United States to reduce foreign aid spending, the protection of children remains a core American value demanding that cuts should be implemented without putting at risk the lives and well-being of small children in developing nations. They further point out that the spread of infectious diseases poses a direct threat to U.S. citizens, and that American national interests require continued support for global efforts to reduce or eliminate such illnesses.

While agreeing with the importance of child survival and infectious disease programs, USAID officials apply a broader definition to the terms, arguing, for example, that efforts to protect small children go well beyond immunizations and access to other health services. The quality of a child's life, they assert, also is determined by an array of other factors, including the degree of relative stability in society, protection of the surrounding environment, access to adequate shelter, and implementation of sound economic policies that will ensure jobs and economic opportunities in the future. Consequently, they contend, the "squeeze" that earmarks place on other areas of sustainable development undermines, to some extent, the success of programs that also benefit children.

Table 5. USAID Sustainable Development Programs
(in millions of dollars)

Goals/Targets	**FY1997 Estimate**		**FY1998 Request**	
	$s	% of total	$s	% of total
Economic Growth	**$520.5**	**31.9%**	**$505.0**	**29.8%**
Of which:				
Children's Basic Education	*$94.9*	*5.8%*	*$90.7*	*5.3%*
Microenterprise	*$61.5*	*3.8%*	*$63.4*	*3.7%*
Agriculture	*$115.9*	*7.1%*	*$136.4*	*8.0%*
Other Economic Growth	*$248.2*	*15.2%*	*$214.5*	*12.7%*
Population/Health	**$761.8**	**46.7%**	**$765.0**	**45.1%**
Of which:				
Child Survival	*$248.4*	*15.2%*	*$220.5*	*13.0%*
HIV/AIDs	*$117.5*	*7.2%*	*$117.5*	*6.9%*
Population	*$352.7*	*21.6%*	*$400.0*	*23.6%*
Other health	*$43.2*	*2.7%*	*$27.0*	*1.6%*
Environment	**$223.3**	**13.6%**	**$290.0**	**17.1%**
Democracy	**$124.3**	**7.6%**	**$135.5**	**8.0%**
Total Sustainable Development	**$1,629.9**	**100.0%**	**$1,695.5**	**100.0%**

Source: USAID. Amounts in this table only apply to USAID "development aid" programs and do not include funds used for the same purposes, although to a lesser extent, in other accounts, including ESF, East Europe and former Soviet aid programs. For example, USAID estimates that it will spend $385 million and $441 million across all accounts for population aid in FY1997 and FY1998, respectively.

USAID's FY1998 sustainable development request restored some funding to elements reduced most significantly the past two years. The agency further asked

Congress to support these add-ons by, in part, cutting appropriations for child survival programs from roughly $248 million in FY1997 to $220 million next year. As **Table 5** illustrates, the request maintained the same funding for HIV/AIDs programs, but sought substantial increases for environmental activities, population projects, agriculture, and to a lesser extent, democracy programs..

Congressional action. Senate-passed Foreign Operations appropriations for USAID permitted the agency to fully fund its proposed FY1998 request, plus accommodate selected congressional priorities. Bilateral development aid programs were set at $1.893 billion (including UNICEF contributions and grants to the Inter-American and African Development Foundations), about $59 million more than proposed by the Administration. H.R. 2159 included a separate account for population aid at $435 million, slightly higher than USAID plans for FY1998, and directed that infectious disease programs receive a $30 million increase in FY1998.

The **House** measure set development assistance at $1.849 billion, about $19 million higher than the President's budget submission (figures also include UNICEF and Inter-American and African Development Foundation funds). The legislation, however, changed USAID's planned program mix by setting Child Survival and disease activities at $650 million--about $100 million more than proposed--and by limiting population aid programs to $385 million, well below both the President's and the Senate's mark. H.R. 2159 made children programs one of the highest priorities in the legislation, including recommended funding levels of $98 million for basic education, $245 million for child survival activities, $100 million for UNICEF, and a $50 million increase to fight the spread of infectious diseases, including polio, tuberculosis, HIV/AIDS, yellow fever, malaria, and measles. For other USAID sustainable development activities, including economic growth, democracy, and the environment, House funding levels substantially supported requested appropriations, but would still require an overall cut from the request of about $45 million (-2.5%).

The **conference** agreement sets development aid funding about $30 million higher than requested by the Administration, reversing a sharp downward trend the past two years. Conferees adopted the House-proposed Child Survival and Disease Fund at $650 million, an amount that includes a $50 million increase for communicable diseases and $100 million for UNICEF. Although it will receive more funding than requested, USAID will likely have to adjust somewhat its planned program allocations for FY1998 in order to accommodate congressional priorities on children and disease programs. Since the enacted bill also reduces the request for population assistance to $385 million, some of the planned family planning money could help fill the additional congressional requirements. Whatever the adjustments, however, they are likely to be far less difficult to manage for USAID than during the past two years because of the higher overall amount approved by Congress for FY1998.

Population Assistance

For over a decade, Congress has engaged in contentious debates over U.S. international population assistance policy, often as part of the Foreign Operations Appropriations. Twice, congressional positions on this issue have been one of the major reasons prompting a presidential veto. Debate during the past three years has focused largely on two intertwined elements: 1) funding for population programs; and 2) restricting abortion activities.

Funding for U.S. international family planning programs had been one of the largest growth areas of the foreign aid budget in the 1990s. From an average of about $250 million in the late 1980s, FY1995 spending across all Foreign Operations accounts totaled approximately $548 million. When Congress deadlocked over abortion-related restrictions and U.S. population aid policy, a situation that blocked movement of the entire Foreign Operations bill each of the last two years, lawmakers adopted interim provisions that, among other things, strictly limited the amount of funding for USAID family planning programs. The FY1996 and FY1997 appropriation levels of $356 million and $385 million, respectively, are roughly two-thirds the amount provided in FY1995, and represent the smallest funding levels since FY1992. Moreover, also as a result of the impasse over abortion restrictions, Congress established a delayed timetable for making these funds available, a schedule that included monthly apportionments or "metering" of the appropriation.

A second issue in the population aid debate, and one directly connected to funding reductions and metering of the past two years, deals with abortion restrictions and the eligibility requirements for foreign organizations receiving funds to implement U.S.-sponsored family planning programs. During the mid-1980s, in what has become known as the "Mexico City" policy, the Reagan, and later the Bush Administrations, restricted funds for any foreign non-governmental organization that was involved in any way in voluntary abortion activities, even if such activities were undertaken with non-U.S. funds. Several groups, including International Planned Parenthood Federation-London (IPPF), became ineligible for U.S. financial support. In some years, Congress narrowly approved measures to overturn this prohibition, but White House vetoes kept the policy in place. President Clinton in 1993 reversed the position of his two predecessors, allowing the United States to resume funding for all family planning organizations so long as U.S. money was not used in abortion-related work.

During the past two years, the House and Senate have taken opposing positions on the Mexico City issue that in each case held up enactment of the final Foreign Operations spending measure. The House position, sponsored by Representative Smith (N.J.), supported reinstatement of the Mexico City policy restricting U.S. aid funds to foreign organizations involved in abortion-related activities. The Senate, on the other side, has deleted the House provision dealing with Mexico City policy, leaving decisions in the hands of the Administration. Moreover, Administration officials have stated that President Clinton would veto the bill if it included the House-passed Mexico City restrictions.

Unable to reach an agreement satisfactory to both sides, Congress adopted for both FY1996 and FY1997 an interim arrangement that did not resolve the broad population program controversy for Congress, but did permit the stalled Foreign Operations measure to move forward. It was hoped that the arrangement, which neither side liked, would provide incentives for those involved in the debate to find a middle ground. Under the terms of the most recently enacted temporary arrangement, as included in P.L. 104-208, the House-supported Mexico City restrictions were deleted and FY1997 population aid funding was set at $385 million, down from $435 million requested. Like the previous year, however, the money would be delayed until July 1, 1997, at which time USAID could program only onetwelfth of the total, about $32 million, each month over the next year. Nevertheless, the legislation offered the President a second opportunity to accelerate the availability of funds to March 1, 1997, instead of July 1 if he reported, and Congress agreed through passage of a joint resolution early in the 105th Congress, that the delayed funding restrictions were having a negative impact on proper functioning of family planning programs.

As expected, President Clinton issued the required determination on January 31, 1997, stating that without the March 1 availability of FY1997 population aid funds, USAID would face a shortfall of $35 million between March and July 1, causing the agency to suspend, delay or terminate 17 bilateral and worldwide programs. Additional management costs for USAID to administer its global family planning activities would total more than $1 million. The President further asserted that a four month funding delay would increase both the number of unintended pregnancies and abortions in developing countries, raise the number of maternal and infant deaths, and increase the level of births. Congress, by a narrow margin, agreed with the President's determination (H.J.Res. 36, P.L. 105-3; House passed 220-209, Senate passed 53-46). During House debate, Representative Smith had offered an alternative measure (H.R. 581) that would have released all population aid funds on March 1 *and* eliminated the "metering" procedure, if modified Mexico City restrictions were restored. The House approved H.R. 581 (231-194), but the Senate did not consider it, or a companion measure, S. 337. (For more information, see CRS Report 97-147, *Population Assistance Programs: Early Action in the 105th Congress*, March 14, 1997.)

With the House and Senate, and the Administration still at odds over population aid policy, the issue was prominently featured again during this year's Foreign Operations debate. USAID requested approximately $441 million for FY1998 family planning programs, including $400 million from the development aid accounts. The total was up 14% over FY1997 appropriations.

Congressional action. H.R. 2159, as passed in the **Senate**, established a separate $435 million account for population assistance subject to long-standing policy prohibitions on using the money for directly funding abortions or for lobbying. These limitations, similar to those included in foreign aid bills for many years, stopped short of the "metering" restrictions contained in the FY1997 appropriation or the "Mexico City" policy because they would apply only to the use of U.S. government funds and not to money raised by organizations from non-U.S. sources.

The **House** bill also removed the FY1997-enacted family planning program restrictions dealing with the "metering" of funds, but limited spending to the FY1997 amount of $385 million. During House floor debate, lawmakers considered three amendments concerning family planning and population aid issues. The first, a proposal offered by Representative Paul and defeated (147-278), would have deleted all population assistance funding in the bill. The House next took up an amendment proposed by Representatives Gilman, Pelosi, Greenwood, Campbell, and others that was offered as a substitute to a pending amendment by Representative Smith (NJ). The Smith amendment closely mirrored the Mexico City family planning restrictions by prohibiting U.S. funding to foreign non-governmental and international organizations unless they certify that they would not perform abortions in any foreign country while receiving U.S. money, except where the life of the mother was in danger or in cases of forcible rape or incest, or lobby to change abortion laws in foreign countries. The Gilman substitute, on the other hand, had the effect of banning funds to these organizations only if they *promote* abortion as a method of family planning. For groups that *perform* abortions, the Gilman text would have continued current law -- that is, U.S. funds may not be used for performing abortions, but no restrictions would apply to what organizations do with non-U.S. money. On a separate but related issue, the Smith amendment also prohibited contributions to the U.N. Population Fund (UNFPA) unless the President certifies that the organization is not operating in China or that China has not engaged in coercive abortion practices during the past twelve months. The Gilman substitute did not change the certification requirement, but would allow funds not available to UNFPA to be transferred to USAID for bilateral population aid programs. After defeating the Gilman substitute (210-218), the House adopted the Smith amendment (234-191).

The impasse over reaching an acceptable resolution to House-Senate and House-Administration differences blocked formal meetings of Foreign Operations **conferees** for nearly two months. On October 7, the House voted (233-194) to instruct House Members of the conference committee to insist upon the Smith amendment during conference deliberations.[11] Although conferees met on October 28, they had agreed in advance to defer the family planning and Mexico City policy issue and the matter remains unresolved.

Subsequent efforts to negotiate an acceptable alternative yielded no results. One attempt ended on November 6 when conference committee leaders fell two votes shy of gaining a majority of conferees in favor of a modified provision. Subsequently, the Senate incorporated into H.R. 2607 (an omnibus spending measure for three pending appropriations bills including Foreign Operations) text similar to the language rejected on November 6 by a majority of conferees. The revised family planning text (Section 592, Division C, of H.R. 2607) included the House-passed Mexico City restrictions banning U.S. funds to foreign non-governmental groups and international organizations which (1) perform abortions with their own money, or (2) lobby to change abortion laws in foreign countries. Although the text also included a Presidential waiver lifting these restrictions in FY1998 and FY1999, if exercised USAID would have had its funding for population programs capped at $410 million, if one provision was waived, or $385 million if both were waived.

A resolution to the impasse came on November 12 when House-Senate conferees filed a conference report on H.R. 2159. As approved, population aid is capped at $385 million, the level for FY1997 but about $56 million less that requested. The legislation also apportions, or "meters" the funds at a monthly rate of $32.1 million. The conference agreement, however, deletes the House-passed

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[11] In related legislation, the House had approved on June 5 an amendment proposed by Representative Smith to the Foreign Relations Authorization Act (H.R. 1757) that applies the Mexico City restrictions to U.S. family planning programs. A Senate counterpart authorization bill approved June 17 had no population aid provisions. On Oct. 8, the House also voted (236-190) to instruct House conferees meeting on H.R. 1757 to insist upon the Smith amendment. Like Foreign Operations, the family planning issue was a major stumbling block to finalizing the authorization bill, legislation that also includes the consolidation of two foreign affairs agencies into the State Department and provisions addressing U.N. reform and the payment of U.S. arrears. Authorizing conferees did not report a bill in 1997.

restrictions on family planning policy and contributions to UNFPA. This arrangement is similar, but somewhat less restrictive than Congress enacted for FY1997. Funding remains the same, but instead of a delay until July for access to the money, as was the case last year, USAID would begin to receive the $32.1 million monthly apportionments immediately. Moreover, there is not a requirement for a Presidential certification and congressional vote early next year in order to accelerate the availability of funds.

Regional Allocations of Development Assistance

The declining level of development assistance over the past several years, coupled with congressional efforts to minimize the impact of these reductions first for Africa, and more recently for Latin America, has heightened attention on the issue of regional aid distribution. Because there are separate accounts within the Foreign Operations bill for assistance to countries in Eastern Europe and the former Soviet Union, Congress votes directly on aid levels to these regions. Likewise, since the Economic Support Fund (ESF) is comprised largely of Middle East assistance, with separate earmarks for Israel and Egypt, the structure of the Foreign Operations bill permits Congress more direct control over amounts provided to that region.

But the balance of USAID's development assistance — $1.632 billion in FY1997 and $1.698 billion proposed for FY1998 — is distributed widely throughout Africa, Latin America, South Asia, and Southeast Asia, among countries at various stages of development and of varying degrees of importance to U.S. interests. In principle, absent congressional earmarks or directives, USAID and the State Department decide how to allocate funds on a country and regional basis, a task made more difficult with a shrinking resource base.

Africa had been afforded special treatment for nearly a decade, between FY1988 and FY1995, when Foreign Operations spending bills annually included a separate line-item for the region, known as the Development Fund for Africa (DFA). Through the DFA, Congress directly set the level of U.S. development resources to Africa, thereby protecting funding levels for the region that might otherwise have been diverted to meet short-term foreign policy crises elsewhere, a practice that had occurred routinely prior to 1988. In FY1996, however, over the opposition of some strong congressional proponents of the DFA, Congress and the Administration agreed to drop the separate line-item, folding Africa into the worldwide development assistance account. Nevertheless, to ensure that the Administration did not cut African assistance dis-proportionately compared to other regions, Congress directed the President to "seek to ensure" that Africa receive substantially the same proportion of worldwide development aid that it was allocated in FY1995 (36%). Congress repeated a similar proportional requirement for FY1997, this time based on the proportion requested by the President for Africa (41.2%).

Alarmed over declining economic aid levels for Latin America — amounts that had fallen from $986 million in FY1991 to about $361 million in FY1996 for combined development and ESF appropriations — Congress added in FY1997 for Latin America the same proportional allocation directive as for Africa. Under this non-binding formula, Latin America would be expected to receive $286 million (17.5%) in development aid while the allocation for Africa would be $672 million. Although the Administration asked Congress to re-instate for FY1997 the DFA earmark, it opposed the proportional allocation requirement for Latin America and Africa, arguing that with overall reductions in development assistance and changing global circumstances, programs in Asia would be unduly squeezed. After extensive consultations with congressional committees, USAID ultimately reduced the amounts slightly for Africa ($665 million) and Latin America ($273.5 million) from what a strict proportional allocation required. By altering the formula, USAID made available an additional $20 million for programs in South Asia, Southeast Asia, non-ESF Middle East recipients, and for centrally funded programs managed by the agency's Global Bureau.

Despite these efforts to adjust the proportional requirements downward for FY1997, the request for FY1998 asks Congress to re-establish the DFA at $700 million, an amount $35 million higher than the FY1997 allocation, but representing the same 41.2% share of total development aid proposed a year ago. Latin America would receive $273.5 million, the same dollar level as in FY1997, but totaling a smaller (16.1%) share. The largest regional growth for FY1998 development assistance is for USAID's Asia/Near East programs, $310 million, up $57 million from current levels. The request includes increased funding for India, Bangladesh, and Indonesia. But the largest growth would occur in a $25.5 million Asia/Near East regional "Reengineering Development and Support" project, intended to support the review of USAID mission strategic and action plans in the region.

Congressional action. Neither **House or Senate** bills established a separate line item for Africa, as requested, or included a "proportional" allocation requirement as has been the case the past two years. Nevertheless, given the overall spending approved in each bill for development aid worldwide, it was likely the Administration could accommodate the full $700 million request for Africa. In its report, the House Appropriations Committee noted that the additional funds provided for the Communicable Diseases Initiative should ensure that Africa would receive more aid in FY1998 than in FY1997. The House panel further expressed its strong support for aid programs in Latin America and directed that the Administration increase spending by $20 million from current amounts provided under development aid and ESF programs.

Based on the House/Senate **conference** agreement, it appears that the Administration will be able to allocate amounts for Africa, Latin America, and Asia at roughly the levels proposed. The conference committee, however, adopted the House position of increasing economic aid for Latin America by $20 million.

Middle East Assistance

Since the late 1970s, by far the largest portion of U.S. foreign aid has supported American friends and allies in the Middle East, especially Israel and Egypt. Combined, these two countries have received over $100 billion during the past 20 years. For the past decade, foreign aid bills have annually earmarked $3 billion for Israel and $2.115 billion for Egypt in economic and military assistance. The FY1998 request matches these traditional levels.

As overall Foreign Operations funding amounts have declined the past several years, however, the proportion of funds going to Israel and Egypt has climbed to over

40% in FY1997. Some in Congress and in the Executive branch have suggested that, at a time of overall budget cuts, all aid activities, including those for Israel and Egypt, should be examined for possible reductions in order to fund other emerging initiatives for which new money is not available.

In this spirit, the Administration announced on June 17 its intentions to provide Jordan with an additional $100 million in economic assistance annually over the next five years, amounts drawn largely from aid accounts for Israel and Egypt. State Department officials say that it is important for the United States to send a clear signal of support to King Hussein for his efforts in advancing the Middle East peace process and to bolster his country's economic reform initiatives. The first installment--for FY1997--came from taking $50 million from previously appropriated economic aid for Egypt and a $50 million payment from Israel.[12] For FY1998, the Administration said it would ask Congress for transfer authority to shift an additional $50 million each from Israel and Egypt to Jordan. According to a July 11 State Department notification to Congress, Israel and Egypt have agreed with this arrangement. The $100 million would come on top of $40 million estimated for economic and military aid for Jordan in FY1997, and $70 million proposed for FY1998.

Congressional action. The **Senate** Appropriations Committee expressed strong support for increasing aid to Jordan, proposing to go beyond the President's initiative and provide $250 million in FY1998--$150 million in economic aid and $100 million for military support. At the same time, the Committee registered serious concern over actions by Egypt that they believed run counter to the peace process. Departing from practice over the past 20 years, the Senate panel did not include an earmark for Egypt. During floor debate, however, the Senate restored the traditional earmark. Israel's aid was earmarked at $3 billion, while Egypt would receive $2.115 billion.

Although the **House** bill did not recommend specific country earmarks, the Appropriations Committee assumed full funding for both Israel and Egypt. At the same time, the Committee's report on the legislation encouraged the Administration to consider options for reallocating Middle East funding to address newly emerging U.S. aid priorities elsewhere in the region and around the world.

Conferees meeting on Foreign Operations funding, agreed to a $5.4 billion cap on Middle East assistance, of which Israel ($3 billion), Egypt ($2.115 billion), and Jordan ($225 million) will account for all but $60 million. While supporting U.S. aid to the region and efforts to move the peace process forward, a concern of some is that additional resources for the Middle East often come at the expense of funding for initiatives in other parts of the world. The cap, which equals the dollar level of funding for last year, will lower the proportion of Foreign Operations going to the region from 44% in FY1997 to 42%, and permit the transfer of $50 million each from Israel and Egypt to fund the Jordan increase.

[12] All U.S. aid to Israel for FY1997 had already been disbursed, so unlike Egypt, it was not possible to transfer previously obligated but unspent funds.

Aid to Russia and the Partnership for Freedom Initiative

Since the collapse of the Soviet Union, the Administration, with generally strong support from Congress, has utilized U.S. economic assistance to facilitate the transition of Russia and the other successor states (referred to as the New Independent States or NIS) to democracy and free market economies. Beginning in early 1992, the United States has extended approximately $9 billion in grant assistance and $8.3 billion in export credits[13] to the NIS, much of it appropriated through the Foreign Operations legislation. But NIS assistance had been framed as a temporary initiative that would be phased out as countries moved towards more open democratic and economic systems. Congressional reductions the past two years accelerated the downward trend in NIS aid, to $625 million in FY1997, with Russia, in particular, cut sharply from $341 million in FY1995 to $95 million in FY1997.

As one of its top FY1998 foreign affairs budget priorities, the Administration sought approval from Congress for what is termed as a second phase of U.S. assistance to Russia and the other states of the former Soviet Union: the Partnership for Freedom (PFF) Initiative. The PFF initiative extends the duration of the aid program, targets more assistance for Russia, Central Asia, and parts of the Caucasus, and shifts the aid strategy to de-emphasize the technical assistance focus in favor of private sector/trade and investment programs, and grassroots "civil society" building. The President sought $900 million overall for the NIS account in FY1998, up 44% from current levels, of which $528 million supported PFF activities. Under the plan, aid to Russia alone would grow from $95 million to $242 million in FY1998.

Because of the size of the increase, the extension of U.S. assistance beyond the assumed time-frame, and questions over Russia's commitment to economic and political reforms and relations with countries such as Iran and Cuba, Congress examined the PFF proposal closely. (For more details on PFF, see CRS Report 97-342, *Partnership for Freedom: Foreign Aid Initiative for the Former Soviet Union*, March 12, 1997.)

Congressional action. Action taken by the **Senate** on July 17 provided much of what the President sought for the NIS account--$800 million--but placed several conditions on when aid could be allocated. The bill restricted aid to Russia until Moscow ends its support for Iran's nuclear program. The Senate measure further provided full funding for Ukraine ($225 million) but withheld 50% until the Secretary of State certified that Ukraine is making progress on implementing economic reforms and controlling corruption. Senate floor amendments added further restrictions for Russia should it enact laws that discriminate against minority religious faiths or fail to terminate activities relating to ballistic missile programs in Iran. A further Senate amendment directed that not less than $25 million in funding for Ukraine be allocated to comprehensive legal restructuring to facilitate a decentralized market-oriented economic system. In the **House**, H.R. 2159 held NIS funding levels to $625 million. The House measure included aid conditions similar to those in the Senate, expressing particular concern over Russian nuclear transfers to Iran and Cuba, and the situation in Ukraine regarding economic reforms and impediments to foreign investment.

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[13]The $8.3 billion in export credits represents the "face value" of the loans and guarantees. Subsidy appropriations to back up the risk in making these loans have been substantially lower.

A funding level of $770 million for the NIS set by the House/Senate **conference** committee expands U.S. assistance to the southern Caucasus and support for peace efforts in the region ($250 million), provides full funding for Ukraine ($225 million), but would leave a significant shortfall for proposed aid initiatives in Russia and the Central Asian republics where the Administration hoped to focus its PFF program. Conferees further modified restrictions on Russian aid linked with its relationship to Iran by including a Presidential waiver based on vital national security interests and a certification that Russia is "taking meaningful steps to limit" its nuclear relationship with Iran. On the issue of religious discrimination, conferees included text requiring a presidential certification the Russia had not *implemented* laws or regulations that would discriminate against religious groups.

World Bank's International Development Association and Other Multilateral Funding

Title IV of the Foreign Operations bill funds U.S. contributions to a series of multilateral development banks (MDBs) and voluntary payments to 30 international organizations (IO and P account). As it has the past two years, the Administration's largest Foreign Operations funding increase is for these multilateral agencies. For FY1998, the President seeks $1.523 billion for the MDBs, an increase of more than 50%. How much economic aid to channel through multilateral rather than bilateral channels — where more U.S. control can be maintained — is a continuing source of controversy in Foreign Operations debates. In a tightened budget environment, the competition becomes even more intense.

The $1.035 billion request for the World Bank's International Development Association (IDA) and the Administration's proposal to launch a three-year effort to clear U.S. arrears to the MDBs ($315 million requested for FY1998, $235 million of which is for IDA) drew most congressional attention. A further multilateral aid issue was the President's proposal for an initial $52.5 million U.S. contribution to the new Middle East Development Bank, funding that would be drawn not from Title IV, but from the Economic Support Fund in Title II. Congress authorized U.S. participation in the Middle East Bank last year, but rejected appropriations for a first payment. (For more details on U.S. participation in MDBs, see CRS Issue Brief 96008, *Multilateral Development Banks: Issues for the 105th Congress*.

IDA is the so-called "soft-loan window" of the World Bank offering concessional lending to the poorest nations, mainly in Africa and South Asia. Although it has been criticized in the past from nearly all parts of the political spectrum — for having limited impact, aiding "undesirable countries," placing too little emphasis on the needs of the poor, limiting access to information, and being insensitive to environmental consequences of its programs — Congress has usually supported the bulk of appropriations requested. Some fear that a sharp reduction in IDA lending will leave the poorest countries, largely in Africa, without access to adequate development financing. (For further information, see CRS Report 95-947, *Multilateral Development Banks: Possible Impact of a Major Reduction or Termination of MDB Aid*.) Because IDA accounts for such a large proportion of multilateral contributions (over 70% in FY1997), it is frequently the focus of intense congressional scrutiny.

The $1.035 billion IDA request was divided into two parts: $235 million to pay U.S. arrears to IDA's tenth replenishment (IDA 10) and $800 million for the first of two U.S. payments for IDA 11, the replenishment agreed to by international donors in March 1996. But overshadowing the IDA 11 agreement was the uncertainty of U.S. final payments to IDA 10 and whether Congress would support U.S. participation in IDA 11. Because of World Bank claims that it would run out of lending authority by June 1996, donors other than the United States agreed to a $3.3 billion Interim Trust Fund for 1996. Controversy emerged, however, over the terms of the Interim Fund which limited decision making and procurement to contributing countries only. Consequently, U.S. officials and businesses were excluded from participating in projects financed by the $3.3 billion fund. Through pressure by Congress, including a provision in last year's Foreign Operations bill, the Administration convinced other donors in February 1997 to modify the procurement restriction, allowing American firms to bid on $1 billion, or about one-third, of projects financed by the trust fund.

Congressional action. The **Senate** bill set IDA funding at $1.035 billion , as requested by the President. The measure, however, conditioned the availability of IDA contributions on a Treasury Department certification that procurement restrictions effecting U.S. firms had been lifted. Full funding for clearing U.S. arrears to IDA and the Asian Development Bank resulted from a floor amendment, sponsored by Senator Leahy, adding $94 million for arrearage payments. Although the bill met many Administration priorities within the MDB account, total funding fell about $90 million below the request, primarily due to denial of $50 million for the African Development Fund.

In the **House,** H.R. 2159 provided $606 million for IDA, a sharp cut that would leave the U.S. in arrears for IDA 10 and short by nearly $200 million on IDA 11 payments. Like the Senate, the House measure would withhold U.S. contributions until $1 billion in procurement from the Interim Trust Fund becomes available for open competition. Overall, the House bill was about $573 million less than the proposed MDB budget for FY1998 and below the Senate-passed levels for IDA, the World Bank's Global Environment Facility, the Inter-American Development Bank's Multilateral Investment Fund, and the concessional window of the Asian Development Bank. For the African Development Fund, however, the House measure fully funds the President's $50 million request.

Supporting one of the Administration's top priorities in the FY1998 Foreign Operations debate, **conferees** agreed to full funding for IDA -- $800 million for IDA 11 and $234.5 million for arrears -- although none of the funds may be obligated until the Secretary of the Treasury certifies that Interim Trust Fund procurement restrictions affecting U.S. companies have been lifted. The conference committee further agreed to full funding for the European Development Bank ($35.8 million) and the North American Development Bank ($56.5 million), but no money for the Middle East Development Bank.

Related Legislation

The Foreign Operations appropriation was influenced by a number of other bills and resolutions moving through Congress in 1997. The FY1997 supplemental/rescissions measure (P.L. 105-18) did not modify spending levels for Foreign Operations programs for last year, but did include a policy provision relating to U.S. aid to Ukraine.[14] Beyond this, two other congressional actions affected the Foreign Operations appropriations debate: the budget resolution and partial consideration of foreign aid authorization bills.

Budget Resolution: FY1998

Within the FY1998 budget resolution, Congress approved the broad framework of U.S. foreign policy spending as part of the International Affairs Budget Function 150. Foreign Operations makes up about 67% of the total international affairs budget, as illustrated in **Figure 1** above. Although the budget resolution does not set precise funding levels for Foreign Operations accounts, decisions made on the international budget have a considerable impact on how much funding is available to the Appropriations Committees.

. Instead of proceeding directly to consideration of a budget resolution, Congressional leaders and White House officials negotiated for several weeks the terms of a bipartisan blueprint for balancing the Federal budget by 2002. The broad outlines of an agreed budget package were announced on May 1, but final details, including specific funding levels for international affairs, did not conclude until May 15. Budget negotiators agreed to full funding — $19.45 billion — for the President's FY1998 foreign policy recommendation. This permitted, although it did not require, House and Senate Appropriations Committees to allocate to the Foreign Operations Subcommittees funding levels at the President's $13.323 billion proposal. Whether to allocate the full amount provided in the budget resolution for international affairs, and how to allocate it among the three subcommittees with major foreign policy spending remained a decision for the Appropriations Committees to make. At the early stages of the appropriations debate, the House committee allocated only $12.5 billion for Foreign Operations, while its Senate counterpart set aside $13.2 billion. Subsequent House revisions of the Foreign Operations allocation, made prior to conference committee meetings in mid-September, provided amounts close to the Senate level: $12.8 billion, plus $315 million for arrearage payments to the multilateral development banks, for a total of $13.1 billion.

The budget resolution is also important to Foreign Operations appropriations for resources in future years. Normally, executive branch spending projections for the next several years receive little attention because they are routinely adjusted in subsequent budget proposals. With Congress and the President committed to balancing the budget by 2002, however, Administration and congressional projections for International Affairs and other discretionary spending take on added significance as the target date grows close.

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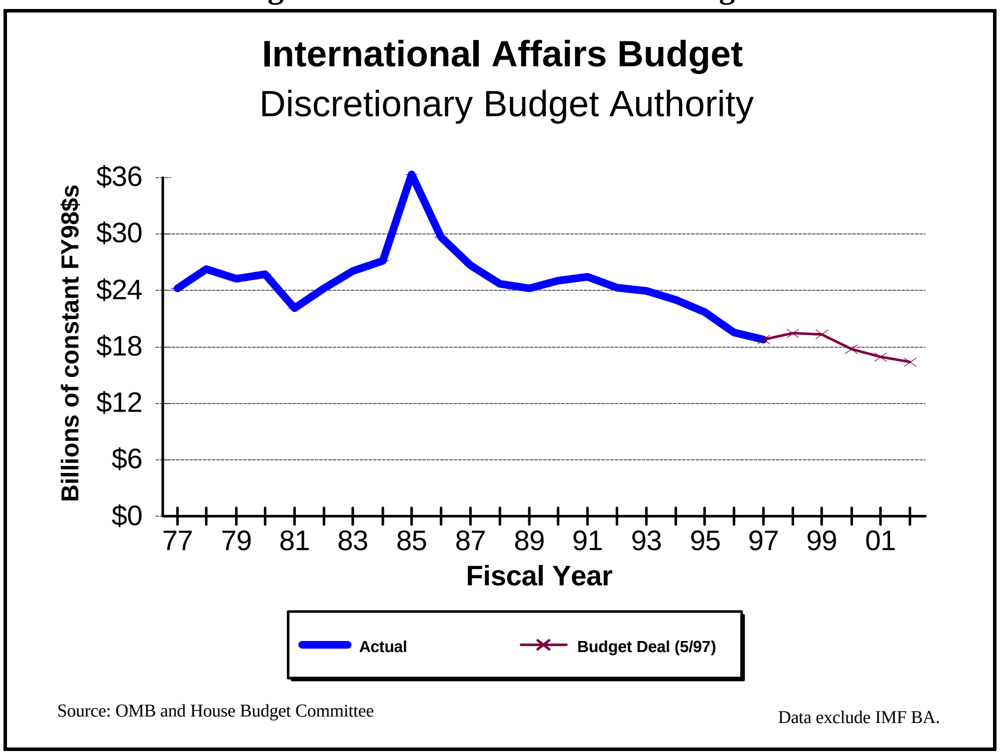
[14]As agreed to, sec.4001 of P.L. 105-18 allowed the President to waive the $225 million earmark of aid to Ukraine for projects assisting the Ukrainian government if he determined that Ukraine had not made significant progress toward economic reform and the elimination of corruption. A Senate amendment, proposed by Senator Stevens, barring aid to Uruguay unless cases involving the seizure of U.S. business assets in that country have been resolved, was dropped by conferees.

As illustrated in **Figure 2**, the budget agreement reached on May 15 sets International Affairs discretionary spending for FY1999 at $19.6 billion (in real terms), slightly (+0.8%) above amounts for FY1998. This is followed by a downward slide to $16.4 billion (stated in FY1998 dollars) by 2002, a level 12.7% below this year, in real terms. For Foreign Operations, however, the decline in available resources would likely begin in FY1999. This is because the amount Function 150 is scheduled to rise in FY1999 would be more than absorbed solely by a proposal to clear U.S. arrears to the U.N. ($921 million), an activity funded under the Commerce, Justice, State Departments appropriation measure. As a result, Foreign Operations most likely would be left with an amount less than the $13.324 billion requested for FY1998. In order to meet these out-year targets, large Foreign Operations budget items especially, such as USAID's development aid program, contributions to the World Bank and other multilateral agencies, Middle East assistance, and the Export-Import Bank would require close examination for cost savings in future years.

Figure 2. **International Affairs Budget**



Foreign Aid Authorization

Although Congress has not enacted foreign aid authorizing measures since 1985, if passed, such legislation has significant influence on the Foreign Operations bill. A foreign aid authorization measure will establish the maximum amount available to be appropriated for each account and include numerous conditions, restrictions, and policy language regarding foreign assistance programs. It may also include text of contentious legislative provisions, such as population aid policy, that, because of the absence of authorization bills, have been dealt with in the Foreign Operations spending measure. If so, these non-appropriation, and often controversial matters would be removed from the Foreign Operations debate.

The House International Relations Committee reported on May 9, H.R. 1486, the Foreign Policy Reform Act, a measure that was scheduled to be taken up by the House in early June. When it appeared that the bill did not have sufficient support to pass, House leaders pulled the legislation and substituted a measure that excluded most foreign assistance provisions reported in H.R. 1486. A new foreign aid authorization bill was introduced--H.R. 1759--but the House did not consider the legislation during the 1st session..

As reported, H.R. 1486 authorized spending for most Foreign Operations programs — about $11.1 billion of the $13.3 billion -- as well as those for the State Department, USIA, ACDA, and a number of other smaller foreign affairs agencies. At the Committee-reported amounts, most Foreign Operations programs would be authorized at levels requested by the President, including Child Survival activities, development assistance, aid to Africa, USAID operating expenses, Peace Corps, narcotics control, and assistance to Israel and Egypt. The Committee recommended cuts for the former Soviet Union (-$60 million), non-Israel/Egypt Economic Support Fund and Foreign Military Financing (-$79 million).

For Additional Reading

Foreign Operations Programs:

CRS Issue Brief 88093. *Drug Control: International Policy,* by Raphael Perl.

CRS Report 97-538. *Foreign Policy Agency Reorganization in the 105th Congress*, by Susan Epstein, Stephen Hildreth, and (name redacted).

CRS Issue Brief 96008. *Multilateral Development Banks*, by Jonathan Sanford.

CRS Report 97-147. *Population Assistance Programs: Early Action in the 105th Congress*, (name redacted).

CRS Issue Brief 89150. *Refugee Assistance in the Foreign Aid Bill*, by Lois McHugh.

CRS Issue Brief 86116. *U.N. System Funding*, by (name redacted).

CRS Issue Brief 96026. *U.S. International Population Assistance: Issues for Congress*, by (name redacted).

Foreign Operations Country/Regional Issues:

CRS Issue Brief 95052. *Africa: U.S. Foreign Assistance Issues*, by Raymond Copson.

CRS Issue Report 97-752. *African Elephant Issues: CITES and CAMPFIRE*, by (n ame redacted) and Susan Fletcher.

CRS Issue Brief 95077. *The Former Soviet Union and U.S. Foreign Assistance*, by (name redacted).

CRS Issue Brief 86065. *Greece and Turkey: Current Foreign Aid Issues*, by (name redacted).

CRS Issue Brief 85066. *Israel: U.S. Foreign Assistance*, by Clyde Mark.

CRS Report 97-0551. *North Korean Food Shortages: U.S. and Allied Responses*, by Larry Niksch.

CRS Issue Brief 91141. *North Korea's Nuclear Weapons Program*, by Larry Niksch.

CRS Issue Report 97-342. *The Partnership for Freedom: A Foreign Aid Initiative for the Former Soviet Union*, by (name redacted).

Selected World Wide Web Sites

African Development Bank
[http://www.africandevelopmentbank.com/]

Asian Development Bank
[http://www.asiandevbank.org/]

CRS Foreign Affairs and National Defense Division
[http://www.loc.gov/crs/foreign/fandpage.html]

European Bank for Reconstruction and Development
[http://www.ebrd.com/]

Export-Import Bank
[http://www.exim.gov/]

Inter-American Development Bank
[http://www.iadb.org/]

International Monetary Fund
[http://www.imf.org/]

Peace Corps
[http://www.peacecorps.gov/]

Trade and Development Agency
[http://www.tda.gov/]

United Nations Children's Fund (UNICEF)
[http://www.unicef.org/]

United Nations Development Program (UNDP)
[http://www.undp.org/]

U.S. Agency for International Development
[http://www.info.usaid.gov/]

U.S. Department of State
[http://www.state.gov/]

World Bank
[http://www.worldbank.org/]

Appendix

Table 6. Foreign Operations Appropriations: Discretionary

(millions of dollars)

Program	FY1997 Enacted	FY1998 Request	House Bill	Senate Bill	FY1998 Conference
Title I - Export and Investment Assistance:					
Export-Import Bank	714.6	629.6	629.6	695.6	680.6
Overseas Priv. Invest. Corp	-120.0	-158.0	-219.0	-159.0	-159.0
Trade & Development Agency	40.0	43.0	40.0	43.0	41.5
Total, Title I - Export Aid	**634.6**	**514.6**	**450.6**	**579.6**	**563.1**
Title II - Bilateral Economic:					
Development Assistance:[a]					
Child Survival/Disease/UNICEF	600.0	[555.0]	650.0	.[b]	650.0
UNICEF	[100.0][c]	100.0[c]	[100.0][c]	100.0 [c]	[100.0][c]
Development Asst Fund	1,164.0	998.0	1,167.0	1,358.1	$1,210.0
Development Fund for Africa	[665.0][d]	700.0	.[d]	.[d]	.[d]
Population Aid	[385.0][e]	[400.0][e]	[385.0][e]	435.0	[385.0][c]
Inter-American Foundation	[20.0][f]	22.0	20.0	[18.0][f]	[$22.0]
Africa Development Foundation	[11.5][f]	14.0	11.5	[10.5][f]	[$14.0]
Subtotal	**1,764.0**	**1,834.0**	**1,848.5**	**1,893.1**	**1,860.0**
Int'l Disaster Aid	190.0	190.0	190.0	195.0	190.0
Debt restructuring	27.0	34.0	27.0	34.0	27.0
Micro/Small Enterprise Progs	2.0	2.0	2.0	2.0	2.0
Housing/other credit programs	9.5	9.0	9.0	9.0	9.0
Subtotal, Development Aid	**1,992.5**	**2,069.0**	**2,076.5**	**2,133.1**	**2,088.0**
USAID Operating Expenses	488.3	473.0	468.8	473.0	473.0
AID Inspector General	30.0	29.0	29.0	29.0	29.0
Economic Support Fund	2,343.0	2,497.6	2,375.0	2,541.2	2,400.0
Int'l Fund for Ireland	19.6	[19.6][g]	19.6	.0	19.6
Eastern Europe	475.0	492.0	470.0	485.0	485.0
Former Soviet Union (NIS)	625.0	900.0	625.0	800.0	770.0
Peace Corps	208.0	222.0	222.0	206.0	222.0
Int'l narcotics control	213.0	230.0	230.0	216.2	230.0
Migration & refugee asst	650.0	650.0	650.0	650.0	650.0
Refugee resettlement asst	5.0	.0	5.0	.0	5.0
Emergency Refugee Asst Fund	50.0	50.0	50.0	50.0	50.0
Non-Proliferation/anti-terrorism	151.0[h]	115.0[h]	118.0	129.0	133.0
Total, Title II- Bilateral Economic	**7,250.4**	**7,727.6**	**7,338.9**	**7,712.5**	**7,554.6**

Program	FY1997 Enacted	FY1998 Request	House Bill	Senate Bill	FY1998 Conference
Title III - Military Assistance:					
Intl Military Ed. & Training	43.5	50.0	50.0	47.0	50.0
Foreign Mil Financing grants	3,224.0	3,259.3[i]	3,259.3	3,309.0	3,296.6
For. Mil Financ. loan subsidy	60.0	66.0	60.0	74.0	60.0
(estimated FMF loan level)	*(540.0)*	*(699.5)*	(657.0)	(759.5)	*(657.0)*
Spec. Defense Acquisition Fnd	-166.0	-106.0	-106.0	-106.0	-106.0
Peacekeeping Operations	65.0	90.0	77.5	75.0	77.5
Total, Title III-Military Aid	**3,226.5**	**3,359.3**	**3,340.8**	**3,399.0**	**3,378.1**
Title IV - Multilateral Econ Aid:					
World Bank-IFC	6.7	-.-	-.-	-.-	-.-
World Bank-Intl Dev Assc	700.0	1,034.5	606.0	1,034.5	1,034.5
World Bank-Environment Fac.	35.0	100.0	35.0	60.0	47.5
Inter-American Dev Bank	63.1	76.4	46.4	76.4	76.4
Asian Development Bank	113.2	163.2	113.2	163.2	163.2
African Development Fund	.0	50.0	50.0	.0	45.0
European Bank for R & D	11.9	35.8	35.8	35.8	35.8
North American Dev Bank	56.0	56.5	56.5	56.5	56.5
IMF-ESAF	.0	7.0	.0	.0	.0
Intl Organizations & Programs	169.9	199.0[j]	194.0 [j]	177.0 [j]	192.0 [j]
Total, Title IV - Multilateral	**1,155.8**	**1,722.4**	**1,136.9**	**1,603.4**	**1,650.9**
GRAND TOTAL	**12,267.3**	**13,323.7**	**12,267.2**	**13,294.5**	**13,146.7**
IMF-NAB	**.0**	**3,521.0**	**.0**	**3,521.0**	**.0**

[a] Because of executive and legislative branch differences in structuring Foreign Operations accounts, this table adjusts the Administration's request and FY1998 House and Senate bills to conform to the structure of the FY1997 and FY1998 enacted bills: UNICEF contributions ($100 million) appear in Title II as part of the Child Survival account rather than in Title IV with other international organizations; IAEA and KEDO contributions and the demining program also fall in Title II, as indicated in footnotes. Amounts in "[ ]"s are for comparative purposes, and are included in other accounts and do not add.

[b] Child Survival funds included in Development Asst Fund and Population.

[c] UNICEF funds are included in the Child Survival account. The Administration request and Senate bill had placed UNICEF funds in Title IV, Int'l Organizations and Programs. All UNICEF funding is shown here for comparative purposes.

[d] Africa funding is included within the Child Survival and Development Assistance accounts. The Administration proposed a separate line item for Africa in FY1998.

[e] Except for FY1998 Senate bill, population aid funds are included in Development Asst Fund and Child Survival accounts.

[f] Congress included FY1997 and FY1998 funding for the Inter-American and African Foundations within the Development Assistance account. The Administration and House bill proposed a separate line item for each in FY1998.

[g] Administration included the Intl Fund for Ireland within the Economic Support Fund request.

[h] Includes funding for Non-proliferation programs, anti-terrorism, demining, IAEA, and Korean Peninsula Energy Development Org. (KEDO). The Administration proposed funding for these activities in either separate accounts or, in the case of demining and IAEA/KEDO, within accounts noted in "i" and "j".

[i] Excludes demining ($15 million), which appears above in Title II under the Non-proliferation account.

[j] Excludes UNICEF ($100 million), IAEA ($36 million), and KEDO ($30 million). The FY1997 and House FY1998 bills included these funds in Title II accounts, noted above, and are shown there.

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