

FOREIGN AID

[Brainard, Lael \(Spring 2001\) "Compassionate Conservatism Confronts Global Poverty," *The Washington Quarterly*, pp. 149-169.](#)

[Stephen, Andrew \(June 24, 2002\) "America", *New Statesman* \(London, England: 1996\) 131.](#)

[Forman, Johana Mendelson \(Autumn 2002\) "Achieving Socioeconomic Well-Being in Postconflict Settings," *Washington Quarterly* Vol. 25, No. 4, pp. 25-38.](#)

[Otter, Mark \(2003\) "Domestic Public Support for Foreign Aid: Does It Matter?" *Third World Quarterly*, Vol. 24, No. 1, pp. 115-125.](#)

[Sperling, Gene and Tom Hart \(March-April 2003\) "A Better Way to Fight Global Poverty: Broadening the Millennium Challenge Account," *Foreign Affairs* Vol. 82, No. 2, pp. 9-14.](#)

[Kolbe, Jim \(Spring 2003\) "Lessons and New Directions for Foreign Assistance," *The Washington Quarterly*, pp. 189 – 198.](#)

[Windsor, Jennifer L. \(Summer 2003\) "Promoting Democratization Can Combat Terrorism," *The Washington Quarterly*, pp. 57.](#)

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[Adelman, Carol C. \(November-December 2003\) "The Privatization of Foreign Aid: Reassessing National Largesse," *Foreign Affairs*, Vol 82, No 6, pp 9-14.](#)

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[U. S. Working Paper for G-8 Sherpas \(February 13, 2004\) "G-8 Greater Middle East Partnership," *Al-Hayat*.](#)

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Brainard, Lael (Spring 2001) “Compassionate Conservatism Confronts Global Poverty,” *The Washington Quarterly*, pp. 149-169.

- The president’s decision to establish a new agency to administer the MCA was a clear vote to design around the 7,000-strong U.S. Agency for International Development (USAID), established in 1961 with the mission of “promoting sustainable development,” rather than confront the messy challenge of reforming it. 150
- Development policy and foreign policy have historically pulled in different directions. 151
- It is no wonder that few studies show clear correlations between aid flows and growth. 152
- The proposed \$5 billion magnitude of the MCA is nearly double the size of existing U.S. bilateral development assistance programs, but the United States currently spends very little on bilateral development assistance – only about half the level of bilateral economic aid for political purposes. 155
- In contrast with the majority of U. S. foreign assistance, the MCA’s allocation criteria, based solely on economic performance and governance, would be the closest to a development purist’s blueprint for aid that the United States has ever attempted. 155
- The decision to fund only the best performers not only intends to create good incentives for reform but also is the underlying rationale to provide both the beneficiaries and administering agency a greater sense of ownership as well as more flexibility in the use of funds. 157
- A core tenet of the MCA proposal is the recipient country’s sense of ownership of the funded programs and accountability for achieving results. This approach accords with a growing international consensus that development investments perform better when they are formulated by the beneficiary government through a transparent and participatory process as part of an integrated development strategy. Indeed, the notional MCA process would appear to push this approach further than other bilateral aid organizations do. Notionally, governments that meet the selection criteria would submit funding proposals of their design, rather than reserve the responsibility for formulating proposals in the aid agency, as is currently the practice with USAID. To ensure accountability, a rigorous monitoring and evaluation process would accompany the greater flexibility accorded to beneficiaries. 161

Stephen, Andrew (June 24, 2002) “America”, *New Statesman* (London. England: 1996) 131.

- In fact, of the 24 nations of the developed world that contribute overseas aid, last in the list of aid as a proportion of gross national product is: America. 31

- The USA will still give well under half the average donated by the 24, falling well short of the goal of 0.7 per cent of GNP set by the UN in 1970. The only countries currently exceeding this threshold are Denmark (which gives away almost ten times as much as the US), Norway, the Netherlands, Luxembourg and Sweden. 31
- But the Bush administration is having none of that: its increased aid programme comes with strings attached, and is one-tenth of the increase Bush proposes in his military budget. 31

Forman, Johana Mendelson (Autumn 2002) “Achieving Socioeconomic Well-Being in Postconflict Settings,” *Washington Quarterly* Vol. 25, No. 4, pp. 25-38.

- States emerging from conflict are not coincidentally also among the world’s poorest. Fifteen of the world’s 20 poorest countries have experienced internal conflict in the last 15 years. 1
- Designate certain postconflict countries to a special high-priority category for placement of Peace Corps volunteers with educational backgrounds. These volunteers can help train teachers as well as manage educational systems. 7

Otter, Mark (2003) “Domestic Public Support for Foreign Aid: Does It Matter?” *Third World Quarterly*, Vol. 24, No. 1, pp. 115-125.

- Since 1991 Japan has been the world’s largest aid donor in monetary terms, contributing \$15.3 billion in 1999 and with an ODA:GNI ratio of 0.35%, a slight decrease over four years. The rationale for Japan’s aid programme has been threefold: humanitarian (reducing poverty), economic (trade and investment returns to Japan) and foreign policy (national security). There is also a clear recognition of its geography: the world’s second largest economy, in close proximity to developing countries, and highly dependent on external resources for its survival and lifestyle. 120
- Denmark, while having a moderate foreign aid allocation in money terms of \$1.7 billion in 1999, is the world’s highest relative aid performer with an ODA:GNI ratio of 1.01%, a major increase over four years. 120
- Australia’s aid programme amounted to US\$984 million in 1999 with an ODA:GNI ratio of 0.26%, a major decrease over the previous four years. 121
- Canada’s aid programme amounted to US\$1.7 billion in 1999 with an ODA:GNI ratio of 0.28%, a major decrease over the previous four years. 122

Sperling, Gene and Tom Hart (March-April 2003) “A Better Way to Fight Global Poverty: Broadening the Millennium Challenge Account,” *Foreign Affairs* Vol. 82, No. 2, pp. 9-14.

- ...by going it alone, the United States would forgo a powerful opportunity to increase the impact of its funding by bringing other donors’ resources to bear as part of multilateral initiatives. 1
- The administration’s MCA proposal would create an independent corporation to deliver new aid resources – starting with \$1.67 billion in 2004 and growing to \$3.34 billion in 2005 and \$5 billion by 2006 – to between ten and fifteen highly qualified low-income countries. (Currently, the United States spends about \$10

billion on international development and humanitarian assistance – about one-half of one percent of the U.S. budget, or one-tenth of one percent of GDP). 2

- In Africa, only four countries – Gambia, Ghana, Malawi, and Senegal – are likely to qualify for the MCA in the first year, according to a recent analysis by Steven Radelet of the Center for Global Development. 2
- The international community endorsed the Global Fund in 2001 and the program funded its first round of projects in April 2002. 3
- An uncoordinated, bilateral MCA would also miss the opportunity to leverage significant funding commitments from other nations for new development efforts. 3

Kolbe, Jim (Spring 2003) “Lessons and New Directions for Foreign Assistance,” *The Washington Quarterly*, pp. 189 – 198.

- Simple statistics illustrate this trend: 40 years ago, the world’s 20 richest nations had per capita incomes that were 20 times greater than the per capita incomes of the world’s 20 poorest nations. Now, that difference is 37 times greater. 190
- Measured by the degree of political and civil liberties, it found that the number of free countries has increased from 65 in 1990 to 86 in 2001. Two-and-a-half billion people – 40 percent of the world’s population – live in free countries, the largest percentage since the organization began its survey. 190
- Now, the World Trade Organization (WTO), its successor organization, has more than 140 members, of which developing nations, surprisingly enough, comprise 80 percent. Furthermore, the WTO reports that international trade has increased from \$1.8 trillion in 1983 to more than \$6 trillion in 2000. The widespread commitment among nations to the principles of capitalism and global trade is apparent. 191
- ...the total U.S. contribution to \$650 million for the Global Fund to Fight AIDS, Tuberculosis & Malaria – the largest contribution from a single nation. 191
- The United States has given more than \$167 billion (in constant 1999 U.S. dollars) in official development assistance (ODA) to 156 countries, regions and territories since 1980. 192
- No solid relationship is apparent between economic growth and ODA levels. 192
- ...”among all low-income countries, there is not a clear relationship between aid and growth.” Ottaway, Marina, “Promoting Democracy in the Middle East: The Problem of U. S. Credibility,” *Carnegie Endowment Working Papers* (Washington, D.C.: March 2003). 193
- Other measures confirm this progress. During 1990-2000, adult illiteracy rates for males aged 15 and older in low-income nations decreased from 35 percent to 28 percent; for females aged 15 and older, the figure declined from 56 percent to 47 percent. Although only 30 percent of people in the developing world had access to clean drinking water in 1970, that figure has increased to about 80 percent today. 193
- History has indeed shown that nations that have embraced democracy combined with capitalism and participation in the global trading system have experienced the highest economic growth and generated the highest quality of life for their citizens. 194

- The MCA should aim to build and reinforce the governmental capacity of recipient countries to manage their own development. 197
- Once countries qualify, the MCA should complement current assistance efforts but, most importantly, generate a focus on economic growth and self-sufficiency. 197

Radelet, Steve (Spring 2003) "Will the Millenium Challenge Account Be Different?"
Washington Quarterly, v26 no2 p171-87..

- In March 2002, President George W. Bush proposed establishing a Millennium Challenge Account (MCA), beginning in fiscal year 2004, that would provide substantial new foreign assistance to low-income countries that are "ruling justly, investing in their people, and encouraging economic freedom." (FN1) 1
- The significance of the proposed program lies partly in its scale: the proposed \$5 billion annual budget represents a 50 percent increase over the \$10 billion annual foreign aid budget in FY 2002 and a near doubling in the amount of aid that focuses strictly on development objectives. 1
- ...it will have narrower and more clearly defined objectives, aimed solely at supporting economic growth and development and not other foreign policy goals. 1
- ...the administration hopes that the MCA will have lower bureaucratic and administrative costs than current aid programs. Toward that end, it has proposed establishing a new government corporation called the Millennium Challenge Corporation (MCC) to administer the program. 1
- ...the administration plans to give recipient countries a greater say in program design, implementation, and evaluation to improve program efficiency and effectiveness. 1
- Similar tensions can arise between other objectives, such as providing humanitarian assistance and building democracies. 2
- The United States regularly provides humanitarian assistance to nondemocratic governments facing natural disasters, which can have the unintended consequence of helping those governments strengthen their legitimacy and power base. 2
- The MCA's sharper focus on economic growth and poverty reduction should help reduce these tensions, although they can never be fully eliminated. As a result, the MCA will be more able to define specific goals, ensure that resources are better allocated to meet those goals, and allow for stronger and clearer evaluation of results. 2
- At one level, this difference is a matter of simple common sense: foreign assistance will go much further in countries where governments are committed to building better schools and clinics, creating good jobs, and rooting out corruption. 3
- Recent statistical research, for the most part, supports the idea that aid generally has a positive effect on growth in countries with good macroeconomic and trade policies, strong investments in health and education, good governance, and less corruption, while it tends to have little or no effect on growth in countries with weak policies and high corruption. (FN5) 3

- The U. S. foreign aid system is bogged down by a heavy bureaucracy, overly restrictive legislative burdens, and conflicting objectives. The United States delivers aid in basically the same way in countries with competent, committed governments as in countries with high levels of corruption and poor development policy. The administration wants the MCA to be different. It has proposed that the program be administered through a new government corporation, the MCC, designed to reduce administrative costs and increase effectiveness. 5
- Establishing an MCC as proposed, however, entails certain risks. Dividing the U. S. foreign assistance program into two major agencies (USAID and the MCC), in addition to several smaller agencies such as the Peace Corps, could impede coordination and increase redundancy. 5
- One of the biggest concerns is the impact of the MCC on USAID and the relationship between the two organizations. The MCC is likely to draw staff and resources from USAID, furthering weakening the agency, possibly engendering some resentment, and making cooperation more difficult. 6
- Because MCA recipient nations will have an established record of good development policies, the administration should give them much more of the responsibility for program design so that MCA-funded programs are more consistent with their national development strategies. 6
- Specifically, the MCA should draw from the approach used by most foundations where recipients write proposals for various activities and only the best ideas actually receive funding. 6
- Government and nongovernment agencies alike, such as private NGOs, clinics, and schools, should be entitled to write proposals and receive funds, as private agencies implement some of the best development programs. 7
- The final and perhaps most crucial element is program monitoring and evaluation. Without a much stronger monitoring and evaluation capacity, the MCA is doomed to fail. 7
- Giving recipients greater flexibility can only work in countries that demonstrate the strongest commitment to development – exactly the countries for the MCA to target. 7-8

Windsor, Jennifer L. (Summer 2003) “Promoting Democratization Can Combat Terrorism,” *The Washington Quarterly*, pp. 57.

- The underlying logic is that democratic institutions and procedures, by enabling the peaceful reconciliation of grievances and providing channels for participation in policymaking, can help to address those underlying conditions that have fueled the recent rise of Islamist extremism. 43
- If individuals feel they have meaningful opportunities to effect change in their own countries, they are less likely to channel their energies and animosities against outside actors. 46
- Political freedom is an integral part of a development strategy focused on maximizing human dignity, and it encourages “individual initiative and social effectiveness,” which are the driving forces behind development progress. Sen, Amartya (1999:19) *Development as Freedom*, (New York: Random House, Anchor Books. 47

- The actual process of democratization itself is not necessarily easy and can exacerbate conflict and tensions within societies. Democratization changes the prevailing power structure, threatening the political status and gains of established elites, who then seek to protect their position and access to power. 48
- Zakaria would argue that the United States should not support democracy – by which he means elections – in the Middle East but should instead gradually encourage reform of authoritarian regimes by working to put in place the fundamentals of constitutional liberalism, rather than try to establish systems which make the state electorally accountable to its own people. 48
- As regimes become more accountable to their populations, they may be less willing to back particular U. S. policies. Turkey provided the latest example when its newly elected, more representative, and more energetic parliament rejected U. S. requests for assistance in the war against Iraq. 49
- If the United States persists in supporting friendly tyrants in the Middle East who repress their own people, the region will continue to breed extremists who argue that the United States is perpetuating the misery and frustration that characterize their everyday lives. 50
- Democratization has always been primarily an indigenous process, often generated and sustained by courageous men and women who push for political change within their societies. Democracy imposed only from the outside rarely succeeds, as the 1990s military invasion in Haiti most recently demonstrated. 50
- The United States now allocates a total of approximately \$650 million annually to support elections and political processes; the rule of law; human rights protections; active participation by civil society; independent media; and governance, including strengthening legislatures, local governments, and anticorruption programs. 50
- Two months after the attacks, Undersecretary for Global Affairs Paula Dobriansky argued, “the advancement of human rights and democracy is...the bedrock of our war on terrorism.” Paula Dobriansky, speech before the Heritage Foundation, Washington, D.C., December 21, 2001. 51
- ...a new, global development-assistance initiative, will provide up to \$5 billion annually to countries that “rule justly, invest in their own people, and encourage economic freedom.” George W. Bush, remarks on global development, Inter-American development Bank, Washington, D.C., March 14, 2002. 51
- ...because eligibility for aid is in part determined by a country’s record of “ruling justly,” the program sends an important message that democratic practices will be rewarded. 51
- The document proclaimed that “[t]he national security strategy of the United States must...look outward for possibilities to expand liberty” and stated that the United States will “use [its]foreign aid to promote freedom and support those who struggle non-violently for it, ensuring that nations moving towards democracy are rewarded for the steps they take.” *National Security Strategy of the United States of America*, Section 2 (citing President Bush). 52
- In the past, democracy advocates within USAID have felt constrained by the policy dictates of a State Department and A White House that were simply not

interested in promoting democracy through U. S. diplomatic or assistance efforts. 54

- ...promoting democratization really is now a priority and that foreign assistance must be utilized in a direct and deliberate fashion to foster genuine democratic reform. 54
- If the U.S. government delays too long in introducing democracy building in its assistance strategies, those countries' government officials might become established and unwilling to introduce processes, own political power. 55
- The latest MEPI requests are promising, but the administration must remain focused on providing adequate resources for democracy far into the future and not let short-term, postconflict reconstruction needs squeeze out support for democracy. 55
- For the last 10 years, USAID has recruited and trained a cadre of democracy officers who form a talent base that the administration should task with designing innovative democratization programs in the Middle East and other key regions. 55

Radelet, Steven (September-October 2003) "Bush and Foreign Aid," *Foreign Affairs* Vol. 82, No. 5, pp. 104-17.

- If these programs are funded as proposed, they will increase U. S. foreign aid from approximately \$11 billion in 2002 to \$18 billion in 2006 – the largest increase in decades. Perhaps more important, they will also fundamentally change the way the United States delivers aid by making recipients more involved in setting priorities and by demanding greater accountability for results. 1
- Even with the Bush's administration's new proposals, foreign aid is still not sufficient to meet the country's major foreign policy goals. 2
- This agenda points to a new rationale for foreign assistance in the post-September 11 world, resting on four key motives. First, aid can play a direct role in the war on terror by supporting both frontline countries and weak states where terrorism might breed. 3
- ...there is the growing recognition – so far only partially embraced by the administration – that global poverty and inequality threaten U.S. security and national interests. 4
- The MCA was Bush's first step toward making aid more effective and represents a sharp break with past U. S. policies. The basic idea behind it is to select a relatively small number of recipient countries based on their demonstrated commitment to sound policies, provide them with larger sums of money, give them more say in designing aid-funded programs, and hold them accountable for achieving results. 4
- It is time to take advantage of this rare opportunity to make U. s. foreign assistance more effective in combating poverty, widening the circle of development and prosperity, fighting terrorism, and furthering other U. S. strategic interests abroad. 8

Adelman, Carol C. (November-December 2003) "The Privatization of Foreign Aid: Reassessing National Largesse," *Foreign Affairs*, Vol 82. No 6. pp 9-14.

- Today, a third wave of foreign aid is starting to foster development and democracy, particularly in the Middle East, and to stem the onset of pandemics in the developing world. 1
- President George W. Bush’s pledge to increase aid 50 percent by 2006 – the biggest boost since the Marshall Plan was launched in 1948 – and new legislation devoting an additional \$15 billion to fight AIDS, tuberculosis, and malaria have done little to stave off such attacks. 1
- Even this low-ball figure is more than three and a half times the amount of official development assistance (ODA) given out in a year by the U.S. government. In the third wave of foreign aid, it is private money that is making the difference. 1
- Since the ranking began, however, the only countries that have ever managed to achieve the “0.7 percent solution” are Denmark, Luxembourg, Norway, and the Netherlands. And like many such targets, this one bears no relation to the quality or impact of a donor’s aid. The OECD has finally admitted not only that the chances of meeting the 0.7 percent goal are virtually nil, but also that developing countries could not absorb that much official aid anyway. 1
- Between 1990 and 2000, the number of U.S. foundations grew from 32,000 to 56,000. At the same time, more and more of them established international giving programs, which account for 11 percent of total grants. 2
- That decade also saw the emergence of “megadonors,” such as the Bill and Melinda Gates Foundation, the David and Lucille Packard Foundation, and the UN Foundation, with backing from Ted Turner. As a result, international giving by U.S. foundations nearly quadrupled between 1990 and 2000. It now totals some \$3 billion, almost double what the “most generous” governments – Denmark, Norway and Sweden – each give yearly in ODA. 2
- Worldwide remittances to developing countries have more than doubled – increasing from \$21 billion to \$50 billion (excluding numbers for Russia) – over the past decade. Latin America received the greatest share (\$14.5 billion), followed by India (\$11.5 billion), the Middle East A(\$10.4 billion), and eastern Europe (\$6.2 billion). Every year, the amount sent to Latin America exceeds the region’s total annual financing from multilateral development agencies. In six Latin American countries, remittances represent more than ten percent of GDP; in Mexico, they are the third-largest source of foreign exchange. 3

Dewey, Arthur E. (2004) “The Value of Integration: A U.S. Perspective,” *Ethics & International Affairs*, Vol.18, No. 1, pp. 39-43.

- The fundamental stages of the planning for Afghanistan were building capacity in Afghan ministries in terms of staffing and infrastructure and then assisting the ministries to plan, program, budget for, and administer public services. There has been a lot of superficial and ill-considered criticism of how things have worked out in the case of Afghanistan. In my view, the glass is far more than half full. Nearly three million Afghans have been able to return from abroad, and about half a million internally displaced persons have gone back to their home areas. 40
- The importance of such returns should not be underestimated, as indeed Afghanistan’s foreign minister Abdullah notes: “Refugee and IDP returns are not

just distractions on the way to reconstruction; refugee returns are reconstruction.”
40

Ottaway, Marina and Thomas Carothers (2004) “The Greater Middle East Initiative: Off to a False Start,” Carnegie Endowment for International Peace.

- The economic chapter codifies EMP states’ commitment to free trade and contains a pledge from EU members to increase aid to soften the impact of economic liberalization through a 25 percent increase in the Mesures d’ Accompagnement (MEDA) grant assistance. 1
- Income equality has been on the rise in Mexico since NAFTA took effect, reversing a brief declining trend in the early 1990s. Compared to the period before NAFTA, the top 10 percent of households have increased their share of national income, while the other 90 percent have lost income share or seen no change. Regional inequality within Mexico has also increased, reversing a long-term trend toward convergence in regional incomes. 13
- A small proportion of rural households and communities have succeeded in establishing market niches for resources such as environmental services and ecotourism, and for products that can be certified as “organic,” “sustainable,” or “artisan,” all of which command more favorable prices of these niche activities) 23
- The evident goal is to sustain the life of rural communities as both an alternative to and insurance against the precariousness of the informal economy, urban shantytowns, and illegal migration, which loom as the main alternatives for poor rural households. 23
- The rural economy in Mexico has changed dramatically over the past decade, as a result of NAFTA, other trade pacts, and changing government policy....Rural households already suffering from low standards of living are under increasingly severe strain, while alternative economic activities are often unavailable or unpalatable. 21
- In response, many rural households have adopted complex survival strategies that involve a mix of increased cultivation of basic crops, some diversification of agricultural production, increased day labor, and increased off-farm employment, often in the informal sector and in some cases in maquiladora plants that have relocated away from the northern border and into the hinterlands. 21
- For example, production of maize on irrigated lands (mainly larger commercial farms) has declined since cheaper, subsidized U.S. corn was allowed into Mexico and subsidies for water use were reduced. 21
- This may be due in part to greater efficiency among U.S. producers, but it is also partly due to U.S. subsidies. By one estimate, U. S. corn was sold in Mexico from 1999 through 2001 at prices 30 percent or more below the cost of production. 4
- Thus, agricultural trade liberalization linked to NAFTA is the single most significant factor in the loss of agricultural jobs in Mexico. 4
- Displacement of subsistence farmers, in part because of increased agricultural imports from the united States as a result of NAFTA tariff cuts, led rural households to struggle to maintain adequate income levels. Mexico has no unemployment insurance program, and so displaced workers must find alternative

employment. Due to sluggish employment growth in manufacturing, as well as the limited skills of many agricultural workers, employment was found (or created) mainly in low-pay, low-productivity jobs in the service sector such as domestic work, street vending, and personal services and repairs. Much of this was in the informal sector, which comprises self-employment, employment in microenterprises, and other forms of employment that do not provide benefits such as health care and pensions. Overall, the informal sector grew during most of the 1990s, with employment in informal jobs approaching 50 percent of all employment in Mexico in 1995 and 1996, following the peso crisis and the subsequent economic contraction. After economic growth resumed in the late 1990s, the informal sector shrank somewhat, but still accounts for about 46 percent of Mexican jobs. This reservoir of low-wage, low-productivity workers shows no sign of being absorbed by Mexico's export sector in the foreseeable future. 5

- Gauging the effects of trade on real people requires an assessment of trade's impact on inequality and poverty, because the gains and losses from trade are not distributed evenly. Inequality in Mexico is high, as it is in much of Latin America. This is a cause for concern because it undermines social stability and political cohesion. Furthermore, societies with highly unequal economies have been shown to reduce poverty less effectively and at slower rates than more equal societies. Some studies have also shown that overall growth is reduced over the long term by highly unequal income distributions, thus constraining the incomes of all. 6
- Mexican agriculture has been a net loser in trade with the United States, and employment in the sector has declined sharply. U.S. exports of subsidized crops, such as corn, have depressed agricultural prices in Mexico. The rural poor have borne the brunt of adjustment to NAFTA and have been forced to adapt without adequate government support. 7

Polaski, Sandra (2004) "Brief Submitted to the Canadian Standing Senate Committee on Foreign Affairs: Mexican Employment, Productivity and Income after NAFTA," Carnegie Endowment for International Peace.

- ...jobs created in export manufacturing have barely kept pace with jobs lost in agriculture due to imports. 1
- Mexican agriculture has been a net loser in trade with the United States, and employment in the sector has declined sharply. U. S. exports of subsidized crops such as corn have depressed agricultural prices in Mexico. The rural poor have borne the brunt of adjustment to NAFTA and have been forced to adapt without adequate government support. 1
- In Mexico, farmers are still struggling to adapt to NAFTA-induced changes. 1
- The short-to-medium-term adjustment costs faced by the losers from trade can be severe, and in Mexico the losers are often those segments of society least able to cope with adjustment, due to insufficient skills, meager savings, and limited mobility. It must also be recognized that there may be permanent losers from trade, due to these limitations. 1

- The pattern of trade between the two countries changed in a number of ways as a result of these cuts. From Mexico's standpoint, the cumulative changes resulted in a shift from a net trade deficit with the United States before NAFTA to a substantial net trade surplus in 2002. The overall net surplus masks a growing deficit in agricultural trade with the United States that is more than offset by a surplus in manufactured exports from Mexico. Trade in services shows a small deficit for Mexico. 2
- As noted above, Mexico has had a net trade deficit in agricultural goods with the United States every year since NAFTA took effect, except the peso crisis year of 1995, when the huge devaluation of the peso made most dollar-denominated products too expensive for Mexicans. The agricultural trade deficit existed before NAFTA, but it grew after enactment of the trade pact and was larger in 2002 than in any previous year. Tariffs on the most sensitive crops in both the United States and Mexico have yet to be eliminated, and so the nature of bilateral agricultural trade will continue to evolve. However, the pattern to date challenges the conventional wisdom that agricultural liberalization is good for the developing country in a trade relationship with a wisdom that agricultural liberalization is good for the developing country in a trade relationship with a wisdom that agricultural liberalization is good for the developing country in a trade relationship with a wisdom that agricultural liberalization is good for the developing country in a trade relationship with a developed economy. The one bright spot for Mexico, an increase in exports of fruits and vegetables, has not ... following decade, but began to abate again in the early 1990s, the years immediately before NAFTA. However, since 1994 inequality has again been on the rise. Compared to the period before NAFTA, the top 10 percent of households have increased their share of national income, while the other 90 percent have lost income share or seen no change. 4
- In developing economies with surplus labor, such as Mexico, the NAFTA experience demonstrates that trade pacts cannot be counted on to produce much. If any, net employment growth in the absence of other targeted policies. Policies to maximize employment gains from trade would include measures to promote supplier and support industries in the developing country and terms in the trade agreement that reward rather than discourage the use of domestic inputs in the production of exported goods. 4
- The experience of Mexico also suggests that a developing country with a high proportion of its labor force in low-productivity agriculture should negotiate very long transition periods for the phaseout of tariffs on basic crops and should carefully consider the sequencing of liberalization, to allow the absorption of rural workers into other sectors that expand due to liberalized access to foreign markets, before basic crops are liberalized. 4
- The negative situation currently faced by Mexico also demonstrates that a developing country must use that transition time aggressively to prepare the rural population for the wrenching adjustment it will face. Policies should be adopted to shift farmers to competitive crops, to develop alternative sources of

- employment in rural areas, and to invest heavily in education to prepare the population for more modern occupations. 4
- The harsh impact of agricultural trade liberalization on subsistence farmers has not been offset by appropriate government policies. Poor countries should seek assistance for funding of transition programs from their richer negotiating partners, as part of the trade package. 4

U. S. Working Paper for G-8 Sherpas (February 13, 2004) “G-8 Greater Middle East Partnership,” *Al-Hayat*.

- The combined GDP of the 22 Arab League countries is less than that of Spain. 1
- One-third of the region lives on less than two dollars a day. To improve standards of living, economic growth in the region must more than double from below 3 percent currently to at least 6 percent. 1
- Women occupy just 3.5 percent of parliamentary seats in Arab countries, compared with, for example, 8.4 percent in sub-Saharan Africa. 1

“They Grumble, But They Move,” (March 6, 2004) *Economist*, Vol. 370 Issue 8365, p. 41, 2/3p.

- “Yet a close reading of early drafts of the initiative reveals little that is really new. Specific proposals include such mild suggestions as technical assistance for elections, creating “women’s leadership academies,” and training journalists to be more professional. Hardly throne-shaking stuff, particularly for regimes skilled at faking polls, tailoring laws to suit their cronies, gagging the press, and so on. 2

Lasensky, Scott (Spring 2004) “Paying for Peace: The Oslo Process and the Limits of American Foreign Aid,” *The Middle East Journal*, 58.2, p.210 (25).

- As Israeli-Palestinian violence continues to shake the Middle East and complicate America’s war on terrorism, it is an opportune time to ask what is gained from the more than five billion dollars Washington provides annually to Israel and its Arab neighbors – a subject long understudied in both the academic and policy literature. 1
- With the US having already provided more than \$200 billion in aid to the Middle East since 1970, and with nearly half of the current foreign aid budget going to the region, it is essential to know what foreign aid can and cannot accomplish. 1
- Foreign aid was a necessary, but not sufficient, factor in sustaining the Oslo process from 1993-2001. 1
- In fact, at the Camp David summit, rather than use aid as part of an integrated strategy for underwriting peace, President Clinton attempted to use economic inducements to compensate for fundamental deficits in the negotiations. 2
- In the negotiations, Nixon and Kissinger believed that only a confident, reassured and secure Israel would be willing to make the necessary concessions for peace with its Arab neighbors. Spiegel, Steve (1985:212) *The Other Arab-Israeli Conflict*, Chicago: University of Chicago Press; Quandt, William (2001 – Second Ed.: 17) *Peace Process*, Washington, DC: Brookings/University of California. 3
- By providing a seemingly unlimited pipeline of arms the US not only provided material support to Israel but the airlift also transmitted a strong message of

political support. Without the airlift Israel might have pressed ahead militarily, in which case the parties would have been less likely to bargain after the war. 3

- ...Christopher told Palestinian officials the United States would contribute to the aid effort to “make the [Palestinian] people feel the benefit of the accord.” [Abbas, Mahmoud (1995:8, 214) *Through Secret Channels*, Reading, UK: Garnet Publishing.] “The Palestinians expected several dividends of peace,” says senior negotiator Nabil Sha’ath, “including freedom, security and economic prosperity...[the aid component] was critical to this process.” [Sha’th interview.] 6
- More than \$2 billion was pledged over five years, mainly by the United States, the European Union, Japan, Norway, and Saudi Arabia. (At later meetings, pledges rose to about \$3.6 billion, but disbursements during the first five years totaled about \$2.4 billion). [Palestinian National authority, Ministry of Planning and International Cooperation (MOPIC), “MOPIC’s 2000 First Quarterly Monitoring Report,” May 2000, Ramallah.] 7
- ...by March, Israeli-Palestinian talks were suspended after Israel announced it would begin housing construction at Har Homa, near Jerusalem. 8
- Many scholars argue that positive economic inducements can serve critical American national security goals like managing regional conflicts. But even proponents acknowledge that aid-based strategies are limited, especially when security goods are at stake. Among tough security cases, the Israeli-Palestinian conflict presents an especially rigorous test. 11
- Although limited, the impact of US foreign aid was consequential. Aid was essential for implementing Israeli-Palestinian interim agreements. Aid helped underwrite the practical costs of Palestinian self-rule and provided the Palestinian leadership with the means to cultivate domestic support. Aid was not used to compel or pressure the parties to sign the Oslo accords but was part of each side’s payoff expectations. 11
- International Donors to the Palestinians Oslo-related Aid: 1994-1998 (approximately \$2.4 billion disbursed) p. 15

EU & member states	41%	\$992 million
Japan	15%	
U. S.	15%	\$346 million
Norway	8%	
WorldBank	6%	
Saudi Arabia	4%	
Other	11%	

Ottaway, Marina (June 2004) “The Broader Middle East and North Africa Initiative: A Hollow Victory for the United States,” *Arab Reform Bulletin*.

- These include a microfinance initiative to help small entrepreneurs; a project to enhance literacy; and support for training programs for business and entrepreneurship. It is unclear how these activities will be financed. 1
- The United States has not announced any new funding and projects will have to draw on the budget of the Middle East Partnership Initiative (MEPI) and other existing aid projects. European countries are unlikely to shift money from ongoing programs to an initiative for which they have shown little enthusiasm –

French President Jacques Chirac even warned on June 9 that “provoking” change would “risk feeding extremism and falling into the fatal trap of the clash of civilizations.” 1

- The vagueness of the statements adopted, the absence of financial support, the Europeans’ lack of enthusiasm, and the cold reception of the initiative in Arab countries suggest that the launch of the Broader Middle East Initiative is a rather hollow victory for the United States. 1

Crossette, Barbara (Winter 2004-2005) “Hurting the World’s Poor in Morality’s Name,” *World Policy Journal*, pp. 57-62.

- ...conveniently ignoring the brutal reality that 98 percent of the world’s population growth this century will take place not in the low-growth countries of Europe or Japan but in the most desperately poor, disease-wracked nations. 57

U.S. Dept. of State (February 23, 2005) “Fact Sheet issued in connection with President Bush’s trip to Europe in February 2005”, Washington, D.C.

- The U.S. and EU combined contributed a total of \$53.4 billion, or 78% of all global assistance in 2003. The U. S. is currently the world’s largest contributor of official development assistance, providing \$126.3 billion in 2003. 1

Mark, Clyde (March 4, 2005) “United States Aid to the Palestinians”, *CRS Report for Congress* [received through the CRS Web], Order Code RS21594, The Library of Congress., pp. 1-6.

- U.S. economic aid to the Palestinians has averaged about \$85 million per year since 1993; there has been no military aid. (See Table 3, page 6.) 1
- About 80% of U.S. aid to the Palestinians is channeled through contractors and 20% is channeled through private voluntary organizations, both groups selected and monitored by USAID. 1
- President George W. Bush requested that Congress appropriate \$150 million in FY2006 funds and \$200 million in a FY2005 supplemental appropriation for the Palestinians. The United States’ pledge coincided with a \$330 million European Union pledge made at the London conference on 2 March 2005. The funds are intended to support the Abbas government and the new cabinet sworn in on 24 February.

Sachs, Jeffrey D. (March-April 2005) “The Development Challenge,” *Foreign Affairs* 84 No 2, pp. 78-90.

- By the DAC’s definition, in 2003(the most recent year for which comprehensive international data are available), the United States gave \$16.3 billion in net ODA. Of that amount, \$1.7 billion went to multilateral organizations such as the World Bank, which in turn grant or lend the money to developing countries. Washington distributed the remaining \$14.6 billion bilaterally, directly targeting recipient nations. 1-2
- The DAC estimates that U. S. assistance from private voluntary agencies in 2003 amounted to about \$6.3 billion. Even if one added to this figure a high-end estimate of \$4 billion in other giving from private foundations, corporate

philanthropy, and other organizations, the sum of U. S. public and private financial contributions to international development would amount to around \$26.6 billion, or just 0.25 percent of GNI. 2

- Lastly, humanitarian assistance is earmarked for relief following natural disasters and often takes the form of U. S. grain deliveries. A surprisingly small proportion of U. S. bilateral assistance is directed at transformational development, and only a small part of that actually transforms the economies of developing countries. 2
- In 2004, the ESF program provided \$3.3 billion to 42 countries. Economic development is a side effect, not a basic objective, of such aid. Strategic states—defined here as developing countries receiving more than half of their U.S. assistance from the ESF or similar funding (such as the Iraqi Relief and Reconstruction Fund, the Andean Counterdrug Initiative, and the Emergency Response Fund for Afghanistan)—include several countries in the Middle East, Asia, Europe, and Latin America (FNI). 2
- Many of the strategic states are in fact middle-income countries that are not high development priorities. In many cases, ESF supports corruption or allows a government to reduce its own development spending to free up funds for its military. 2
- What is the U. S. capacity to give? And—most important for the United States’ international image—how does U. S. aid stack up against Washington’s promises to poor countries?

The answer to the first question can be derived from careful studies conducted to determine the amount of worldwide ODA needed to achieve the goals of the Millennium Declaration. Most recently, the UN Millennium Project undertook the most extensive analysis of this question ever performed and determined that the developing world will require an additional \$70 billion in aid over current levels by 2006, rising to \$130 billion over current levels by 2015 (in constant U.S. dollars at 2003 prices). With these added funds, total projected aid in 2006 would represent 0.44 percent of total projected donor GNI that year, increasing to 0.54 percent in 2015. Assuming that all 22 DAC donor countries contribute an equal percentage of their national income and that the U. S. economy grows at an average of three percent a year, the \$16 billion contributed by Washington in 2003 would have to increase to \$51 billion in 2006 and to \$74 billion in 2015. Thus, even the full funding currently promised for the MCA and PEPFAR (\$5 billion and \$3 billion per year, respectively) would leave the United States far short of doing its part to help poor countries meet the Millennium Development Goals. 4

- Most of the world has recognized that 2005 is a make-or-break year. The United Kingdom has already charted a path to success, albeit one that the United States has still not embraced. The United Kingdom will chair both the EU and the G-8 group of highly industrialized nations plus Russia this year, and in its capacity as host of the G-8’s July summit has promised to put development assistance at the center of the agenda. U.K. Chancellor of the Exchequer Gordon Brown has put on the table an important proposal for an International Finance Facility (IFF), backed by donor countries, to double development aid during the next decade. There is widespread European and developing-country support for the IFF. Yet,

unwisely, the United States has not only given the proposal a cold shoulder but also failed to explain how the donor nations should otherwise meet the needs of the poorest countries. 5

- ...Washington should spend the new total of \$56 billion in aid through a number of reliable channels. Plausibly, the government could distribute \$3 billion to the Global Fund to Fight Aids, Tuberculosis, and Malaria (partly for Aids in countries not covered by PEPFAR); \$5 billion to PEPFAR programs; \$10 billion to the Millennium Challenge Account; \$8 billion to the International Development Agency of the World Bank, as well as to regional development banks; \$20 billion to USAID in non-MCA countries for transformational development; and \$10 billion to strategic states (up from the current \$5 billion). Washington's agencies and programs should continue to engage with and support the work of U.S. NGOs, while also funneling a large part of their new funding directly to the budgets of the recipient countries. 6
- Finally, the president and Congress should overhaul the structure of U.S. development assistance programs to enable development to play the strategic role required for national security. USAID should be raised to the rank of a cabinet department, with MCA and other agencies housed under the same roof, similar to the United Kingdom's Department for International Development. The new department must be invested with the analytical capacity and political clout to ensure that the United States becomes a true leader of the global effort to fight poverty and achieve transformational development. 6
- Net official development assistance to developing countries from donor countries (FN*) as a percentage of gross national income in 2003:

Norway	.92
Denmark	.84
Luxembourg	.81
Netherlands	.80
Sweden	.79
Belgium	.60
France	.41
Ireland	.39
Switzerland	.39
Finland	.35
United Kingdom	.34
Germany	.28
Australia	.25
Canada	.24
Spain	.23
New Zealand	.23
Portugal	.22
Greece	.21
Japan	.20
Austria	.20
Italy	.17
United States	.15

FOOTNOTE

* The 22 countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development. SOURCE: oecd-dac, "Final ODA Data for 2003," December 8-9, 2004. 7

Sharp, Jeremy M., CRS Report for Congress (June 13, 2005) "U. S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2006 Request," Congressional Research Service: The Library of Congress, pp. 1-26.

- Despite changing geopolitical conditions, U.S. foreign aid to the Middle East has historically been a function of U.S. national security interests in the region. The United States has pursued a foreign policy that seeks stability in a region with abundant energy reserves but volatile interstate relationships. Policymakers have often employed foreign aid to achieve this objective. Foreign aid has been used as leverage to encourage peace between Israel and her Arab neighbors, while strengthening bilateral relationships between the United States and Israel and between the United States and moderate Arab governments. Foreign aid has worked to cement close military cooperation between the United States and governments in the region, discouraging local states from engaging in uncontrollable arms races. Economic aid also has had an underlying strategic rationale, as U. S. funds have been employed to promote development in an attempt to undercut radicalism in partner countries. 2
- Additional assistance for Israel and Egypt, which receive almost 93% of all annual funding to the region, has fueled the increase in aid to the Middle East over the last several years. 7
- ...Israel can use U. S. military assistance for research and development in the United States and for military purchases in Israel. 10
- In addition, all U. S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Other recipients normally receive their aid in staggered installments at varying times. 10
- The United States gives all Economic Support Funds (ESF) directly to the government of Israel as a grant cash transfer rather than allocating funds for specific development projects. 10
- Annual Foreign Military Financing (FMF) grants to Israel represent about 20% of the Israeli defense budget and FMF levels are expected to increase incrementally by \$60 million a year to a level of \$2.4 billion by 2008. 11
- The annual earmark has included a statement that Egypt should undertake further economic reforms in addition to reforms taken in previous years. 12
- In early January 2002, the United States agreed to accelerate Egypt's aid delivery, releasing \$655 million in FY2002 ESF and \$304 million in the foreign aid "pipeline" to help Egypt overcome economic problems exacerbated by the fall in tourism after September 11, 2001. 12
- Approximately 80% of U.S. funding for the Palestinians has been channeled through USAID contractors and 20% through private voluntary organizations (PVOs). 15

- In his February 2005 State of the Union Address, President Bush indicated that the United States would provide \$350 million to the Palestinians, a substantial increase from previous years. 15
- The President’s FY2006 budget Request seeks \$150 million in Economic Support Funds (ESF) for the West Bank and Gaza Strip, which is double the recent amount of economic aid for USAID programs for the Palestinians. 15-16
- The FY2005 Supplemental Appropriations Act provides an additional \$200 million in ESF for the Palestinians with several restrictions and resource allocation requirements...16
- Excluding Israel, Egypt, Jordan, and the Palestinians, the eight remaining Middle Eastern recipients of U. S. foreign aid receive on average just 2% of the total bilateral assistance to the region. 17
- **Table 10. International Assistance to the Palestinian Authority for Calendar Year 2004** (\$ in millions)

Country/Organization	Donations
European Union	\$105.800
World Bank	\$92.344
Saudi Arabia	\$76.999
United States	\$20.000
Libya	\$13.799
United Kingdom	\$12.300
Norway	\$12.000
Japan	\$10.000
Canada	\$7.000
Egypt	\$3.317
Other	\$6.647
Total	\$360.206(est)

Source: USAID, PA Ministry of Finance 21

- **Table 11. Middle East Partnership Initiative Appropriations, FY2002-FY2006 Request**
(Regular & Supplemental Appropriations; Current Year \$ in millions)

FY2002 Actual	FY2003 Actual	FY2004 Estimate	FY2005 Estimate	FY2006 Request
\$29.000	\$90.000	\$89.469*	\$75.000	\$120.000

*The FY2004 Iraq Reconstruction Relief Funds Supplemental (P. L. 108-106) specifies that \$30 million in Iraq reconstruction funds may be transferred to MEPI for FY2004. 23

Rice, Susan E. (June 27, 2005) “U. S. Foreign Assistance to Africa: Claims vs. Reality” *The Brookings Institution*, www.brookings.edu.

- The majority of that increase consists of emergency food aid, rather than assistance for sustainable development of the sort Africa needs to achieve lasting poverty reduction. 1
- The Bush Administration should join the UK, France, Italy and Germany and twelve other developed nations and commit to devote up to 0.7% of U.S. gross

national income to overseas development assistance by 2015. This commitment would place the U.S. in the forefront of international efforts to alleviate global poverty. 1

- In nominal dollars, of the \$1.365 billion overall increase, \$728.9 million, or 53%, consists of emergency food aid rather than overseas development assistance, which contributes to sustainable development. The remainder of the increase is comprised primarily of funding for the President's HIV/AIDS initiative (distributed between two accounts: Child Survival and Global Health) as well as emergency and post-conflict assistance to Liberia and Sudan. 2
- **Actual development assistance, excluding food aid and security assistance, increased only 33% from FY 2000 to FY 2004 in real dollar terms, or 43% in nominal dollars.** In nominal dollars, less than \$450 million of the increased foreign aid to Africa is official development assistance. 2
- Official Development Assistance to Africa (aid programs directed at sustainable development) increased by 43% from FY 2000 to FY 2004. Of these programs (in nominal dollars):
 - Funding for the Child Survival and Health Programs Fund increased by 70%, primarily for HIV/AIDS.
 - Development Assistance funding increased 1% over FY 2000.
 - Global Health and HIV/AIDS Initiative, which did not exist as a separate program in FY 2000, received \$263.8 million for Africa in FY 2004.
 - Peace Corps funding increased by 19%.
 - African Development Bank funding increased by 24%.
 - African Development Foundation funding increased by 31%.
 - African Development Fund decreased by 12%.
 - The newly-created Millennium Challenge Account did not exist in FY 2000, and its entire FY 2004 budget went towards administrative expenses rather than country programs.
 - The Heavily indebted Poor Countries debt relief funding decreased by 32%.
- The only programs that both existed in FY 2000 and more than doubled by FY 2004 were Foreign Military Financing, which increased by 109%, and emergency food aid (PL 480 Title II), which increased by 159%.

Nowels, Larry (July 1, 2005) "Millennium Challenge Account: Implementation of a New U. S. Foreign Aid Initiative," in *CRS Report for Congress*, The Library of Congress: Congressional Research Service.

- In a speech on March 14, 2002, President Bush outlined a proposal for a major new U. S. foreign aid initiative. The program, referred to as the Millennium Challenge Account (MCA) is managed by a new Millennium Challenge Corporation (MCC) and provides assistance, through a competitive selection process, to developing nations that are pursuing political and economic reforms in three areas: ruling justly, investing in people, and fostering economic freedom. If fully implemented, the initiative would represent one of the largest increases in foreign aid spending in half a century, outpaced only by the Marshall Plan

following World War II and the Latin America-focused Alliance for Progress in the early 1960s. [Summary]

- The MCC differs in several respects from past and current U. S. aid practices. The requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement.
- The Administration sought \$1.3 billion for the MCA's first year (FY2004), \$2.5 billion for FY2005, amounts reduced by Congress to a combined \$2.48 billion, about one-third less requested. The President seeks \$3 billion for FY2006, double the FY2005 level but less than the original \$5 billion commitment for the third year. [Summary]
- In a speech on March 14, 2002, President Bush outlined a proposal for the United States to increase foreign economic assistance beginning in FY2004 so that by FY2006 American aid would be \$5 billion higher than three years earlier. CRS-1
- The MCC differs in several fundamental respects from past and current U. S. aid practices:
 - The pledge to segregate the funds from U. S. strategic foreign policy objectives that often strongly influence where U. S. aid is spent; and
 - The requirement to solicit program proposals developed solely by qualifying countries with broad-based civil society involvement. CRS-2
- Eligibility to receive MCA assistance, however, does not necessarily result in an aid grant. Once selected, countries are required to submit program proposals – referred to as MCA Compacts – that have been developed through a broad-based, national discussion that includes input from civil society. CRS-3
- It is expected that successful Compacts will support programs lasting three to five years, providing a level of resources roughly equivalent to the largest providers of assistance in the country. This will most likely result in a significant increase of U. S. economic assistance to MCA participant countries. CRS-3
- For FY2004, the Administration sought \$1.3 billion for the MCA's first year, a level reduced by Congress to \$994 million. The FY2005 budget proposed \$2.5 billion while Congress approved \$1.488 billion. The combined FY2004/2005 funding level of \$2.48 billion is about one-third less than requested. The President initially planned a \$5 billion MCA program by FY2006, but is proposing \$3 billion for next year. Administration officials say that given congressional reductions the past two years and competing demands elsewhere, a \$3 billion request is more realistic for FY2006. CRS-4
- An additional 13 countries have also been named as threshold nations – those that just missed qualifying as eligible countries. CRS-4
- Meeting on November 8, the MCC Board of Directors made its selection of FY2005 eligible countries:
 - Armenia
 - Benin
 - Bolivia
 - Georgia
 - Ghana
 - Honduras
 - Lesotho
 - Mali
 - Mongolia
 - Morocco
 - Mozambique
 - Nicaragua
 - Senegal
 - Sri Lanka

- The Board chose one new country for FY2005 – Morocco – while 15 of the 16 nations included for FY2004 were determined eligible again for FY2005. Cape Verde was not selected due to the fact that its per capita GNI exceeded the \$1,465 ceiling. Cape Verde, however remains eligible for MCA support using FY2004 funds. Board selections represented both a high degree of continuity between FY2004 decisions as well as a sharp difference in the degree to which it applied its discretionary authority for qualifying or denying countries for FY2005.

CRS-10,11

- **Continuity in the FY2005 Selection Round.** The fact that each country (except Cape Verde) selected for FY2004 MCA participation was also declared eligible for FY2005 should not be surprising, given the nature of the MCA concept. The Board identified in May 2004 what it determined to be the 16 “best performers” based on the assumption that these countries had, and would continue to express, a strong commitment to the types of economic, governance, and social policy reforms measured by the MCC. Absent a substantial negative development since May, there was a presumed expectation that these same countries would score well in a subsequent performance comparison with their income peers. Moreover, except in some extreme situations, evidence of a slide in policy performance as measured through the various data sources would likely lag behind the actual policy shift and not be reflected in the immediate data updates.

In addition, two other factors that may not apply in future years seem to have affected the outcome for FY2005. First, with the selection dates for FY2004 and FY2005 coming only six months apart – rather than one year, as should be the case in the future – it was likely that the data would indicate less change than might be the case if the comparisons occurred over a longer period. Between May and November, several of the data sources upon which the 16 performance indicators are based did not update or revise their figures. As a result, the review of countries for FY2005 was based on much of the same data and rankings as had been the case for the FY2004 selection.

Moreover, the addition of 13 new countries for consideration in the FY2005 round had the effect for at least six of the indicators of lowering the median against which countries were compared. Because of this, if a country scored well – above the median – in the FY2004 selection decision, it was likely that it would score the same or better in the review for FY2005 where medians declined. For example, in May Bolivia fell exactly at the median on the corruption indicator. But in November, when the median for corruption dropped somewhat after new countries were added, Bolivia scored above the median even though Bolivia’s score on corruption did not change. This phenomena is unlikely to be repeated again to the same extent since countries in the low-income group will be added or subtracted only if their economy grows beyond the per capita income ceiling or U. S. foreign aid sanctions are applied or lifted since the last review. The net effect is that the core set of low-income countries competing for MCA selection is unlikely to change as much as it did in FY2005, thereby reducing the extent to which the median will be altered simply because of the addition of new countries.

CRS-11, 12

- **MCA Compacts and Program Proposals:** The next step for qualified countries is the preparation and negotiation with the MCC of program proposals, referred to as MCA Compacts. Only those Compacts that demonstrate a strong relationship between the program proposal and economic growth and poverty reduction will receive funding. Not all qualified MCA countries may submit successful Compacts.

While acknowledging that Compact contents likely will vary, the Corporation expects each to discuss certain matters:

- A country’s strategy for economic growth and poverty reduction, impediments to the strategy, how MCA aid will overcome the impediments, and the goals expected to be achieved during implementation of the Compact;
 - Why the proposed program is a high priority for economic development and poverty reduction and why it will succeed; the process through which a public/private dialogue took place in developing the proposal;
 - How the program will be managed, monitored, and sustained after the Compact expires;
 - The relationship of other donor activities in the priority area;
 - Examples of projects, where appropriate;
 - A multi-year financial plan; and
 - A country’s commitment to future progress on MCA performance indicators. CRS-13
- **MCA Request for FY2006:** The Administration seeks a \$3 billion appropriation for FY2006, a level that has been criticized for being both too small and too large. CRS-21
 - Countering the argument that the Corporation has spent only a fraction of its resources, MCC officials say that program proposals received thus far total more than \$3 billion, not including Morocco (the largest eligible country), and will exhaust available resources by early 2006. CRS-21

U.S. Government Accountability Office Report to Congressional Requesters (August 2005) “Foreign Assistance: Middle East Partnership Initiative Offers Tools for Supporting Reform, but Project Monitoring Needs Improvement,” GAO-05-711, pp. 1-38.

- MEPI has worked with U.S. embassies, USAID headquarters in Washington, D.C. and USAID missions overseas to manage projects and obligate funding. In turn, MEPI and its partners have negotiated agreements with nongovernmental organizations, the private sector, and other U. S. agencies to implement the projects. MEPI has obligated about 45 percent of the \$129 million that it received for fiscal years 2002-2003, and its partners have obligated the remainder. [Highlights]
- MEPI used the State and USAID reviews of existing U.S. bilateral economic assistance programs in the Middle East and North Africa in two ways. First, in response to the reviews, MEPI targeted reform activities in the middle East and North Africa that were not being addressed by other U.S. agencies. [Highlights]

- In December 2002, the U.S. Department of State announced the establishment of the Middle East Partnership Initiative (MEPI) as a presidential initiative to support the administration's new policy of promoting democracy and reform in the Middle East and North Africa. MEPI, which has received about \$293 million for fiscal years 2002-2005, provides assistance in four reform areas, or pillars – political, economic, and educational reform and women's empowerment. 1
- Note 1: MEPI's budget is authorized for a period of 2 consecutive fiscal years. The funds must be obligated within this period and spent within 5 years after the end of the second fiscal year. 1
- Note 2: MEPI operates in Algeria, Bahrain, Egypt, Israel, Jordan Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates, the West Bank and Gaza, and Yemen. 1
- MEPI has directly obligated about 45 percent of the approximately \$129 million that it received for fiscal years 2002-2003, with 33 percent going to NGOs and the private sector and 12 percent to U.S. government implementers. 3
- The embassies have obligated about 1 percent of the 2002-2003 funds through MEPI's small-grants program, awarding short-term grants of up to \$25,000 to local organizations to build their capacity. 3
- USAID/Washington has obligated about 40 percent of the 2002-2003 funds, including funding for many of MEPI's largest projects, primarily through preexisting agreements between the U.S. government and implementing USAID missions have obligated about 15 percent of MEPI's 2002-2003 funds. 4
- ...responding to the reviews' observation that little progress had been made in political reform, especially regarding women's political participation, MEPI provided funds to assist with elections and help women candidates. 4
- MEPI's budget of \$293 million for fiscal years 2002-2005 was derived from supplemental appropriations and annual foreign operations legislation. 8
- MEPI has initiated reform activities that were not being addressed by U.S. agencies in the region, including countries where USAID does not operate. For example:
 - *Political reform*: ...MEPI has provided funds to help increase the number of women candidates and assist them through activities such as improving their media presentation techniques.
 - *Economic reform*: MEPI also funds efforts to teach business people and managers of small and medium-sized enterprises how to take immediate advantage of U.S. bilateral free trade agreements by initiating export sales, acquiring new technology, and developing joint ventures and other strategic alliances with U.S. firms (see fig. 7). 16
 - *Educational reform* 17

“Article 11”, pp. 8-10.

- Normal business and commerce is “a thing of the past” according to the World Bank, leading to “economic dislocation and dismemberment, or ‘economic cantonization.’” 8

- As stated by the World Bank, "...a sustained further tightening of closure will impoverish Palestinians and will lead to economic implosion and a scale of hardship so far only hinted at." 8
- By December 2001—15 months later—the World Bank indicated that unemployment levels had more than tripled to 35 percent (including discouraged workers [individuals who have stopped looking for work and are outside the labor force] and the natural growth of the labor force), leaving 275,800 people without a source of income. 8
- Recent data released by UNSCO reveal the overall adjusted unemployment rate for the WB/G through June 2002 increased from 35-36 percent to 50 percent (including discouraged workers). On curfew days, which affect roughly 600,000 people, the unemployment rate in the West Bank (excluding Jerusalem) increases to 63.3 percent. 8
- Whereas in the third quarter of 2000, one worker supported 4.3 people in the West Bank and 5.9 people in the Gaza Strip, today that same worker must support 6.9 and 9.4 people in the West Bank and Gaza, respectively. 8
- Within weeks of the uprising's start, approximately 100,000 Palestinian jobs in Israel out of a total of 125,000-130,000 (excluding East Jerusalem) disappeared, representing a loss of 80 percent in a labor market critical to the Palestinian economy. 8
- The World Bank summarizes, "by the end of June 2002...[a]lmost as many jobs that were created in the [five-year] period through September 2000 [approximately 220,000 jobs] were lost; 50,000 in the Second Quarter of 2002 alone." 9
- The decline in overall employment has, of course, led to a decline in total wage income. Monthly wage income among Palestinians fell from \$233 million in the third quarter of 2000 to \$131 million in the second quarter of 2002, a decline of 43.8 percent. During the same period, per capita (as opposed to per employee) wage income in the West Bank fell from \$105 per month to \$48 per month and in Gaza from \$56 to \$29, levels that are half of what they were before the uprising and that reflect rising dependency ratios. In this eroding context, PA salaries play an essential role, contributing \$56 million per month or 43 percent of total monthly wage income. 9
- Even after massive infusions of "development" assistance over the seven-year period of the peace process, the private sector remained—despite certain improvements—fundamentally unchanged (structurally) since 1967. 10
- The available data, therefore, show that the Palestinian business sector is small in size and organizational structure. This fact alone—apart from the manifold difficulties currently plaguing the business environment—represents a formidable obstacle to the development of the private sector. 10
- According to UNCTAD, total domestic output was cut by almost half in the first three months of the uprising alone. 10