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INTERNATIONAL DEVELOPMENT COOPERATION AGENCY :

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)

Portugal: FY 1988 ESF Cash Transfer (150-K-614)

April 27, 1988

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## I. Summary and Recommendations

This PAAD proposes a cash grant of \$32,013,105.

Portugal is a relatively recent democracy, open elections having been instituted following the 1974 revolution. Its democratic system and institutions enjoy widespread support. However, economic policies in the aftermath of the revolution led to balance of payments difficulties which required adoption of an IMF adjustment program in 1983. Since that time, the Portuguese economy has strengthened markedly, and in 1986 Portugal entered the European Economic Community. Nevertheless, the country faces the need for continued adjustments, including privatization of state-owned industries, which will challenge the Government's ability to prevail over strong vested interests.

Portugal must also contend with the heavy debt-servicing burden contracted in earlier years; this burden has declined, but remained at 25.7 percent of foreign exchange earnings during the period of January - July 1987. Finally, Portugal is, by far, the poorest country in Western Europe, with a per capita GNP of just over \$2,000.

Portugal is a NATO country of strategic importance to the U.S., and is the site of a number of U.S. facilities. The U.S. wishes to promote the social and economic development of Portugal in support of its continued political stability.

The dollar assistance will be used for balance of payments purposes. The FY 1988 cash transfer to Portugal is covered by the "separate accounts" provisos contained in the FY 1988 Further Continuing Appropriations Act. The agreement will follow A.I.D.'s established guidance, "ESF Cash Transfers -- Amplified Policy Guidance," with respect to separate accounts and accountability for the dollars, and their use. Inasmuch as Portugal has a progressive, open foreign exchange system on which we do not wish to encourage reimposition of controls, it is appropriate and may be necessary that Portugal use the cash transfer for other than imports from the U.S., which is the first order of priority. The aforementioned guidance permits payment of debt owed to multilateral development banks or the IMF, with the approval of the Regional Assistant Administrator. Given that Portugal's non-military bilateral debt to the U.S. Government is low, such approval is requested in the context of PAAD approval.

The grant will not result in the setting aside of local currency to be programmed for mutually agreed purposes. Portugal has annually allocated its own resources to the Azores in an amount equal to or greater than half the value of the cash transfer. Since 1984, our agreements and associated documents have encouraged or recognized this contribution, but have not contained specific requirements to this effect. Moreover, in anticipation of an FY 1988 cash transfer but without any assurance of FY 88 ESF assistance (or level thereof), Portugal, in accordance with its own internal budgeting process, went ahead and transferred an amount of its own currency (escudos), in excess of the value of the now proposed grant, to the Regional Government of the Azores. Any requirement to set aside and program local currency for the Azores (or otherwise) from the FY 1988 grant would, therefore, be meaningless. A.I.D.'s "Supplemental Guidance on Programming Local Currency" requires that the Regional Assistant Administrator provide approval in cases where local currency is not set aside for programming. Such approval is requested in the context of this PAAD.

This PAAD recommends that AA/ANE:

authorize the grant in the amount of \$32,013,105, subject to the conditions contained in the PAAD;

delegate authority to the U.S. Ambassador to Portugal, or his designee, to execute a grant agreement for the above amount;

approve payment of debt to multilateral development banks and the IMF as an eligible use of the grant;

approve that A.I.D. not require that the Government of Portugal to set aside an amount of local currency equivalent to the grant, or a portion thereof, to be programmed for mutually agreed-upon purposes.

## II. Background and Status

### A. Political Situation

In the years following the revolution of 1974, Portugal's economy and politics changed drastically. An elective, open political system was adopted, many large enterprises were nationalized, and the standard of living for most of the population improved in the short run. However, the economic policies adopted eventually produced deterioration in the

economy, with lower production, higher inflation and unemployment. In 1983, a conservative government presented an emergency economic stabilization program. Measures have included reduction of subsidies, devaluations, increased interest rates, reduced public enterprise ownership, lower budget deficits, and reductions in the number of public employees.

Democratic institutions and systems are now firmly established in Portugal and the current conservative government has widespread popularity amongst the electorate. In spite of the austerity program now being carried out, the government appears stable and firmly in control.

#### B. Economic Situation

Portugal is by far the poorest country in Western Europe, with a per capita GNP of just over \$2,000. In recent years, the GOP has moved to correct some of the major economic distortions which have been inherited from the past. Although remarkable progress has been achieved in many areas, considerable room for further reform remains. The new government appears committed to increasing the pace of economic reform. The current situation suggests that the Portuguese economy will continue to grow at a modest pace and will gradually move toward improved international competitiveness. Portugal's 1986 entry into the European Economic Community (EEC) is likely to facilitate both of these aspects of economic progress.

Throughout the first three decades of the Salazar regime, the GOP pursued a largely anti-industrial policy which discouraged the modernization of the economy. Greater support for industrial growth emerged in the 1960's, but this growth accrued mainly to a small number of favored families. Following the coup of 1974 and the nationalizations of 1975, policy shifted again; public investment resources tended to flow into the most capital-intensive and uncompetitive of the newly public enterprises (chemicals, shipbuilding, steel, etc.). The operating subsidies necessary to keep these enterprises afloat contributed to overstaffing and other forms of inefficiency, and led to the development of vested interests in the existing economic structure. Partly due to the uncompetitiveness of the public enterprises and the drain they imposed on the national budget, and partly due to general lack of discipline in macro-economic policy, Portugal suffered severe balance of payments difficulties which required the adoption in 1983 of an economic adjustment program with IMF assistance.

The adjustment program helped produce a strong improvement in the balance of payments and a dramatic reduction in inflation. Although real income fell in 1983-84, income growth bounced back in 1985 and continued to accelerate through the first half of 1987. Increasing public confidence in the economy and the new opportunities offered by entry into the EEC helped spur an investment boom in 1986-87; the resulting growth in imports appears likely to lead to a decline in the current account surplus in 1987 and may lead to a return to deficit in 1988, despite prospects for continued strong export growth. Under these circumstances, some tightening in GOP macro-economic policy and a reduction in GOP growth is expected in 1987-88. Consumer price inflation, slightly under 12 percent in 1986, is expected to remain below 10 percent in 1987-88.

Aside from the relatively stringent constraints imposed by Portugal's balance of payments on its ability to import needed investment goods, the country's most serious economic problem is the continuing drain of public enterprises on the national budget. The new government is committed in principle to industrial restructuring (including privatization), and appears to have broad public support for its intentions. However, substantial progress toward privatization will require constitutional change, while substantial restructuring will probably lead to the closure or shrinkage of many large firms. Both of these areas will challenge the new government's ability to prevail over strong vested interests.

Entry into the EEC has had several important effects on Portugal's economy: direct investment from within the EEC grew strongly in 1987, and appears likely to continue; meanwhile, the EEC began providing Portugal with a substantial flow of economic assistance. Private and public investment flows are needed to help Portugal accomplish the structural reforms necessary to allow it to compete within the EEC by the end of its transitional entry period in 1993.

Portugal has a relatively free import regime and foreign exchange system. Only in limited cases are imports either prohibited, subject to certain conditions, or subject to a quota. Such limitations as exist are effected on the basis of "bulletins," i.e. lists, which are periodically updated by the Ministry of Industry and Commerce. While most import transactions are registered with the Ministry, import licenses are only issued for statistical purposes and this will be phased out at the end of 1988. Importers obtain foreign exchange freely for a very wide range of eligible imports. Portugal's relatively open system with respect to imports is

reflected in the fact that imports have risen by 24 percent in dollar value during 1986, and by 40 percent more during the first 10 months of 1987.

With respect to foreign debt and debt servicing, the rapid build-up of foreign debt between 1979 and 1984 (from \$7.3 billion to \$15.0 billion), and the correspondingly rapid rise in the debt service burden in relation to Portugal's foreign exchange earnings, played a major role in sparking the economic crisis that hit Portugal in the early 1980's. Virtually all of the debt incurred during this period went to finance central government budget deficits, as well as the losses of the nationalized banking system and of non-financial public enterprises. In contrast, foreign indebtedness of the private sector declined slightly over the same period.

As of the end of 1984, eighty percent of Portugal's public and publicly guaranteed debt was owed to private creditors, including U.S. institutions; nine percent to multilaterals/IMF; and ten percent to bilateral donors including the U.S. Projections indicate that the composition has remained the same through 1986. The breakdown of Portugal's debt service payments as of 1984, the most recent data available, is presented immediately below.

Portugal: Total Debt Service by Type of Creditor, 1984  
Source: World Bank Debt Tables, 1985-86 Edition

(Millions of US Dollars)

	<u>1984</u>
Total Debt Service	2,540.6
Official Creditors	477.8
Multilateral	170.3
IBRD	73.8
IDA	0.0
Bilateral	307.6
Private Creditors	2,062.8
Suppliers	95.0
Financial Markets	1,967.7

Portugal's adoption of an economic adjustment program in 1983 led to a rapid decline in the current account deficit, which shifted into surplus by 1985. This adjustment has eliminated the need for additional foreign borrowing. Central government deficits and public enterprise losses have continued, but are now financed out of domestic resources. The debt service ratio peaked in 1985 at 37.1 percent of current foreign exchange earnings (goods and service exports, remittances, and foreign aid), declined to 28.9 percent in 1986 and to 25.7 percent in January-July 1987. Despite these and other recent signs of improvement in Portugal's financial health, the more than \$1 billion currently required to service foreign debt each year remains a significant drain on the availability of national resources for private and public investment. Additional inflows of economic assistance can provide welcome relief to this constraint, indirectly helping to free up resources needed for the continuing modernization of the Portuguese economy.

### III. U.S. National Interest

The political and economic stability of Portugal are of vital concern to the United States. Our policy interests focus on assuring that Portugal meets its NATO commitments and provides continued U.S. access to strategic bases in the Azores and on the mainland.

The United States strongly supports the Government of Portugal and wishes to maintain the ties with an old and important ally. It is our intention to continue provision of assistance, both economic and military, for the foreseeable future.

### IV. Proposed Assistance

A cash grant of \$32,013,105 is proposed. The purpose of the assistance is to facilitate the social and economic development of Portugal. The continued stability of Portugal's relatively young democratic institutions can best be assured within a framework of economic stability, where the needs of Portugal's people can be satisfied. Portugal will need continued assistance to meet the challenges presented by its entry into the European Common Market. The country's successful efforts in integrating its economy into Western Europe will reinforce its ties and commitment to democratic political institutions.

U.S. Dollar Assistance

The grant will be used for balance of payments-related purposes. In past years, since 1985, Portugal has contributed a portion of the cash transfer to the Luso-American Development Foundation (LADF) to promote scientific, technical, cultural, educational, trade and entrepreneurial cooperation between Portugal and the U.S.. Due to the precipitous drop in the level of this year's grant due to U.S. budget constraints, Portugal will not contribute to the LADF in FY 1988.

Funds will be made available for balance-of-payments support consistent with the full range of eligible uses contained in the A.I.D. "Amplified Policy Guidance on ESF Cash Transfer Assistance." These permissible uses include, in the following order of preference:

- (a) financing the importation of raw materials, intermediate and capital goods or services and essential consumer goods from the United States;
- (b) servicing of external debt owed to the U.S. Government, other than to repay U.S. Foreign Military Sales (FMS) debt;
- (c) servicing of debt owed to multilateral development banks, or to the International Monetary Fund; and
- (d) other purposes or uses as agreed in writing between the Parties.

As a matter of policy, the U.S. Government would prefer that the dollar assistance be used for the importation of goods and services from the United States, but is not so limiting its use. Given that the Government of Portugal has a relatively free import regime, we do not wish to introduce a specific requirement which would have the effect of increasing restrictions or interfering with that government's normal, timely settlement of import and debt obligations. In the absence of an identified "big ticket" import transaction from the United States in the offing, tracking of a large number of import transactions would be cumbersome and against the current liberalization trend in the Portuguese economy.

In addition, although Portugal's debt service burden has declined in recent years, this remains, as described in Section II.B, of this PAAD, a significant drain on the economy; more than \$3.5 billion is currently required to service debt

each year, which is equivalent to 10 percent of GNP. Thus, Portugal's debt service remains a constraint to its further growth and development.

It is expected that, given Portugal's constraints on tracking imports, and its debt service burden, Portugal may use the grant, in whole or in part, to pay debt. Under the Amplified Policy Guidance referred to above, AA/ANE concurrence is required for payment of debt to multilateral institutions and the IMF. Given that Portugal's non-military bilateral debt owed to the U.S. Government is small, it may be necessary, for good management of foreign exchange flows, to utilize grant dollars to service multilateral or IMF debt. Such concurrence is requested in the context of approving this PAAD.

If it should be determined that the Portugal may not be able to utilize the Grant in a reasonable period of time and keep within the above categories of uses, A.I.D. will consider a written request to expand eligible categories of uses of the dollar proceeds to include, in order of preference, servicing of commercial debt owed in the United States, servicing of debt owed to A.I.D. Geographic Code 899 countries, and financing of eligible imports from Code 899 countries.

#### Non-inclusion of Local Currency

The dollars will not result in any setting aside of local currency by the Government of Portugal for mutually agreed upon uses, including development in the Azores by contributions to its Regional Government. More specifically, the provision of U.S. assistance to Portugal is an addition to the Portuguese economy, and indirectly enables the central government to provide its own funds to the Regional Government of the Azores in support of social and economic development in that poor and strategically located area. The Government of Portugal has heretofore annually allocated its own resources to the Regional Government of the Azores in an amount equal to or greater than half the value of the cash transfer. Since FY 1984, our agreements and associated documents have encouraged or recognized this contribution, but have not contained specific requirements to this effect and there has thus been no setting aside of local currency in prior years for the purpose of mutual programming. For FY 1988, Portugal has already transferred an amount of its own currency (escudos) to the Azores. This was done by the Government of Portugal in accordance with its own budgeting process, before A.I.D.'s own budgeting process was completed and thus without any assurance of FY ESF 1988 assistance (or level thereof) from the United

States, and, in fact, in an amount in excess of the cash transfer proposed by this PAAD. Thus in no way do the U.S. dollars represented by this cash transfer result in any setting aside of local currency by Portugal for the Azores or otherwise generate any Portuguese local currency. While Portugal may have acted in anticipation of FY 88 ESF assistance on the basis of the mentioned best efforts pledge, it did so, it should be clearly understood, without any conditionality of such assistance.

A.I.D.'s "Supplemental Guidance on Programming Local Currency" requires that local currency be programmed in conjunction with cash transfers (and other specified forms of assistance), except as may be otherwise approved by the appropriate Regional Assistant Administrator. Amplified PD No. 5 encourages programming of local currency as a tool for moving toward the goal of an overall host country budget that represents a sound, development-oriented allocation of budget resources set within a market-oriented policy framework.

Given that, as described above, Portugal on its own has already completed its transfer of funds to the Azores in any amount in excess of this proposed cash transfer, and there is no policy or other reason to require any setting aside of local currency for this (or other) purpose, any requirement to program local currency would in this context be meaningless. For these reasons, and in light of Portugal's status as a NATO ally, approval is requested in this PAAD authorization that the FY 1988 cash grant to Portugal not require the setting aside of local currency for purposes of mutual programming.

#### V. Implementation and Administration

The draft agreement for the FY 1988 cash transfer to Portugal was prepared following A.I.D.'s "ESF Cash Transfers - Amplified Policy Guidance." This cash transfer is covered by the "separate accounts" provisos contained in the FY 1988 Further Continuing Appropriations Act. A condition precedent will require that Portugal designate the bank account to which the grant is to be deposited, and provide a statement that such bank account is established and will be maintained in accordance with the relevant section of the grant agreement.

Dollars will be disbursed into a separate account in the name of the Government of Portugal. The Government of Portugal will commit to withdraw such funds only for the uses agreed upon in the grant agreement and to replenish the account if it should be determined that funds were used for other than agreed-upon purposes. Provisions for accountability consistent with the legislative requirements and with A.I.D. policy are also contained in the grant agreement sent to Lisbon for pre-negotiation (annex C).

## 5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

- |  |  |
|--|--|
| <p>1. <u>FY 1988 Continuing Resolution Sec. 526.</u><br/>Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?</p>  | <p>No.</p>   |
| <p>2. <u>FAA Sec. 481(h).</u> (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without</p> | <p>Portugal is not a "major illicit drug producing country" or "a major drug-transit country".</p> |

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(n), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

Portugal is not a "major illicit drug producing country" or "major drug-transit country".

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No.
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? No to all three questions.
7. FAA Sec. 620(i). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? There is an investment guaranty agreement with OPIC.

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No.
10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? No.
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Yes, as reported in the annual report on implementation of FAA Section 620(s).
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) No.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No.
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? No.
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No.
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) No.
21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No.
22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No. Assistance has not been terminated.
23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes:

B. FUNDING SOURCE CRITERIA FOR COUNTRY  
ELIGIBILITY

1. Development Assistance Country Criteria Not applicable.

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

2. Economic Support Fund Country Criteria No.

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? Yes.

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Congressional Notification was submitted on March 31, 1988.

No further legislative action is required within Portugal.

No.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Assistance funds will help finance imports from U.S. and thus may well increase flow of (a) international trade and (b) promote private initiative and competition. While assistance funds will generally assist the economy such may not necessarily effect (c) - (f).
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Assistance funds will help finance imports from U.S. and thus may well likely encourage U.S. private trade and possibly investment in Portugal and private U.S. participation in the foreign assistance program with Portugal.
6. FAA Secs. 612(b), 636(h); FY 1988 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

Not applicable.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Not applicable.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

Not applicable.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

e. FY 1988 Continuing Resolution. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA

It will promote economic stability by providing vital foreign exchange required for Portugal's development, and thus ultimately promote political stability.

No.

No, ESF funds under this cash grant will not be used to generate local currency.

Not applicable.

a) Yes.

b) No local currency equivalent will be generated

c) On was submitted on March 31, 1988.

would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

f. FY 1988 Continuing Resolution. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

Not applicable.

2. Nonproject Criteria for Development Assistance

Not applicable. (a - e)

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

ANNEX B

REQUEST FOR ASSISTANCE

ON FILE WITH USAID/PORTUGAL

(Cabled Text Requested)

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OUTGOING  
TELEGRAM

TEXT  
ANNEX C

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16-01 GC-01 FM-02 OL-01 PPMF-01 GCCM-02 PPR-01 IG11-04  
RELD-01 PRE-06 ANEG-02 /B39 AB

INFO LOG-00 EUR-00 EB-00 H-01 L-03 /094 R

DRAFTED BY: AID/ANE/PD/ME:JSILVER:CLF:3586C  
APPROVED BY: AID/ANE/PD:RFVENEZIA  
AID/GC/ANE:HMORRIS (DRAFT) AID/FM/PAFD:JDOCKTER (DRAFT)  
AID/ANE/EE:RBROWN (DRAFT) STATE/EUR/SE:JCASWELL (DRAFT)  
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AIDAC

E.O. 12356: N/A  
TAGS: N/A  
SUBJECT: FY 88 PORTUGAL CASH TRANSFER

REFS: (A) LISBON 02131 (LOU), (B) STATE 63298,  
(C) 87 STATE 350604

1. THIS CABLE TRANSMITS THE TEXT OF THE FY 1988 CASH TRANSFER GRANT TO PORTUGAL FOR DOLS. 32,013,105, PLUS SUPPLEMENTAL INFORMATION RELEVANT TO YOUR DISCUSSIONS AND NEGOTIATIONS WITH THE GOVERNMENT OF PORTUGAL, AND PROCEDURES FOR OBTAINING DISBURSEMENT.

THE EMBASSY MAY UTILIZE DRAFT AGREEMENT TRANSMITTED HEREIN TO BEGIN INITIAL DISCUSSIONS AND NEGOTIATIONS WITH THE GOP RELATED TO THE CASH TRANSFER FOR FY 1988. WE WILL HAVE TO APPROVE ANY SUBSTANTIVE CHANGES. THE FY 88 CR REQUIRES ALL CASH TRANSFERS TO HAVE A CONGRESSIONAL NOTIFICATION (CN) OF 15 DAYS PRIOR TO OBLIGATION. CN HAS BEEN DRAFTED AND WAS SENT TO HILL ON 3/31/88, WHEN 15 DAY WAITING PERIOD BEGAN. FUNDS WILL BE AUTHORIZED BY MEANS OF A PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD), TO BE APPROVED BY THE A.I.D. ASSISTANT ADMINISTRATOR FOR ASIA-NEAR EAST (AA/ANE). ONCE THE PAAD HAS BEEN APPROVED HERE BY AA/ANE, AND 15 DAY

WAITING PERIOD ON CN HAS EXPIRED, WE WILL ADVISE EMBASSY OF AUTHORIZATION TO EXECUTE THE AGREEMENT, AND WE WILL FORWARD A BUDGET ALLOWANCE BY SEPTEL.

2. TEXT OF THE DRAFT AGREEMENT FOLLOWS. BEGIN TEXT.

ASSISTANCE AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF PORTUGAL

AGREEMENT, DATED THE \_\_\_\_\_ DAY OF \_\_\_\_\_ 1988, BETWEEN THE GOVERNMENT OF PORTUGAL (QUOTE THE GRANTEE UNQUOTE) AND THE UNITED STATES OF AMERICA ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (QUOTE A.I.D. UNQUOTE), TOGETHER REFERRED TO AS THE QUOTE PARTIES UNQUOTE.

WHEREAS, THE GOVERNMENT OF PORTUGAL HAS UNDERTAKEN A VIGOROUS PROGRAM TO STABILIZE AND DEVELOP ITS ECONOMY, AND

WHEREAS, THE GOVERNMENT OF PORTUGAL HAS PROVIDED SUPPORT TO THE DEVELOPMENT BUDGET OF THE REGIONAL GOVERNMENT OF

WHEREAS, THE GOVERNMENT OF THE UNITED STATES, ACTING THROUGH A.I.D., IS DESIROUS OF SUPPORTING THESE EFFORTS, NOW, THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

ARTICLE I - THE GRANT

SECTION 1.1 THE GRANT

A.I.D., PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, AGREES TO GRANT TO THE GRANTEE UNDER THE TERMS OF THIS AGREEMENT NOT TO EXCEED THIRTY TWO MILLION THIRTEEN THOUSAND ONE HUNDRED AND FIVE UNITED STATES DOLLARS (\$32,013,105) (THE QUOTE GRANT UNQUOTE) FOR BALANCE-OF-PAYMENTS FINANCING TO SUPPORT AND PROMOTE THE FINANCIAL STABILITY AND ECONOMIC DEVELOPMENT OF PORTUGAL.

ARTICLE II - CONDITIONS PRECEDENT TO DISBURSEMENT

SECTION 2.1. DISBURSEMENT

PRIOR TO DISBURSEMENT OF THE GRANT OR ISSUANCE BY A.I.D. OF DOCUMENTATION PURSUANT TO WHICH DISBURSEMENT WILL BE MADE, THE GRANTEE WILL, EXCEPT AS THE PARTIES MAY

OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D. IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D.:

(A) A STATEMENT OF THE NAME OF THE PERSON HOLDING OR ACTING IN THE OFFICE SPECIFIED IN SECTION 5.2, AND OF ANY ADDITIONAL REPRESENTATIVES, TOGETHER WITH A SPECIMEN SIGNATURE OF EACH PERSON IN SUCH STATEMENT;

(B) A DESIGNATION OF THE BANK ACCOUNT TO WHICH THE GRANT IS TO BE DEPOSITED, TOGETHER WITH THE GRANTEE'S STATEMENT THAT SUCH BANK ACCOUNT IS ESTABLISHED AND WILL BE MAINTAINED IN THE MANNER REQUIRED BY SECTION 4.3 OF THIS AGREEMENT.

SECTION 2.2. NOTIFICATION

WHEN A.I.D. HAS DETERMINED THAT THE CONDITIONS PRECEDENT SPECIFIED IN SECTION 2.1 HAVE BEEN MET, IT WILL PROMPTLY NOTIFY THE GRANTEE.

SECTION 2.3. TERMINAL DATE FOR CONDITIONS PRECEDENT

IF THE CONDITIONS SPECIFIED IN SECTION 2.1 HAVE NOT BEEN MET WITHIN NINETY (90) DAYS FROM THE DATE OF THIS AGREEMENT, OR SUCH LATER DATE AS A.I.D. MAY AGREE IN WRITING, A.I.D., AT ITS OPTION, MAY TERMINATE THIS AGREEMENT BY WRITTEN NOTICE TO THE GRANTEE.

ARTICLE III - DISBURSEMENTS

SECTION 3.1. DEPOSIT OF DISBURSEMENT

AFTER SATISFACTION OF THE CONDITIONS PRECEDENT, AT THE WRITTEN REQUEST OF THE GRANTEE, A.I.D. WILL DEPOSIT THE GRANT IN A BANK AS DESIGNATED IN WRITING BY THE GRANTEE PURSUANT TO SECTION 2.1 (B) ABOVE.

SECTION 3.2. DATE OF DISBURSEMENT

DISBURSEMENT BY A.I.D. WILL BE DEEMED TO OCCUR ON THE DATE A.I.D. MAKES DEPOSIT TO THE BANK DESIGNATED PURSUANT TO SECTION 3.1.

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SECTION 3.3. TERMINAL DATE FOR REQUESTING DISBURSEMENT

EXCEPT AS A.I.D. MAY OTHERWISE AGREE IN WRITING, THE TERMINAL DATE FOR REQUESTING DISBURSEMENT OF THE GRANT SHALL BE SIX MONTHS FROM THE DATE OF THIS AGREEMENT.

ARTICLE IV - SPECIAL COVENANTS

SECTION 4.1. NO USE FOR MILITARY PURPOSES

IT IS THE UNDERSTANDING OF THE PARTIES THAT THE GRANT WILL NOT BE USED FOR FINANCING MILITARY REQUIREMENTS OF ANY KIND, INCLUDING THE PROCUREMENT OF COMMODITIES OR SERVICES FOR MILITARY PURPOSES OR THE REPAYMENT OF DEBT INCURRED FOR SUCH PROCUREMENT.

SECTION 4.2. USES OF THE GRANT

(A) THE GRANT WILL BE USED BY THE GRANTEE FOR ANY OR ALL OF THE FOLLOWING PURPOSES DETERMINED BY THE GRANTEE TO BE NECESSARY FOR BALANCE OF PAYMENTS SUPPORT, IN THE FOLLOWING ORDER OF PREFERENCE: (1) FINANCING THE IMPORTATION OF RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS OR SERVICES AND ESSENTIAL CONSUMER GOODS FROM THE UNITED STATES; (2) SERVICING OF EXTERNAL DEBT OWED TO THE UNITED STATES GOVERNMENT, OTHER THAN TO REPAY U.S. FOREIGN MILITARY SALES (FMS) DEBT; (3) DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS, OR TO THE INTERNATIONAL MONETARY FUND; (4) OTHER USES AS AGREED IN WRITING BY THE PARTIES.

(B) IF PORTUGAL INTENDS TO USE ANY PORTION OF THE GRANT FOR FINANCING IMPORTATION OR SERVICING EXTERNAL DEBT AS DESCRIBED IN SECTIONS 4.2 (A) (1), (A) (2), OR (A) (3) ABOVE, THEN IT WILL BE NECESSARY FOR A.I.D. TO ISSUE LETTERS GIVING GUIDANCE ON OTHER NON-ALLOWABLE USES, WITH WHICH PORTUGAL AGREES TO COMPLY. FURTHERMORE, IF THE GRANT IS TO BE USED PURSUANT TO SUB-CLAUSES (A) (2) AND (A) (3), IT MAY NOT BE USED TO SERVICE DEBT WHERE IT IS KNOWN, WITHOUT SPECIFIC REVIEW OF THE LOAN DOCUMENTATION, THAT THIS DEBT WAS INCURRED TO FINANCE NON-ALLOWABLE ITEMS, OR WHERE IT COULD HAVE BEEN REASONABLY ANTICIPATED THAT THIS DEBT MIGHT BE SERVICED IN WHOLE OR IN PART OUT OF THE GRANT.

(C) ANY INTEREST EARNED ON THE GRANT PLACED INTO THE SEPARATE ACCOUNT SHALL BE TREATED AS IF IT WERE PRINCIPAL I.E., THE GRANT ITSELF). SHOULD THERE BE A PERIOD OF TIME BETWEEN THE DISBURSEMENT OF THE CASH TRANSFER AND ULTIMATE DISPOSITION OF THE GRANT IN THE SEPARATE ACCOUNT FOR AGREED UPON PURPOSES, IT IS AGREED THAT, IN THE INTEREST OF GOOD CASH MANAGEMENT PRINCIPLES, THE GRANTEE MAY PLACE THE GRANT IN VARIOUS LOW-RISK, NON-SPECULATIVE FINANCIAL INSTRUMENTS IN THE UNITED STATES PENDING ITS ULTIMATE USE. SUCH

INTEREST-BEARING FINANCIAL INSTRUMENTS MAY INCLUDE UNITED STATES TREASURY SECURITIES, CERTIFICATES OF DEPOSIT, AND HIGH QUALITY MONEY MARKET ACCOUNTS. PRIOR TO THE TIME OF ULTIMATE DISPOSITION OF THE GRANT FOR IMPORT FINANCING, DEBT SERVICING, OR OTHER AGREED-UPON USES, GRANT FUNDS SHOULD NOT BE CONVERTED TO OR EXCHANGED FOR THE CURRENCIES OF COUNTRIES OTHER THAN THE UNITED STATES OR OTHERWISE PLACED IN INTERNATIONAL FINANCIAL MARKETS. THE TEMPORARY PLACEMENT OF THE GRANT IN FINANCIAL INSTRUMENTS, OTHER THAN THOSE STIPULATED ABOVE, SHALL BE A MATTER OF CONSULTATION AND AGREEMENT BETWEEN THE TWO PARTIES.

(D) NEITHER PARTY EXPECTS THAT THE GRANT WOULD BE USED OTHER THAN FOR THE ELIGIBLE USES SET FORTH ABOVE. SHOULD THIS TURN OUT FOR WHATEVER REASONS NOT TO BE THE CASE, HOWEVER, THE GRANTEE SHALL PROMPTLY DEPOSIT, FROM ITS OWN FOREIGN EXCHANGE, A COMMENSURATE AMOUNT OF DOLLARS IN THE SEPARATE BANK ACCOUNT AND TO TREAT SUCH DEPOSIT AS PRINCIPAL UNDER THIS ASSISTANCE AGREEMENT. THAT IS TO SAY, SUCH DEPOSITS WOULD BE SPENT FOR ELIGIBLE USES AS NOTED ABOVE AND ACCOUNTING WOULD TAKE PLACE IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE AGREEMENT.

SECTION 4.3. ACCOUNTING FOR THE GRANT

THE PARTIES AGREE ON THE FOLLOWING APPLICABLE PROCEDURES: (A) THE GRANT WILL BE DEPOSITED IN A BANK ACCOUNT ESTABLISHED BY THE GRANTEE SOLELY FOR THE RECEIPT OF THIS CASH TRANSFER ASSISTANCE FROM A.I.D. THE GRANT FUNDS MAY NOT BE COMMINGLED WITH OTHER FUNDS FROM WHATEVER SOURCE PRIOR TO THEIR USE FOR ELIGIBLE PURPOSES PURSUANT TO SECTION 4.2 HEREUNDER. IN OTHER WORDS, THE DOLLARS DEPOSITED IN THE SEPARATE ACCOUNT SHOULD BE USED DIRECTLY FROM THAT ACCOUNT WITHOUT COMMINGLING WITH OTHER FOREIGN EXCHANGE ACCOUNTS.

(B) THE GRANTEE WILL MAINTAIN FINANCIAL DOCUMENTATION, BOOKS, AND RECORDS, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, CONCERNING DEPOSIT AND USE OF THE GRANT FOR A PERIOD OF THREE (3) YEARS FROM THE DATE OF FINAL DISBURSEMENT BY A.I.D. UNDER THIS AGREEMENT. WITHIN ONE YEAR OF THE DISBURSEMENT BY A.I.D. OF GRANT PROCEEDS, THE GRANTEE WILL ADVISE A.I.D. IN WRITING, WITH APPROPRIATE DETAIL, ON THE USES TO WHICH THE GRANT HAS BEEN PUT. THE DOCUMENTATION, BOOKS AND RECORDS REQUIRED HEREUNDER SHALL BE AVAILABLE FOR EXAMINATION BY

A.I.D. OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS A.I.D. MAY REASONABLY REQUEST FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF FINAL DISBURSEMENT BY A.I.D. UNDER THIS AGREEMENT.

(C) FINANCIAL RECORDS SHOULD AT LEAST BE SUITABLE TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS DIRECTLY FROM THE SEPARATE ACCOUNT FOR ELIGIBLE USES. THIS DOCUMENTARY EVIDENCE MIGHT, FOR EXAMPLE, TAKE THE FORM OF LETTERS OF CREDIT OR BANK STATEMENTS IN SUPPORT OF ACTUAL TRANSACTIONS FOR SPECIFIC PURPOSES. IN THE CASE OF DEBT, THIS MAY INCLUDE CENTRAL BANK AND COMMERCIAL BANK DOCUMENTS DEMONSTRATING THAT SEPARATE ACCOUNT DOLLARS WERE TRANSFERRED TO AN ACCOUNT FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT SERVICE PAYMENTS WERE MADE WITH THOSE FUNDS. ANY QUESTION ON THE REQUIREMENTS OF ACCOUNTING SET FORTH IN THIS SECTION SHOULD BE THE SUBJECT OF CONSULTATION BETWEEN THE PARTIES.

ARTICLE V - MISCELLANEOUS

SECTION 5.1. COMMUNICATIONS

THE GRANTEE UNDERTAKES TO PROVIDE TO A.I.D. SUCH INFORMATION RELATING TO THE ECONOMIC AND FINANCIAL SITUATION AND RELATED PROBLEMS OF THE GRANTEE AS REASONABLY MAY BE REQUESTED IN WRITING BY A.I.D. ANY NOTICE, REQUEST, DOCUMENTS, OR OTHER COMMUNICATION SUBMITTED BY EITHER PARTY TO THE OTHER UNDER THIS AGREEMENT WILL BE IN WRITING OR BY TELEGRAM OR CABLE, AND WILL BE DEEMED DULY GIVEN OR SENT WHEN DELIVERED TO SUCH PARTY AT THE FOLLOWING ADDRESS:

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TO PORTUGAL: MINISTRY OF FINANCE, GOVERNMENT OF  
PORTUGAL, LISBON, PORTUGAL

TO U.S.: U.S. AMBASSADOR, U.S. EMBASSY, LISBON,  
PORTUGAL

ALL SUCH COMMUNICATIONS WILL BE IN ENGLISH, UNLESS THE  
PARTIES OTHERWISE AGREE IN WRITING. OTHER ADDRESSES MAY  
BE SUBSTITUTED FOR THE ABOVE UPON GIVING OF NOTICE. THE  
GRANTEE, IN ADDITION, WILL PROVIDE THE DIRECTOR, OFFICE  
OF PROJECT DEVELOPMENT, ASIA/NEAR EAST (ANE) BUREAU,  
A. I. D. WASHINGTON, D. C. 20523, WITH A COPY OF EACH  
COMMUNICATION SENT TO THE U.S. EMBASSY IN LISBON.

SECTION 5.2 REPRESENTATIVES

FOR ALL PURPOSES RELEVANT TO THIS AGREEMENT, THE GRANTEE  
WILL BE REPRESENTED BY THE INDIVIDUAL HOLDING OR ACTING  
IN THE OFFICE OF MINISTER OF FINANCE AND A. I. D. WILL BE  
REPRESENTED BY THE U.S. AMBASSADOR, EACH OF WHOM, BY  
WRITTEN NOTICE, MAY DESIGNATE ADDITIONAL  
REPRESENTATIVES. THE NAMES OF THE REPRESENTATIVES OF  
THE GRANTEE, WITH SPECIMEN SIGNATURES, WILL BE PROVIDED  
TO A. I. D., WHICH MAY ACCEPT AS DULY AUTHORIZED AN  
INSTRUMENT SIGNED BY SUCH REPRESENTATIVES IN  
IMPLEMENTATION OF THIS AGREEMENT, UNTIL RECEIPT OF  
WRITTEN NOTICE OF REVOCATION OF THEIR AUTHORITY.  
SECTION 5.3 AMENDMENT

THIS AGREEMENT MAY BE AMENDED BY THE EXECUTION OF  
WRITTEN AMENDMENTS BY THE AUTHORIZED REPRESENTATIVES OF  
BOTH OF THE PARTIES.

IN WITNESS WHEREOF, THE GOVERNMENT OF PORTUGAL AND THE  
UNITED STATES OF AMERICA, EACH ACTING THROUGH ITS DULY  
AUTHORIZED REPRESENTATIVES, HAVE CAUSED THIS AGREEMENT  
TO BE SIGNED IN THEIR NAMES AND DELIVERED AS OF THE DAY  
AND YEAR FIRST ABOVE WRITTEN.

FOR THE UNITED STATES OF AMERICA FOR THE GOVERNMENT OF  
PORTUGAL

U.S. AMBASSADOR MINISTER OF FINANCE

END TEXT OF AGREEMENT.

3. ITEMS TO PARTICULARLY NOTE DURING DISCUSSIONS AND  
NEGOTIATIONS OF DRAFT AGREEMENT WITH THE GOP INCLUDE THE  
FOLLOWING:

A. THE U.S. DOLLAR AMOUNT IS DOLS U.S. THIRTY TWO  
MILLION THIRTEEN THOUSAND ONE HUNDRED AND FIVE  
(\$32,013,175).

B. SECTION 4.2 (A) OF THE DRAFT AGREEMENT WOULD PERMIT  
PORTUGAL TO USE THE CASH TRANSFER FOR NON-MILITARY DEBT  
SERVICE PAYMENTS IN ADDITION TO FINANCING IMPORTATION OF  
SPECIFIED GOODS FROM THE U.S.. PLEASE NOTE, HOWEVER,  
THAT THERE IS AN ORDER OF PREFERENCE, FIRST FOR IMPORTS  
FROM THE UNITED STATES, SECOND, FOR BILATERAL DEBT OWED  
TO THE UNITED STATES, AND THEN FOR PORTUGUESE OFFICIAL  
DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS OR THE IMF.  
INCLUSION OF PROVISIONS WHICH ALLOW THE GOVERNMENT OF  
PORTUGAL TO USE THE CASH TRANSFER TO PAY FOR DEBT

SERVICE TRANSACTIONS ARE BEING JUSTIFIED IN THE PAAD.  
THE PROVISION TO PAY DEBT OWED TO MULTILATERAL  
DEVELOPMENT BANKS AND THE IMF REQUIRES SPECIFIC  
CONCURRENCE OF AA/ANE PER REF C, (ESF CASH TRANSFERS -

AMPLIFIED POLICY GUIDANCE.") OUR ANALYSIS FOR PAAD IS  
SUMMARIZED AS FOLLOWS:  
BEGIN ANALYSIS

"PORTUGAL HAS A RELATIVELY FREE IMPORT REGIME. ONLY IN  
LIMITED CASES ARE IMPORTS EITHER PROHIBITED, SUBJECT TO  
CERTAIN CONDITIONS, OR SUBJECT TO A QUOTA. SUCH  
LIMITATIONS WHICH EXIST ARE EFFECTED ON THE BASIS OF  
'BULLETINS', I. E. LISTS, WHICH ARE PERIODICALLY UPDATED  
BY THE MINISTRY OF INDUSTRY AND COMMERCE. WHILE MOST  
IMPORT TRANSACTIONS ARE REGISTERED WITH THE MINISTRY,  
APPARENTLY FOR STATISTICAL PURPOSES, IMPORT LICENSES ARE  
NOT ISSUED FOR SPECIFIC TRANSACTIONS AND IMPORTERS  
OBTAIN FOREIGN EXCHANGE FREELY FOR A VERY WIDE RANGE OF  
ELIGIBLE IMPORTS. PORTUGAL'S RELATIVELY OPEN SYSTEM  
WITH RESPECT TO IMPORTS IS REFLECTED IN THE FACT THAT  
IMPORTS HAVE RISEN BY 24 PERCENT DURING 1986, AND BY 40  
PERCENT MORE DURING THE FIRST 10 MONTHS OF 1987.

AS A MATTER OF POLICY, THE U.S. GOVERNMENT WOULD PREFER  
THAT THE DOLLAR ASSISTANCE BE USED FOR THE IMPORTATION  
OF GOODS FROM THE UNITED STATES, BUT IS NOT SO LIMITING  
ITS USE. GIVEN THAT THE GOVERNMENT OF PORTUGAL HAS A  
RELATIVELY FREE IMPORT REGIME, WE DO NOT WISH TO  
INTRODUCE A SPECIFIC REQUIREMENT WHICH WOULD HAVE THE  
EFFECT OF INCREASING RESTRICTIONS OR INTERFERING WITH  
THE GOP'S NORMAL, TIMELY SETTLEMENT OF IMPORT AND DEBT  
OBLIGATIONS. IN THE ABSENCE OF AN IDENTIFIED "BIG  
TICKET" IMPORT TRANSACTION FROM THE UNITED STATES IN THE  
OFFING, TRACKING OF A LARGE NUMBER OF IMPORT  
TRANSACTIONS WOULD BE CUMBERSOME AND AGAINST THE CURRENT  
LIBERALIZATION TREND IN THE PORTUGUESE ECONOMY."

IN ADDITION, ALTHOUGH PORTUGAL'S DEBT SERVICE BURDEN HAS  
DECLINED IN RECENT YEARS, THIS REMAINS A SIGNIFICANT  
DRAIN ON THE ECONOMY; MORE THAN U.S. DOLS 3 BILLION IS  
CURRENTLY REQUIRED TO SERVICE DEBT EACH YEAR, WHICH IS  
EQUIVALENT TO 10 PERCENT OF GNP. THUS, PORTUGAL'S DEBT  
SERVICE REMAINS A CONSTRAINT TO ITS FURTHER GROWTH AND  
DEVELOPMENT."

END ANALYSIS

WE REQUEST THAT USAID/EMBASSY CONFIRM THIS ANALYSIS AND  
CORRECT OR AUGMENT AS REQUIRED, INCLUDING ANY FURTHER

INFORMATION TO JUSTIFY WHY GOP SHOULD NOT BE REQUIRED TO  
LIMIT USE OF CASH TRANSFER TO FINANCING IMPORTS.

DISCUSSIONS WITH THE GOP SHOULD INCLUDE QUESTION OF  
WHETHER ANY LARGE, GOVERNMENT-FINANCED IMPORTS ARE KNOWN  
TO BE PLANNED FROM THE U.S., E.G. NON-MILITARY AIRCRAFT,  
FOR WHICH THE CASH TRANSFER COULD BE USED IN A TIMELY  
FASHION, AND WITHOUT REQUIRING REIMPOSITION OF FOREIGN  
EXCHANGE OR IMPORT CONTROLS, OR PROCEDURES FOR  
TRACKING/ACCOUNTING FOR USES OF DOLLARS WHICH ARE OTHER  
THAN "SIMPLIFIED AND DE MINIMIS."

PLEASE NOTE THAT IF PAAD IS APPROVED WITH DEBT SERVICE  
FINANCING PROVISIONS INCLUDED, NON-MILITARY BILATERAL  
DEBT TO U.S. GOVERNMENT WILL, NEVERTHELESS, TAKE  
PRECEDENCE OVER PAYMENT OF DEBT TO MULTILATERAL  
INSTITUTIONS. WE WOULD EXPECT GOP TO GIVE PRIORITY TO  
MEETING SUCH OBLIGATIONS WITHIN THE NORMAL CONFINES OF  
GOOD MANAGEMENT OF FOREIGN EXCHANGE FLOWS/RESERVES.

C. WITH RESPECT TO SECTION 4.2 (A) (4), IF IT SHOULD BE  
DETERMINED THAT PORTUGAL MAY NOT BE ABLE TO UTILIZE THE  
GRANT IN A REASONABLE PERIOD OF TIME AND KEEP WITHIN THE  
ELIGIBLE USES AS DEFINED IN SECTIONS 4.2 (A-C) OF THE  
DRAFT AGREEMENT, A. I. D. COULD CONSIDER A REQUEST, EITHER

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AT THIS TIME, OR SUBSEQUENT TO THE SIGNING OF THE AGREEMENT, AND SUPPORTED BY APPROPRIATE INFORMATION AND JUSTIFICATION, TO FURTHER EXPAND ELIGIBLE CATEGORIES OF USES OF THE GRANT CONSISTENT WITH A.I.D.'S POLICY ON USE OF CASH TRANSFERS. FOR EXAMPLE, AA/ANE COULD BE REQUESTED TO AUTHORIZE PAYMENT OF PORTUGAL'S OFFICIAL DEBT TO U.S. PRIVATE SECTOR ENTITIES.

6. PLEASE DO NOT HESITATE TO BE IN TOUCH WITH JOAN SILVER (PHONE 202 - 647-8963) ON ANY QUESTIONS YOU OR THE GOP MAY HAVE ON TEXT OF THE AGREEMENT OR DISBURSEMENT PROCEDURES, OR WITH AID DESK OFFICER CHRISTINE ADAMCZYK (202 - 647-7654) ON OTHER ISSUES.

JMS:3555C (INCLUDING SECTIONS COPIED FROM 3571C), 3/31/88 WHITEHEAD

D. SINCE THE AGREEMENT WOULD PERMIT GRANT DOLLARS TO BE USED FOR PURCHASE OF IMPORTED GOODS, A PROJECT IMPLEMENTATION LETTER (S) WHICH CLEARLY DEFINES NON-ALLOWABLE ITEMS WILL NEED TO BE SENT. THIS IS ALSO COVERED BY SECTIONS 4.1 AND 4.2 (A) (1) OF THE AGREEMENT.

E. SIMILARLY, SINCE THE AGREEMENT WOULD PERMIT GRANT DOLLARS TO BE USED TO PAY BACK DEBT, PARTICULAR ATTENTION MUST BE PAID TO GUIDANCE ON THE PROHIBITION OF FINANCING ITEMS WITH SPECIFIC LEGAL PROHIBITIONS, E.G., ABORTION EQUIPMENT, WHICH WILL BE SPELLED OUT IN SUBSEQUENT IMPLEMENTATION LETTERS (S). THIS IS IN ADDITION TO PRECLUSION OF DEBT FOR MILITARY ITEMS. SECTIONS 4.1 AND 4.2 (A) (2-3) OF THE AGREEMENT TEXT COVER THIS PROBLEM.

AID/W WILL PROVIDE BY SEPTEL, TEXT OF SUCH

IMPLEMENTATION LETTER (S), FOR WHICH COUNTER-SIGNATURE WILL NOT BE REQUIRED, NECESSARY FOR SITUATIONS OUTLINED IN THIS PARA OR PARA 3 (D) ABOVE.

4. WITH RESPECT TO PROCEDURES FOR DISBURSEMENT, THE FOLLOWING APPLY:

AID/W MUST BE ADVISED BY USAID/LISBON THAT GOP HAS MET CONDITIONS PRECEDENT SPECIFIED IN ARTICLE 11, SECTION 2.1 OF THE GRANT AGREEMENT. IMMEDIATELY UPON RECEIPT OF SUCH ADVICE, AID/W CAN ISSUE NOTIFICATION (UNDER ART. 11, SEC. 2.2) TO GOP/USAID, VIA CABLED IMPLEMENTATION LETTER (WITH COPY TO GOP MOF AS PER ART. V, SEC. 5.1) THAT GOP CAN FORMALLY REQUEST (UNDER ART. 11, SEC. 3.1) DISBURSEMENT OF FUNDS. DISBURSEMENT USUALLY OCCURS WITHIN TWO WORKING DAYS AFTER AID/W RECEIVES GOP'S FORMAL REQUEST. THIS PROCESS CAN BE EXPEDITED BY ONE OR ALL OF THE FOLLOWING MEANS: (1) GOP CAN INCLUDE REQUEST FOR DISBURSEMENT OF CASH TRANSFER WITH DOCUMENTS REQUIRED TO MEET CONDITIONS PRECEDENT (UNDER ART. 11, SEC. 2.1), AND WE WILL WORD IMPLEMENTATION LETTER (CABLE) TO DEAL WITH SEQUENCING OF THESE STEPS; (2) ALTERNATIVELY, GOP CAN DESIGNATE (UNDER ART. V, SEC. 5.2) THEIR AMBASSADOR TO THE U.S., OR OTHER SENIOR EMBASSY OFFICIAL, TO REPRESENT THE GOP FOR PURPOSES OF SIGNING AGREEMENT IN WASHINGTON, FURNISHING CONDITIONS PRECEDENT DOCUMENTS, AND REQUESTING DISBURSEMENT. THIS SECOND OPTION ASSUMES SIGNATURE OF THE AGREEMENT BY AN APPROPRIATE A.I.D. OFFICIAL IN WASHINGTON.

IN ADDITION TO INFORMATION CONCERNING GOP COMPLIANCE WITH CPS, REF B REQUESTED INFORMATION PERTAINING TO USE/MANAGEMENT OF SPECIAL ACCOUNT WHICH FM ALSO REQUIRES AS BASIS FOR DISBURSING. SUCH INFORMATION CAN BE PROVIDED AT THE TIME USAID NOTIFIES AID/W THAT CPS HAVE BEEN MET, OR IN ADVANCE, TO HELP EXPEDITE DISBURSEMENT.

5. IN ORDER TO ASSURE COORDINATION OF ALL ACTIONS REQUIRED TO APPROVE PAAD AND AUTHORIZE DISBURSEMENT, REQUEST MISSION SLUG ALL CABLES FOR ANE/PD ACTION. CABLES PROVIDING INFORMATION ON CPS AND USE/MANAGEMENT OF SPECIAL ACCOUNT AS REQUESTED PARA. 4 ABOVE SHOULD ALSO INCLUDE SLUG FOR INFORMATION COPY TO FM.

UNCLASSIFIED

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, ASIA AND  
NEAR EAST BUREAU

FROM: ANE/PD, Ronald F. Venezia *Ronald Venezia*  
SUBJECT: Portugal FY 1988 Cash Transfer

Problem: Your authorization is required to obligate a cash grant of \$32,013,105 with the Government of Portugal.

Background: In December 1983, the U.S. Secretary of State and the Portuguese Foreign Minister signed diplomatic notes which extended the U.S. right to use the Lajes Base in the Azores from February 1984 to February 1991. Concurrent with certain security understandings, the U.S. Government made a best efforts pledge to assist the economic development and well-being of Portugal, and to cooperate with Portugal in such other ways as may be mutually beneficial, subject to the availability of funds and other requirements of United States laws. To that end, the U.S. agreed to grant non-military assistance totaling \$40 million during FY 1984 and \$80 million during FY 1985 using ESF funds. Assistance after FY 1985 is to be provided on a best efforts basis.

In FY 1986, the U.S. provided a cash transfer to Portugal in the amount of \$76.487 million. FY 1987 assistance was provided in the amount of \$67.712 million.

Portugal is a NATO country of strategic importance to the U.S., and is the site of a number of U.S. facilities. It is also a relatively recent democracy, open elections having been instituted following the 1974 revolution. While Portugal's democratic system and institutions currently enjoy widespread popular support, the country faces substantial economic challenges. In the years immediately following the revolution, economic policies promoted heavy investment in state-owned industries which in turn led to foreign borrowing and balance of payments problems. Portugal subsequently adopted an IMF adjustment program in 1983, and entered the European Economic Community in 1986. However, a heavy debt-servicing burden remains, with payments at 25.7 percent of foreign exchange earnings for the period of January-July 1987. In addition, the country faces the challenge of privatizing

~~SECRET~~  
ANE/LOAN (12 Loan)  
FM/PAFD  
FM/CAD  
GC/ANE  
ANE Desk  
ANE/TR Officer  
ANE/PD Officer & File  
PPC/CDIE/DI ✓

state-owned industries in the face of strong vested interests. Finally, Portugal is, by far, the poorest country in Western Europe, with a per capital GNP of just over \$2000.

Discussion: The proposed assistance to the Government of Portugal consists of a cash grant of \$32,013,105.

The purpose of the proposed assistance is to promote the social and economic development of Portugal in support of its continued political stability. The dollars provided under the grant will be used to support Portugal's balance of payments.

The FY 1988 cash transfer to Portugal is covered by the "separate accounts" provisos contained in the FY 1988 Further Continuing Appropriations Act. Accordingly, the draft agreement sent to Lisbon for pre-negotiation follows established A.I.D. guidance on cash transfers and provides that they may be used in any of the following ways, in the following order of priority:

for goods (including raw materials, capital and consumer goods) and services from the United States;

for payment of non-military bilateral debt owed to the U. S. Government;

for payment of debt owed to multilateral development institutions or the IMF; and

other purposes or uses as agreed in writing between the United States and Portugal.

The Government of Portugal would make the determination to use funds in the separate account for a specific transaction based upon the need to manage its foreign exchange resources in a rational manner. Inasmuch as Portugal has a progressive, open foreign exchange system on which we do not wish to encourage the reimposition of the controls required to track import transactions, it is appropriate, and may be necessary, for Portugal to use the cash transfer for other than the first priority item, which is imports from the United States. The use of cash transfer funds to pay debt owed to multilateral development institutions or the IMF, however, requires approval by the Regional Assistant Administrator. Given that Portugal's non-military bilateral debt owed to the U.S. Government is very low, it could be necessary to use some portion of the grant to make payments to multilateral development institutions or the IMF, and your approval to include such payments among eligible uses of the grant is therefore requested.

The dollars will not result in any setting aside of local currency by the Government of Portugal for mutually agreed upon uses, including development in the Azores by contributions to its Regional Government. More specifically, the provision of U.S. assistance to Portugal is an addition to the Portuguese economy, and indirectly enables the central government to provide its own funds to the Regional Government of the Azores in support of social and economic development in that poor and strategically located area. The Government of Portugal has heretofore annually allocated its own resources to the Regional Government of the Azores in an amount equal to or greater than half the value of the cash transfer. Since FY 1984, our agreements and associated documents have encouraged or recognized this contribution, but have not contained specific requirements to this effect and there has thus been no setting aside of local currency in prior years for the purpose of mutual programming. For FY 1988, Portugal has already transferred an amount of its own currency (escudos) to the Azores. This was done by the Government of Portugal in accordance with its own budgeting process, before A.I.D.'s own budgeting process was completed and thus without any assurance of FY ESF 1988 assistance (or level thereof) from U.S., and in fact, in an amount in excess of the cash transfer proposed by this PAAD.

A.I.D.'s "Supplemental Guidance on Programming Local Currency" requires that local currency be programmed in conjunction with cash transfers (and other specified forms of assistance), except as may be otherwise approved by the appropriate Regional Assistant Administrator. Amplified PD No. 5 encourages programming of local currency as a tool for moving toward the goal of an overall host country budget that represents a sound, development-oriented allocation of budget resources set within a market-oriented policy framework.

Given that, as described above, Portugal on its own has already completed its transfer of funds to the Azores in any amount in excess of this proposed cash transfer, and there is no policy or other reason to require any setting aside of local currency for this (or other) purpose, any requirement to program local currency would in this context be meaningless. For these reasons, and in light of Portugal's status as a NATO ally, your approval that the FY 1988 cash grant to Portugal not require the setting aside of local currency to be mutually programmed is requested.

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The FY 1988 Further Continuing Appropriations Act requires that Congress be notified 15 days in advance of the obligation of any cash transfer. That notification was submitted on March 31, 1988.

Funds have been apportioned and the Mission has been advised of the budget allowance. Disbursement of the grant will be made via electronic funds transfer immediately after the conditions precedent have been met.

Recommendations:

1. That you authorize an ESF cash grant to Portugal in the amount of \$32,013,105 by signing this Action Memorandum and the PAAD attached as Tab A;

2. That you hereby delegate authority to the U.S. Ambassador to Portugal, or his designee, under Delegation of Authority No. 402, to execute a grant agreement for the above amount, in which delegation the State Department concurs;

3. That you hereby approve payment of debt to multilateral development banks and the IMF as an eligible use of the grant;

4. That you hereby approve that A.I.D. not require that the Government of Portugal set aside an amount of local currency equivalent to the grant, or a portion thereof, for programming for mutually agreed upon purposes.

Approved: *John C. F. [Signature]*

Disapproved: \_\_\_\_\_

Date: *May 4, 1988*

Attachment:

Tab A - Portugal FY 1988 ESF Cash Transfer PAAD

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AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 150-K-614	
		2. Country Portugal	
		3. Category Cash Transfer	
		4. Date April 22, 1988	
5. To Julia Chang Bloch Assistant Administrator for ANE		6. OYB Change Number N/A	
7. From Ronald F. Venezia Director, ANE/PD <i>Ronald Venezia</i>		8. OYB Increase N/A To be taken from: N/A Economic Support Fund	
9. Approval Requested for Commitment of \$ 32,013,105		10. Appropriation Budget Plan Code QES8-88-37150-KG-31 870-63-150-00-50-81	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input checked="" type="checkbox"/> Informal <input type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period N/A	14. Transaction Eligibility Date N/A

15. Commodities Financed

N/A

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash		Other	

18. Summary Description

This PAAD authorizes a grant of \$32,013,105 million to be provided as a cash transfer. The GOP will be required, as a CP to disbursement, to enter into a grant agreement with A.I.D., in form and substance satisfactory to Portugal and A.I.D., providing for the deposit and accounting of U.S. Dollar grant proceeds made available under the grant agreement, and related matters. This agreement will reflect Congressional requirements concerning separate accounts legislation, and A.I.D.'s policy guidance on ESF cash transfers. The dollars will be used for balance-of-payments purposes as established in this PAAD and defined in the grant agreement. The GOP will not be required to set aside local currency in an amount equivalent to the grant, or a portion thereof, for purposes of mutual programming. (The PAAD notes, and the grant agreement will note, that Portugal has already transferred funds to the Development Budget of the Azores in an amount which exceeds the value of the proposed cash transfer, in accordance with its own, internal budgeting process.)

19. Clearances		20. Action	
REG/DP:PBenedict	Date 12/23/87	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  Authorized Signature: <i>[Signature]</i> Date: <i>May 4, 1988</i>	
REG/GC:HMorris	4/27/88		
AA/PPC:FKenefick	12/22/87	Title: _____	
M/FM:CWChristensen	12/24/87		
M/FM:ESOWens	12/24/87		
ANE/EE:RBrown	12/26/87		
DAA/ANE:WFuller	<i>5/4/88</i>		