

CLASSIFICATION:

PD-ABQ-199

AID 1120-1 (8-66) PAAD DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO.	1
	2. COUNTRY	Cape Verde Islands
	3. CATEGORY	Budgetary Assistance
	4. DATE	June 19, 1975
5. TO:	6. OYB CHANGE NO.	N.A.
7. FROM:	8. OYB INCREASE	N.A.
9. APPROVAL REQUESTED FOR COMMITMENT OF:	TO BE TAKEN FROM:	N.A.
\$ 2,000,000	10. APPROPRIATION - ALLOTMENT	

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
<input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	<input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	7/15/75 - 12/31/75	PAAD Authorization Date

18. COMMODITIES FINANCED
 Corn and corn flour, rice, wheat flour, dried milk, beans

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: \$1,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local \$1,000,000
Cash: U.S. and local (Cape Verde Islands)	Other:

18. SUMMARY DESCRIPTION

Assistance to procure food for the needy and food for work, and to provide local costs of work programs and food distribution to alleviate a critical food and employment problem.

Congressional authorization is contained in Chapter X of Part I of the FAA of 1961, as amended, for Assistance to Portugal and Portuguese Colonies in Africa gaining independence.

Congressional Presentation Project No. 655-11-990-001

19. CLEARANCES	DATE	20. ACTION
REG/DP RGHuesmann <i>[Signature]</i>	6/18/75	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC TAMuntsinger (draft)	6/18/75	<i>[Signature]</i> 4/20/75 AUTHORIZED SIGNATURE DATE <i>[Signature]</i> Assistant Administrator, Bureau for Africa TITLE
AA/PC NCohen (draft)	6/16/75	
A/CONT MAVahey (subs.)	6/17/75	
AA/MR AFR/DS SKlein (draft)	6/17/75	
AA/DFRE AFR/RA EDConroy <i>[Signature]</i>	6/18/75	
DAA/AFR/DSBrown		

CLASSIFICATION:

File

GRANT PAPER
FOR
CAPE VERDE ISLANDS

TITLE: Food for Work and Distribution

PROJECT NO. 655-11-990-001

AMOUNT: \$2,000,000 (\$1,000,000 in FY 76 subject to Congressional
appropriation)

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I. SUMMARY

- A. Grantee: Transitional Government of Cape Verde
(independence scheduled July 5, 1975)
- B. Amount: \$2,000,000
- C. Description of Program: Budgetary Assistance to procure food for the needy and food for work, and to provide local costs of work programs and food distribution.
- D. Purpose of Program: The program will alleviate a critical food and employment problem caused by a seven year drought. The program uses the special appropriations category for Portugal and African territories obtaining independence in the Foreign Assistance and Related Programs Appropriation Act, 1975 in which not less than \$5 million was appropriated for the Cape Verde Islands.

II. INTRODUCTION

On April 25, 1974 the Caetano regime in Portugal was overthrown in a military coup. Shortly thereafter the new Portuguese Government recognized the right to independence of its overseas colonies in Africa: Guinea-Bissau, Angola, Mozambique, Cape Verde, Sao Tome and Principe. Cape Verde will become fully independent on July 5, 1975.

Section 50 of the 1974 Foreign Assistance Act urged the United States Agency for International Development to devote attention to assessing the economic situation in Angola, Mozambique and Guinea-Bissau and be ready to cooperate with the future governments in providing the kind of assistance that will help make their independence viable. The Foreign Assistance Appropriations Act, 1975 appropriated funds for this purpose of which not less than \$5 million was allocated for the Cape Verde Islands.

The Cape Verde Islands are suffering from a seven-year drought. The economy is in serious difficulty and is almost totally dependent on external aid. The Government of Portugal, which has been providing subsidies has announced that, because of its own economic difficulties, it will be unable to continue its aid to Cape Verde. Although we expect some aid from Portugal to continue, it will be sharply curtailed after independence.

The U.N. has included Cape Verde on its latest list of "Most Seriously Affected" countries and the UN Disaster Relief Coordinator has described the Islands' condition as a "potential disaster situation" which will require "substantial aid if human suffering is to be avoided."

Discussions have been held by AID officials with the Minister of Economic Coordination and other officials of the Transitional Government of Cape Verde (TGCV). The Transitional Government has indicated that its most urgent requirement is to assure that food is available and can be distributed to the needy, on both a subsidized and food-for-work basis. The project will provide budget support to the TGCV for this purpose.

III. THE PROGRAM

A. Background and Setting

The Cape Verde archipelago consists of five islets and ten islands, of which nine are inhabited, situated about 300 miles due west of Saint-Louis, Senegal. Most of the islands are of volcanic origin and are characterized by

steep mountainous terrain, grey-lava-covered beaches, and rocky landscapes deeply furrowed by erosion. The total land area is about 4,000 square kms and the present population is estimated at 300,000 persons of whom 30% are children. The annual rate of population growth is reported to be 3% and emigration has traditionally provided a primary source of revenue for the islanders.

The rainy season, normally from July to October, has rarely proved adequate to making the islands self-sustaining in food requirements, with rainfall in good years usually confined to short periods of intense torrential downpour of a duration ranging from one day per year (Ilha do Sal) to thirteen days per year (San Vicente), during which time anything from 100 to 200 mm of rain may fall, depending on the location of the island concerned and the altitudes of its prominent land surfaces. The capacity of the soil to absorb this concentrated rainfall is understandably very limited, and most of the rainwater pours off into the sea, leaving further erosion in its wake. The present drought has lasted from 1968 until the present time, with local cultivation of maize and other staple foods and local production of livestock having been reduced to substantially less than ten per cent of the normal levels of production.

B. Government of Portugal Assistance

The Islands have rarely been economically self-sustaining in recent times, and have traditionally relied on The Government of Portugal for extensive grant assistance. The Levels of assistance are reported to be:

1970 - \$ 7 million
1971 - 10 million
1972 - 11 million
1973 - 19 million
1974 - 30 million

Over one-third of the population have been directly or indirectly dependent on public works projects financed by these grants for their sustenance. Road building has constituted a major portion of the public works program

and the islanders are particularly adept at any form of construction utilizing stones--of which there is an abundant supply.

However, in his December 1974 address to the UN General Assembly, the Portuguese Minister for Inter-Territorial Coordination warned that his Government would not be able to maintain the same level of assistance in 1975 as in previous years. In subsequent discussions no specific level of Portuguese assistance has been indicated and no 1975 aid budget yet voted, owing to preoccupations with the domestic economic situation and Portugal's responsibilities to other Overseas Territories slated for independence in 1975.

C. United Nations Assistance

The response of the United Nations system has so far materialized in the form of WFP's approval of a food-for-work project and a "vulnerable groups" project having a total value of \$2,152,000 (including a cash component of \$231,800 to defray internal transport and distribution costs). The former will provide six months' minimum rations for ten thousand workers and their families (a maximum of 50,000 persons), and the latter will provide minimum rations for 60,000 children, nursing and expectant mothers, disabled, and elderly people for a similar period. The WFP notes that these rations constitute the minimum quantities necessary for sustenance and constituted only a small portion of total 1975 food import requirements. The WFP hopes that 5,000 tons of maize be delivered by April 1975, although procurement of milkpowder and other foods would require further time, since WFP has no funds to airlift essential supplies. The World Food Programme would be assigning a field representative to cover Guinea-Bissau and Cape Verde and this would facilitate efforts to closely follow implementation of WFP-sponsored projects.

The Area Representative of UNICEF has visited the islands to examine a Transitional Government request totalling \$425,000 for drugs, vaccines, vitamins, milkpowder, and equipment for establishing an analytical laboratory.

In response to development assistance needs, UNDP had already approved a \$100,000 project entailing the services of two hydrology experts and provision of equipment. It

was currently considering project proposals involving ICAO, UPU, ITU, and WMO as Executing Agencies and having a total value of \$800,000. The UNDP Resident Representative-designate, is based in Bissau.

D. Economic and Social Data

Foreign trade balances obtained from the Minister of Economic Coordination in March 1975 are as follows (\$US Millions):

	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1971	\$23	\$2	- \$21
1972	\$26	\$2	- \$24
1973	\$33	\$2	- \$31
1974	\$42	\$2	- \$40

Source: Minister da Luz, March 1975

Public finances (in US Millions) are as follows:

	<u>1973</u>	<u>1974</u>	<u>1975 (est.)</u>
Earnings	\$13	\$11	\$12
Expenditures	\$34	\$40	\$45
Deficit	\$21	\$29	\$33

Source: Minister da Luz, March 1975

The trade deficits and assistance in connection with the emergency situation caused by the drought have been met largely by non-reimbursable subsidies from Portugal. Emigration of males in the 15 to 45 year age group to Europe and Portuguese overseas territories has constituted revenue for the Islands in the form of remitted earnings. The numbers of emigrants working overseas is unknown but it is estimated there are 30,000 Cape Verdeans working in Lisbon alone.

Principal imports and their sources were (in order of value) in 1972:

	<u>Value (1000 esc.)^{a/}</u>	<u>Source</u>
Maize	82.910	Angola, Mozambique
Sugar	28.042	Angola, Portugal
Beans	22.213	Angola, Portugal, Mozambique
Cement	22.084	Portugal
Rice	19.525	USA, Angola
Flour	18.652	USA, Canada, France, Netherlands
Milk	16.564	Portugal, Netherlands
Wine	15.457	Portugal
Cotton Cloth	15.204	Portugal
Pork	12.510	Netherlands

a/ 23 Escudos = \$1. U.S.

As a result of the continuous drought, the majority of working population, which depends on agriculture for a living, has had to rely on relief assistance or on work programs set up by the Portuguese Government. Statistical data for 1970, the latest available, show that 77,392 workers, or 91 per cent of the working population, were engaged in agriculture. The majority of peasants in Cape Verde are landless and have to seek work at very low wages.

For the first half of 1975, the Portuguese Government has granted non-reimbursable subsidies amounting to 196.8 million escudos to make possible the employment of 56,019 workers including 22,565 men, 26,275 women and 7,181 children. Workers are usually assigned to frentes de trabalho (work fronts) and the work generally involves public works such as road construction. Workers work a five-day week and receive basic wages of 30 escudos per day for men; 22.5 escudos per day for women; and 18 escudos per day for children.

E. Strategy

The TGCV has requested emergency assistance in the form of financial support to buy food for distribution to the needy and to continue payments of cash and food in public works programs. Some of the food imports would be sold at subsidized prices. The World Food Programme has initiated two projects totalling \$2.1 million. One project will provide six months

minimum rations for 10,000 workers and their families, the other will provide minimum rations for 60,000 children, nursing and expectant mothers, disabled and elderly people for a similar period. Other countries and organizations have also been approached.

The TGCV informed AID officials in May 1975 that they had not had a favorable response for budgetary support other than from the U.S.

The Minister of Economic Coordination indicated in March 1975 during his visit to Washington that the first necessity in the last six months of 1975 was for the following products:

	<u>Metric Tons</u>
Maize	20,000
Beans	4,000
Sugar	2,000
Pork Fat	900
Cornflour	2,500
Rice	1,300
Milk Powder	2,250
Casava Flour	1,550
Fuels	6,000

It is hoped that much of this assistance will be provided through the WFP and Title II programs, although a voluntary agency has not submitted a proposal for consideration to date.

The TGCV therefore requests budget support to permit them to (a) procure food during July for sale at subsidized prices, (b) provide direct relief for the unemployed and the destitute and (c) continue a public works program. They have repeatedly emphasized the great sense of urgency and indicated to an AID officer on June 12 in Lisbon that they had a two months supply of basic foods in the Islands as of June 1, 1975. The TGCV has no reserves at independence so fast action is essential or many Cape Verdeans will be on the brink of starvation.

It is proposed to sign a \$1 million grant with the Cape Verde Islands in June 1975 (the maximum amount available under Section 102 (20 percent rule) for obligation the final month.

A grant amendment for \$1 million would be processed in early FY 1976 if special authorization is given under the Continuing Resolution Authority.

It is anticipated that a portion of the grant will be used to buy maize, rice and wheat flour from the U.S. although this source must be negotiated with the Cape Verdeans. Rice and flour were procured from the U.S. in 1972 and Cape Verde is considering a shift from their traditional maize supplier, Angola. In the event that U.S. procurement is unworkable, we would seek a waiver to Sections 604(c) and (e) using special authority of FAA Section 614 to permit 935 procurement from Portugal and Angola. The remainder of the grant would be used for local costs, such as distribution expenses and payment of wages.

F. Management and Implementation Procedures

An AID team consisting of a project officer and a procurement officer would be sent to the Islands in July 1975 to assist with procurement procedures and work out implementation details.

U.S. procurement would be handled through the African American Purchasing Center or other procurement source with payment of commodities probably through a letter of credit with a U.S. bank.

Cape Verdean escudos to meet local costs will be obtained from the central bank in Lisbon. TGCV officials assured the AID officer in Lisbon on June 12, 1975 that the Government of Portugal would impose no restrictions on the subsequent availability of foreign exchange by granting Cape Verde unlimited drawing in the future. Disbursement of the escudos would depend on implementation details to be discussed but it is anticipated that disbursement of local costs would be in two or three tranches based on a request for an advance, which would include a brief description, including estimated cost and purpose, of the activities to be financed. Disbursement will be made probably by AID/W and forwarded to Amembassy Lisbon for deposit in the Cape Verde Island account.

AID management initially will require a short term team from AID/W. It is anticipated that support for this (and the \$3 million rural works program) activity will require a TDY officer in Lisbon initially with permanent transfer to Guinea-Bissau when the Amembassy is established there (and assuming an AID program is underway in Bissau).

Cape Verdean management would utilize the existing mechanism used under the grant program financed by Portugal. Food-for-work programs are administered by a government agency. Programs to reach the needy are administered by the Instituts Caboverdeans Solidariedad. The Solidarity Institute has distributed supplies as follows: - 5 kilos of maize per person, 1 kilo of sugar and 1 litre of oil per family. The distribution is carefully registered. Details of distribution under this program will have to be developed by the team.