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**KEY Qs AND As**

Talking Points for  
Ambassador Alan Woods

for

Senate Foreign Relations Committee Hearing  
on  
FY 1990 Foreign Assistance Request

Tuesday, May 2, 1989  
10:00 a.m.  
Room 419 Dirksen Bldg.

1. Reform of Foreign Aid
2. Budget Request
3. Accountability
4. Debt
5. Environment/Energy
6. Economic Support Funds
7. Economic Policy Reform
8. Population Program
9. Results Bill
10. Center for Private & Voluntary Cooperation
11. Africa Assistance
12. Development Fund for Africa
13. Angola-Namibia
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15. Afghanistan
16. Philippines
17. Poland
18. Egypt
19. Ireland
20. Pakistan
21. West Bank and Gaza/Jordan
22. Nicaraguan Resistance Aid
23. Costa Rica
24. El Salvador
25. Central America (Sanford Commission Report)

impact on some specific aspects of development, such as longer life expectancy, lowered infant mortality rates and rising primary school enrollments.

-- At the same time, many of the reports you refer to recommend that the Foreign Assistance Act be repealed and replaced by a new, streamlined act; that A.I.D. be reorganized or replaced with a new agency; that funding authorizations be simplified, etc. I think that many of the overall recommendations made in these reports are sensible, and there are already several areas upon which many of these reports, such as:

-- the need for ~~the~~ the foreign assistance program ~~to be~~ in the FAA;

-- the ~~need for~~ flexibility through the deletion of earmarks and the elimination of functional accounts;

-- the ~~need for~~ ~~the~~ themselves;

-- and the ~~need for~~ based in our foreign assistance programs.

-- As you know, the Administration, at President Bush's instruction, is now in the middle of a very important review of our foreign policy and national security challenges, including the direction of the foreign assistance program. At the same time, Secretary Baker's staff, as well as my own are already working with the House Foreign Affairs Committee in crafting new foreign assistance legislation.

-- Over the coming weeks we will be working and consulting closely with the Congress on these specific recommendations in an effort to craft a new bipartisan foreign assistance act and a newly restructured foreign aid program. Once these reviews and consultations are completed, we should have a clearer picture of the focus of the foreign assistance program and the structure (or structures) under which it will be managed.

## Reform of Foreign Aid

**Question:** Ambassador Woods, your recent report on "Development and the National Interest" concluded that many of A.I.D.'s programs had failed to achieve their objectives. The Hamilton Task Force of the House Foreign Affairs Committee also concluded that the foreign assistance program should be revised. Senator Kassebaum of the Committee has reintroduced legislation which goes further than the Hamilton Task Force report by eliminating earmarks and establishing regional accounts. Other studies such as those done by the Phoenix Group and Michigan State University have recommended major reforms.

If reforms are to be implemented, new legislation would be required that can only be enacted with bipartisan support in the Congress and the active support of the Executive Branch. When Secretary Baker testified before this Committee in April, we invited his suggestions on such legislation. I would appreciate your views on the House recommendations, and whether the Administration and you personally will support the legislation outlined in the Hamilton report. What broad areas of reform would you recommend that this Committee focus on as it prepares authorizing legislation for FY 1990? And how would your recommendations address the reported shortcomings of the current foreign aid program?

### Answer:

- As you have noted, there have been a number of reports which analyze and critique the U.S. foreign aid program, including the Hamilton-Gilman HFAC Task Force Report. That report, like the A.I.D. report, "Development and the National Interest," recognizes that over the years the Foreign Assistance Act of 1961 has accrued ~~significant~~ ~~shortcomings~~ which in turn has ~~contributed to the~~ that are frequently unsuitable for dealing with today's global development problems.
- The A.I.D. report assesses what has happened to developing countries over the past 20-30 years and makes the point that while the economic policies of these countries have had more impact on their overall progress than have levels of official development assistance, foreign assistance programs and scientific advances have had a significant

### **Budget Request**

**Question:** Ambassador Woods, the bipartisan budget agreement reached by the Administration and Congressional Budget leadership in April provided \$19 billion in budget authority and \$17 billion in outlays for discretionary International Affairs programs in FY 1990. This represents a \$300 million reduction in outlays. When Secretary Baker appeared before this Committee, I asked for his suggestions as to from which programs the \$300 million reduction should be taken. I would like your views on, where, within A.I.D., you would recommend that these cuts be made.

Would you also explain to this Committee any major increases and reductions in the A.I.D. accounts for FY 1990 and the balance between economic and military aid.

**Answer:**

### **Budget Request**

-- Our budget proposal for FY 1990 represents a tight, focused request reflecting the highest priority programs that require funds in the coming fiscal year. Foreign assistance has declined in real terms beginning in FY 1985, and the FY 1990 request continues that decline. It would be extraordinarily difficult to absorb any additional decreases beyond these. Having said that, if the current negotiations with Congress to remove earmarks and restrictions, increasing A.I.D.'s flexibility, are successful, it might be possible to examine doing more with less.

### **Budget Balance**

-- The International Affairs budget reflects a careful balance between different forms of assistance which address a wide range of foreign policy objectives.

-- Economic Assistance includes Development Assistance, the Economic Support Fund, other bilateral assistance (SAI, TDP, Peace Corps, Inter-American Foundation, Migration and Refugee Assistance, etc.), multilateral assistance and PL 480 Food Assistance which address development and humanitarian concerns. The FY 1990 request for these programs is \$9.4 billion.

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- Military Assistance includes MAP, FMS, IMET and the Guaranty Reserve Fund (GRF). The FY 1990 request is \$5.8 billion.
- The Economic and Military ratio within the foreign assistance account for FY 1990 reflects a 62:38 ratio which is in keeping with prior year ratios.
- There has also been a steady balance between DA and ESF over the years (see attached table which shows the balance between economic and military assistance as well as between humanitarian and security assistance from FY 1985 - FY 1990).

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BUDGET LEVEL COMPARISONS  
(millions)

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
<b>Military vs Economic Assistance</b>						
Military	5,907.8	5,797.4	5,059.4	5,329.2	5,381.2	5,041.5
Economic	13,212.2	9,053.6	9,299.1	8,844.6	9,044.2	9,497.3
Total	19,122.0	14,851.0	14,358.5	14,173.8	14,425.4	15,538.8
	31%	39%	35%	38%	37%	32%
	67%	61%	63%	62%	63%	67%
	100%	100%	100%	100%	100%	100%
<b>Humanitarian vs Security Assistance</b>						
Humanitarian	4,496.2	4,746.4	4,897.1	5,023.7	5,216.1	5,548.5
Security	13,738.4	9,843.1	8,512.7	8,597.6	7,741.0	9,084.0
Total	20,234.6	14,589.5	13,409.8	13,621.3	12,957.1	14,632.5
	33%	67%	37%	37%	40%	38%
	67%	33%	63%	63%	60%	62%
	100%	100%	100%	100%	100%	100%
<b>Forms of Economic Assistance</b>						
Multilateral	1,906.9	1,403.6	1,444.4	1,450.2	1,540.7	1,044.4
Development	2,827.9	2,048.8	2,198.2	2,345.8	2,373.0	2,180.0
Economic Support	6,189.8	3,741.5	3,874.2	3,269.4	3,288.5	3,349.1
PL 480	1,944.0	1,243.3	1,083.1	1,089.6	1,078.1	936.9
Other	653.6	579.4	697.2	721.6	793.9	988.9
Total	13,212.2	9,053.6	9,299.1	8,844.6	9,044.2	9,497.3
	100%	100%	100%	100%	100%	100%

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## Accountability

**Question:** Ambassador Woods, a recent news report indicated that Federal investigators had uncovered misuse of U.S. economic aid in 18 countries, including Egypt, Costa Rica, Kenya and Thailand. In that same article, A.I.D.'s Inspector General was quoted as saying: "We have no idea what is happening to many of our funds. A.I.D. has one of the most severe management and control problems of any U.S. agency." When you Agency's own Inspector General has so little confidence in A.I.D.'s management of funds, why should we give your Agency the funding flexibility it seeks?

In light of recent disclosures about individuals who have been accused of fraud and misuse of foreign aid funds, this issue of mismanagement and accountability will be increasingly important in justifying the foreign aid bill on the Senate floor. Beyond your increase in the Operating Expenses request, can you tell this Committee what A.I.D. is doing to ensure better accountability of foreign aid funds, specifically addressing among other things how A.I.D. is maintaining accountability for ESF cash transfers and local currency generated by A.I.D. programs other than cash transfers, as well as what actions have been taken to prevent a recurrence of the reported incidents of fraud and misuse of funds.

### Answer:

-- Mr. Chairman, A.I.D. is taking very seriously the need to account for every dollar of foreign assistance. The following are some of the steps we are taking:

- o In October of 1987, A.I.D. issued amplified policy guidance regarding ESF cash transfers. This guidance implements the statutory requirements regarding separate accounts for (a) dollars and (b) any local currency which may be generated pursuant to an ESF cash transfer agreement. The most recent Internal Control Assessment, performed as part of the Management Control Plan for A.I.D. mandated under the Federal Managers' Financial Integrity Act, revealed that this guidance has been implemented, and missions are in compliance with it.
- o Local currency generated by A.I.D. programs other than cash transfers also is being placed into special accounts. Supplemental guidance on programming generated local currency was issued in October of 1987.

The 1988 Internal Control Assessments revealed substantial compliance with this guidance, and as a result, A.I.D. is involved to a greater extent in programming generated local currency.

- o With regard to our sector assistance programs, a concerted effort within the Agency to develop better procedures for implementing sector programs has been undertaken, and the Agency will soon be issuing new worldwide guidance on this matter. The guidance is aimed at enhancing accountability under this type of program.
- o A.I.D. is working toward greater accountability by expanding the use of non-federal audits. The use of such audits has increased and will be increased further in the future. Such audits increase accountability for foreign assistance by allowing A.I.D. to obtain an independent opinion of the financial management capabilities of a host government agency or private voluntary organization before assistance funds are granted to the organization.
- o A.I.D. is requiring more comprehensive and detailed program and project agreements with host countries, to ensure that they understand their responsibilities for maintaining accountability.
- o A.I.D. has been performing more evaluations of programs and operations independently of the Inspector General's office. For example, the Office of Financial Management has instituted a Controller Assessment program wherein every mission Controller's Office is assessed every three years to ensure compliance with A.I.D. policy and efficient operation.
- o A.I.D. has instituted new price checking mechanisms under Commodity Import Programs, to ensure that private sector recipients of A.I.D.-financed foreign exchange are not over or under estimating the true cost of commodities they import.

- o A.I.D. plans to continue to issue guidance as needed to ensure that foreign assistance resources are accounted for. For example, guidance will soon be forthcoming on how to better manage local currencies generated by our programs.
  
- Recent newspaper articles about fraud and misuse of foreign aid funds have been based upon reports of the Inspector General, many of which highlight problems which occurred before the steps outlined above were taken.

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## ***Debt***

***Question:*** Administrator Woods, there is no doubt that the external debt of developing nations is one of the major roadblocks to further development in these countries. Further complicating this problem is the nature of the debt--primarily large commercial loans in Central and Latin America and bilateral or multilateral governmental debt in African RLDCs.

How and when do you project that A.I.D. will implement Section 572 of the FY 1989 Appropriations Act with respect to African debt? When you implement Section 572, what amount of debt do you project will be repaid in local currencies? What time frame do you project for this implementation, and what amount of debt would be subject to this section each year of implementation?

With regard to Latin America and commercial bank debt, how does A.I.D. plan to assist these countries, especially in light of the recently announced "Brady plan". What role does A.I.D. see for itself in debt-equity swaps, such as debt-for-nature or debt-for-development arrangements. Can you provide some recent examples?

### ***Answer:***

- As you know, Section 572 does not become effective until October 1, 1989, and only then if the President chooses to exercise that authority. If he does so, then subsequent actions may have implications for other aspects of the U.S. foreign assistance program as well as for other creditor agencies of the United States Government. Those implications should be fully explored before decisions are made about implementation.
- That exploration has begun within the Deputy Assistant Secretary Group among State, Treasury, A.I.D., and the Office of Management and Budget officials. The DAS Group was created several years ago to provide an interagency forum for discussion of external debt issues. Other agencies will be consulted, as appropriate.
- Twenty-three sub-Saharan countries have DA and/or ESF debt. As of September 30, 1989, total scheduled service will be about \$920 million in principal and \$420 million in

life-of-loan interest. Those 23 countries have scheduled debt service of some \$42m a year during 1990-92 inclusive, but in recent years they have actually paid less than half of scheduled amounts.

- The attached table shows the total DA and ESF debts of individual sub-Saharan countries, of the five countries outside Africa with DA/ESF debt and on the United Nations list of least developed countries (LLDCs), and of the six other countries outside Africa, not below \$510. Depending on the definition of "relatively least developed countries," the first or both of these groups may be eligible under Section 572.
- Implementation could proceed year-by-year as service comes due, or it could be compressed into one or a few years.
- The DAS Group has discussed the possibility of limiting eligibility to sub-Saharan Africa but has not yet made recommendations on this or any other relevant issue.

### *Debt Equity Swaps*

- In response to the debt crisis facing many developing countries, A.I.D. is planning to initiate a Debt for Development Program.
  - Debt for conservation swaps are an integral component of the Debt for Development Program. A.I.D. can use foreign assistance funds to finance the purchase, by intermediary organizations, of debt currently owed by developing countries to foreign creditors.
  - Debt will be purchased at the discount price on the international market. Debt acquired with A.I.D. funds will be retired in exchange for local currencies to be used in A.I.D.-financed activities, including natural resource conservation projects.
  - Non-governmental organizations (NGOs) will serve as intermediaries between A.I.D. and the current owners of developing country debt, as well as between A.I.D. and the debtor countries. NGOs also will be responsible for managing the resources acquired through the debt exchange.
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-- The Agency will aggressively pursue opportunities to support debt for conservation swaps. For example, A.I.D. will contribute \$45,000 to World Wildlife Fund's purchase of \$330,000 of Philippine debt at a market discount of about 50 percent. The debt will be converted to pesos, which will be managed by the Department of Environment and Natural Resources and the Haribon Foundation, a leading NGO, to carry out a range of mutually agreed upon conservation activities, including improved management of two national parks on Palawan.

Attachment: a/s

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POTENTIAL AMOUNT TO BE FORGIVEN UNDER THE TERMS OF SECTION 572

	BALANCE OUTSTANDING 9-30-88	PRINCIPAL DUE 1989	AS OF SEPTEMBER 30, 1989		
			PRINCIPAL OUTSTNDG	INTEREST ON LIFE OF LOAN	TOTAL OUTSTNDG
Benin	20.5	0.5	20.0	9.8	29.8
Botswana	20.6	0.6	20.0	8.8	28.8
Cameroon	27.7	0.8	26.9	40.9	67.8
Ethiopia	85.7	2.6	83.1	33.8	116.9
Ghana	86.3	3.6	82.7	33.1	115.8
Guinea	6.4	0.2	6.2	1.0	7.2
Ivory Coast	5.4	0.3	5.1	0.9	6.0
Kenya	104.0	1.7	102.3	64.9	167.2
Liberia	82.0	4.4	77.6	26.7	104.3
Madagascar	5.4	0.2	5.2	1.4	6.6
Malawi	28.1	1.0	27.1	11.4	38.5
Mali	4.8	0.2	4.6	1.7	6.3
Niger	2.7	0.1	2.6	0.5	3.1
Nigeria	61.4	2.4	59.0	15.6	74.6
Senegal	0.2	0.0	0.2	0.0	0.2
Somalia	12.0	0.4	11.6	2.3	13.9
Sudan	10.6	0.3	10.3	4.3	14.6
Swaziland	10.5	0.1	10.4	5.3	15.7
Tanzania	70.4	1.7	68.7	25.0	93.7
Uganda	9.1	0.5	8.6	1.5	10.1
Zaire	136.3	6.7	129.6	41.7	171.3
Zambia	153.4	1.6	151.8	85.3	237.1
Zimbabwe	4.1	0.0	4.1	2.6	6.7
SSA	947.5	29.9	917.6	418.5	1336.1
Afghanistan	65.0	2.3	62.7	21.0	83.7
Bangladesh	301.4	5.0	296.4	128.2	424.6
Burma	1.4	0.2	1.2	0.2	1.4
Haiti	14.7	0.3	14.4	6.8	21.2
Yemen	6.2	0.0	6.2	2.5	8.7
NON-SSA, LLDCs	388.7	7.8	380.9	158.7	539.5
LLDCs	1336.2	37.7	1298.5	577.2	1875.7
Bolivia	281.9	6.8	275.1	126.5	401.6
Guyana	38.5	1.5	37.0	14.6	51.6
India	2282.9	91.5	2191.4	731.3	2922.7
Pakistan	1610.6	55.7	1554.9	629.1	2184.0
Sri Lanka	260.3	1.8	258.5	174.7	433.2
Vietnam	21.7	1.0	20.7	16.1	36.8
NON-LLDCs UNDER \$510 pcY	4495.9	158.3	4337.6	1692.3	6029.9
TOTAL	5832.1	196.0	5636.1	2269.5	7905.6

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AS OF SEPTEMBER 30, 1989

WITH STRUCT ADJUSTMENT PROGRAMS	BALANCE OUTSTANDING 9-30-88	PRINCIPAL DUE 1989	-----		
			PRINCIPAL OUTSTNDG	INTEREST ON LIFE OF LOAN	TOTAL OUTSTNDG
Ghana	86.3	3.6	82.7	33.1	115.8
Guinea	6.4	0.2	6.2	1.0	7.2
Ivory Coast	5.4	0.3	5.1	0.9	6.0
Kenya	104.0	1.7	102.3	64.9	167.2
Madagascar	5.4	0.2	5.2	1.4	6.6
Malawi	28.1	1.0	27.1	11.4	38.5
Mali	4.8	0.2	4.6	1.7	6.3
Niger	2.7	0.1	2.6	0.5	3.1
Nigeria	61.4	2.4	59.0	15.6	74.6
Senegal	0.2	0.0	0.2	0.0	0.2
Tanzania	70.4	1.7	68.7	25.0	93.7
Uganda	9.1	0.5	8.6	1.5	10.1
Zaire	136.3	6.7	129.6	41.7	171.3
Bangladesh	301.4	5.0	296.4	128.2	424.6
LLDCs	821.8	23.6	798.2	326.9	1125.1
Bolivia	281.9	6.8	275.1	126.5	401.6
Guyana	38.5	1.5	37.0	14.6	51.6
Pakistan	1610.6	55.7	1554.9	629.1	2184.0
Sri Lanka	260.3	1.8	258.5	174.7	433.2
OTHER	2191.3	65.8	2125.5	944.9	3070.4
TOTAL	3013.1	89.4	2923.7	1271.8	4195.5

## ***Environment/Energy***

***Question:*** Ambassador Woods, one of the most significant problems in the world today involves the hazards being posed to our environment by modern technology. This problem is especially acute in many developing countries where there has been increasing deforestation, including the degradation of tropical forests. Because of the importance of the environment, this Committee held a hearing two weeks ago to explore the many environmental problems which we face. I would like to raise several questions with you today relating to the environment and what A.I.D. can and is doing to address some of the environmental concerns.

First, what efforts does A.I.D. make in its bilateral programs to ensure that programs are environmentally sound. Second, what is A.I.D. doing to put pressure on the multilateral development banks to implement tighter environmental reviews of their programs, particularly in countries such as Brazil where tropical rainforests are severely threatened? Third, how much has A.I.D. allocated for biological diversity activities in FYs 1988, 1989, and 1990? I note that last year the President signed into law a resolution that supported efforts to negotiate an international convention on biological diversity. What is the status of those negotiations, and what is A.I.D.'s role in that effort? Fourth, to what extent is A.I.D. involved in developing country efforts to stem the problem of "global warming?" Does A.I.D. intend to increase support for those types of activities in FY1990 and how does the FY90 figure compare to levels spent for global warming activities during the last five years? Fifth, what is A.I.D. doing to encourage countries to increase their use of renewable energy technologies which is now very cost-effective for developing countries? How much is A.I.D. allocating to renewable energy activities this year and how does this figure compare to what was spent during the past five years? What other types of energy-related activities are carried out or planned by A.I.D.? And finally, given the enormous environmental problems today, would you favor the creation of a new account to deal with environmental activities which are currently funded from two accounts (Sections 103 and 106) under the foreign aid legislation?

***Answer:***

### ***Environmentally Sound Projects***

-- A.I.D.'s strategy is to ensure that environmental review is fully integrated into all its development assistance

projects. Therefore, all projects undergo an Initial Environmental Examination (IEE) during the project identification phase.

- If the IEE results in a positive determination, indicating that significant environmental effects can be reasonably expected, an Environmental Assessment (EA) is conducted to identify mitigating measures or environmental safeguards that are to be incorporated into the modified project design.
- In addition, A.I.D. supports an environmental program with a goal of sustained natural resources management and environmental protection. FY 1990 funding (DA only) for this program is \$106 million compared with \$80 million in FY1989.

### ***Multilateral Development Banks***

- A.I.D. regularly monitors environmental aspects of multilateral development bank projects. Through our "early warning system" we identify ~~the~~ projects with possible environmental effects early in the project cycle. Issues of concern are raised with bank staff and communicated to other agencies, to other donor countries, and to donor country executive directors of the banks. ~~These findings are made available to the donor countries with current legislation.~~ We have helped organize an interagency group which meets regularly to discuss U.S. efforts to strengthen the Banks' environmental performance.
- A.I.D. has a very limited presence in Brazil. However, we have monitored very carefully a number of proposed loans to Brazil including the controversial Power Sector II loan. We participated in sharing information and analysis with other donor countries on this loan, and believe that our efforts were related to the Bank decision to restructure this loan. We will certainly continue to examine future proposed loans to Brazil to ensure that environmental policies and conditions are sufficient as well as constructive.



- Our support for increased energy efficiency and renewable energy will also help reduce global increases in carbon dioxide emissions. ~~Our energy conservation program has to date been limited to more than 15 countries,~~ emphasizing conservation primarily in the industrial and electricity sectors, but also undertaking programs in the building and transportation sectors.
- A.I.D. also plans to support modest efforts to better understand the possible effects of climate change on A.I.D.-assisted countries and to assess their contribution to increasing levels of carbon dioxide emissions. We are also working closely with other U.S. agencies to support the work of the Intergovernmental Panel on Climate Change.

### ***Renewable Energy***

- In all regions, A.I.D. is focusing on developing and encouraging the use of sustainable, commercially available renewable energy systems to support rural and urban development, where such technologies are socially, technically, and economically viable.
- A.I.D. is working with U.S. industry and promoting private sector involvement to assure infrastructure support in developing countries.
- Examples of A.I.D.-supported renewable energy projects include \$32 million in Egypt, \$5.6 million in Sudan, \$7 million in India, and \$9.7 million in Morocco, each project emphasizing in varying degrees wind, solar, photovoltaics, biomass, household fuels, and technology assessment.
- A.I.D. supports a wide variety of other energy activities to achieve the primary goal of the energy program: to promote the development of cost-effective, efficient, reliable, and environmentally sound energy systems that can provide the energy necessary for broad-based economic growth. There is now only limited support for fossil energy capital facilities construction. Electric power generation projects are generally confined to countries such as Pakistan and Egypt which receive ESF funding.

### *New Environmental Account*

-- A.I.D. believes creating a new account to deal with environmental activities would be counterproductive. Integrating concern for the environment into all sectors is critical if our efforts are to have significant impact, and a separate account would make such integration more difficult. An environment account may lead to the false impression among staff that environmental concerns are "taken care of," or worse, that they are someone else's problem. ~~Without any environment account, A.I.D. plans to allocate \$106 million of Development Assistance funds for environmental projects and activities, an increase of \$26 million from FY 1989.~~ This is in addition to ensuring that every A.I.D. project is environmentally sound through appropriate environmental review. With current budget constraints, it is not at all clear that this figure could be increased further even if a separate account were created.

[Background: Boschwitz, Simon and Kerry of the SFRC are cosponsors of S.201, The World Environmental Policy Act, a bill to respond to the global environmental degradation brought on by human activities by reversing the trends that are presently altering or destroying vast portions of the biosphere, and to ensure that U.S. policies provide for the protection of the world environment from future degradation. Title IX, Replanting and Concerning the World's Forests, of the Act says in part ... Instructs A.I.D. Director to assess potential gains and costs of a program to help small land holders with the capital needed to make improvements that could stop global deforestation. Intent is to expand the use of the Micro Enterprise Act as a channel to bring such aid directly to small land holders.]

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## ***Economic Support Funds***

***Question:*** Ambassador Woods, I have several questions relating to the Economic Support Fund, a very versatile program that can be used for cash transfers, commodity import programs, or project assistance for key U.S. allies. I am concerned that A.I.D. may be going down the wrong road with its increasing emphasis on balance-of-payments support versus project assistance. I say this as I am very conscious that the American people are still willing to support, even during this time of mounting Federal deficits, programs that respond to such basic human needs as feeding the hungry and educating the illiterate in developing countries. Moreover, the press accounts of misuse of foreign aid funds by some Third World leaders has many of us suspicious about providing cash assistance to many countries.

First, I would like your views on which aspect of the ESF program you foresee the Administration emphasizing during the coming years? Please give us some recent examples of the most successful use of ESF in providing macroeconomic, sectoral and project assistance. Would you include in your response why you believe this Committee should not recommend that ESF be increasingly used for projectized assistance in most countries

Second, what is A.I.D.'s policy on the use of ESF to pay debt? To what extent is ESF being used by recipients to service external debt? Are U.S. taxpayer dollars being used to bail out commercial banks?

Third, the Administration has been very critical in recent years of Congressional earmarking of ESF, yet Congress has usually only earmarked funding for most countries at the Administration's own request level. Would you describe for this Committee the implications of the ESF earmarks on your FY 1989 program.

Finally, I note that deobligation-reobligation authority for ESF programs was not provided in FY 1989. Would you please explain why the Agency believes this authority is important for FY 1990, and provide some examples of how A.I.D. has previously used this authority and of "missed opportunities" thus far in FY 1989.

***Answer:***

### ***Uses of ESF***

-- As our request for FY 1990 indicates, overall we expect to maintain roughly the same proportional split for our ESF

program as we have done in recent years. Cash program aid will account for 58-60%, projects 30-33%, and commodity import programs 7-9% of the total.

-- Recent ESF success stories include:

- Philippines, where fast-disbursing ESF cash program assistance has supported a comprehensive economic adjustment program introduced by the Aquino government and where projectized ESF has funded improvements in rural roads, schools and other infrastructure in many parts of the country.
- Kenya, where a major commodity import program has supported the strengthening of the private sector's role in the agriculture/fertilizer sector.
- Egypt, where the largest projectized ESF portfolio in the world has funded major increases and improvements in such areas as the immunization of children, control of diarrheal diseases, training of nurses, construction of elementary schools and research in agriculture.

-- I believe that it would not be useful to require that a greater percentage of ESF funds be used for project assistance because:

-- ~~Not counting security-based cash transfers for development countries (Israel, Turkey, Portugal), more than 50% of our ESF is already projectized.~~ Strong ESF project portfolios exist for ~~16 countries~~ and regional programs.

-- With regard to your concern that cash grants may be misused, we believe that provision for special accounts and improved mission monitoring systems have strengthened accountability. We have no proven case of the diversion of cash resources for illegal use.

-- Thus, we believe such a requirement is unnecessary. What is more, we believe that formula-driven requirements for projectizing ESF could undermine our efforts to concentrate non-project ESF on priority problems which affect the poor in

a number of countries. If the limitation were country-specific, growth rates in countries undertaking exemplary policy reform programs could be hurt: Senegal, Bolivia, Costa Rica, Guatemala and Jamaica.

- If the limitation was applied to base rights or military access countries, our agreements with some of these countries could be threatened.

### *Debt Servicing*

- AID policy does permit the use of ESF to service official U.S. and multilateral debt, particularly where a recipient's balance of payments situation argues strongly for such use. A.I.D. strongly discourages the use of ESF to pay commercial and other bilateral debt.
- For FY 1988, recipients used \$1.26 billion out of the \$3.188 billion appropriated to service debt. Of this \$1.26 billion, Israel used \$1.15 billion to service official U.S. debt (FMS, AID, EXIM). Turkey, Portugal, Thailand and other relatively advanced economies used most of the \$90 million remaining to service official debt to the U.S. and to multilateral financial institutions.

### *Earmarking*

- The primary problem we have with earmarking is that it greatly reduces our flexibility both for initial country allocations and for our ability to shift funds downstream, as circumstances dictate. The reduction of ESF levels during the past few years has compounded the problem of heavy earmarking.
  - In FY 1989, with 98 percent of all ESF funds earmarked, the Administration had only \$53 million in discretionary authority. Earmarks at levels higher than the Administration's requests for such relatively advanced countries as Costa Rica, Cyprus, and Ireland has required cuts in our programs with more needy countries such as the Dominican Republic, Belize and the Eastern Caribbean Islands. Our strategic programs with Pakistan, Turkey and Portugal also have had to absorb reductions.
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### ***Deobligation-Reobligation Authority***

- Given increasing budget constraints and foreign policy demands on the program, deob/reob authority has become an extremely important programmatic/management tool. The A.I.D. Inspector General, in fact, has urged that A.I.D. use this authority even more aggressively than we have to move resources out of poorly performing projects into higher priority areas.
- Examples of how A.I.D. has previously used this authority include reprogramming \$55.7 million to fund emergency wheat procurements in Pakistan, which was experiencing a serious drought. This helped to stabilize the political situation by feeding a large number of people quickly. In Egypt, we reobligated \$12.8 million into a technical cooperation project which advanced economic reform objectives.
- Among "missed opportunities" this fiscal year as a result of not possessing this authority, in the Sudan we would have been in a position to meet urgent disaster relief requirements with prior year ESF funds. In Egypt, the Inspector General's office insists on the deobligation of \$10.7 million in projects with expired project completion dates. The Egyptian Government requests extension of these dates. Without ESF deob/reob authority, we have no reprogramming options.

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## Economic Policy Reform

**Question:** Ambassador Woods, I am concerned that the U.S. Government, in its efforts to stimulate economic policy reform in developing countries, may be asking these countries to take too many short-term political and economic risks in order to achieve long-term economic policy reforms. I think that the developing countries themselves are the best judges of how much change their systems can tolerate.

Can you tell us what the Administration is doing to ensure that it is not asking developing countries to undertake economic changes that could produce political turmoil? How do A.I.D. and the State Department coordinate their recommendations for economic policy reforms and what are the criteria under which the Administration will release balance-of-payments support linked to economic reform?

Also what significant progress in policy and institutional changes necessary for economic growth can A.I.D. point to in developing countries? How have A.I.D. programs assisted in the implementation of these reforms? How many A.I.D.-recipient countries are implementing economic policy reforms?

### Answer:

- It is not A.I.D. that dictates the policy content and pace of LDC reform programs. On the contrary, A.I.D. implements ESF and other assistance programs in support of developing country programs of economic and social reform. The problem is that countries have to live within the resources available to them. As such, they do not have the luxury of being able to choose the pace and content of their reform efforts.
- Often countries exacerbate adjustment requirements by delaying the introduction of needed reforms until political and social instability break out or threaten to break out. This can produce a coincidence of the timing of A.I.D. policy-based assistance with political and economic difficulties in the recipient country.
- But, the appearance of coincidence is not causation. In fact, the reforms that are introduced frequently reflect the unavoidability of the need to make adjustments.

Moreover, the disbursements of A.I.D. assistance, by providing resources over and above what would otherwise be available, actually cushion the recipient country from deeper economic shocks than would otherwise take place.

- A.I.D. and State develop a coordinated position on the content and character of the assistance program. State typically emphasizes political considerations and A.I.D. economic considerations. Together we work out the best balance we can.
- A.I.D.'s policy-based assistance resources are disbursed in accordance with criteria established in the economic reform program that A.I.D. has agreed to support. For example, appropriate officials in a recipient country government may send a letter outlining the economic program that will be followed, and an implementation calendar for the program. A.I.D. disbursements are then linked to implementation of the economic program. The linkage is not rigid. There is recognition of gradations of compliance and the possible need to modify the program to respond to unforeseen circumstances.
- Policy reform is an appropriate focus of A.I.D. assistance. In order to track results, A.I.D. recently completed a study of policy reform and growth rates in 42 A.I.D.-recipient countries during the 1980s. The economic policy frameworks of the 42 countries were ranked in accordance with the score received on a questionnaire designed to assess the extent to which each country's economic policy framework--its fiscal, monetary, trade, pricing, and regulatory policies--promoted or suppressed efficiency in resource allocation. The results are easy to summarize:
  - comparing the period 1980-83 to 1984-87, there have been significant improvements in the policy frameworks for all but a few of the countries.
  - there is room for substantial improvement in the efficiency with which internal policies allocate resources. For example, policy scores could fall in an 80 point range. The United States and Singapore, taken

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as reference countries, fell into the top tenth (decile) of the range. The lowest 10 scoring countries fell into the second and third deciles and the highest 10 scoring countries fell into the seventh and eighth deciles.

- an improved policy environment could result in quantitatively important increases in LDC growth rates. Thus, the gap in growth rates between the 10 countries with the highest policy framework scores and the 10 countries with the lowest scores was at least 2.3 percentage points. Over a decade, this difference translates into over a 50% increase in income per capita.

1712G/7

## Population Program

**Question:** Ambassador Woods, I strongly support the international voluntary family planning program. In fact, I question if your Agency's other development goals can be achieved unless we can find a way to control the population surge in developing countries. I have several questions along this line.

First, what are your plans for funding UNFPA in FYs 1989 and 1990? Have you made a determination this year that the Government of China continues to operate a coercive abortion program? If not, what is your schedule for making a decision? If you have already made a decision for this year, and you have concluded that China operates a coercive program, what evidence do you have that the UNFPA participates in the management of such a program? What evidence did you rely on last year in reaching this conclusion?

Second, since the UNFPA operates family planning programs in many countries where we do not have bilateral missions, aren't we hurting ourselves by refusing to find a way to permit us to fund UNFPA's program outside China?

Third, what is the status of the (1) FPIA/PPFA legal challenge; and (2) USG appeal in DKT's challenge to the Mexico City policy? Does the status of either case impact on your ability to implement the Mexico City policy? Does the Administration have any plans to change this policy? What is the extent of A.I.D. support for FPIA under the court-supervised agreement?

Finally, if the U.S. should restore funding to UNFPA, will there still be adequate funding in the \$201.6 million request level to cover the \$20 million request for UNFPA without cutting into your other population planning programs?

**Answer:**

**Question 1:**

-- We have reserved \$5 million for UNFPA in FY 1989 and requested \$20 million for FY 1990. Release of these funds depends on a determination that UNFPA's program in China has changed or that the Chinese population program itself has changed.

? -- No. The progression of decision-making implied in your question is not exactly the one A.I.D. faces on this issue. Let me back up a bit. Legislation enacted in 1985 prohibited assistance to an organization which supports or participates in the management of a program of coercive abortion or involuntary sterilization. A.I.D. had to define the term "participates in management." We did so in accordance with the intention of Congress and found that the assistance provided by UNFPA did help China manage that program. This decision was upheld in the Courts.

-- No schedule for a decision on funding is set. However, UNFPA and China have negotiated a new agreement for the 1990-94 period. It will be presented for approval at the UNDP Governing Council in June 1989. The U.S. will be represented at that meeting. The new agreement has not yet been presented to the USG, thus, we have no position on the new program.

? -- Since UNFPA's present program in China has not changed, my 1988 decision not to fund UNFPA was based on a U.S. Bureau of the Census update, which I commissioned, of information on the Chinese family planning program and A.I.D. staff review of the Foreign Broadcast Information Service (FBIS) reports on China.

### Question 2:

-- A.I.D.'s population assistance is not confined to activity within bilateral agreements. We provide assistance to 91 countries through bilateral and centrally-funded projects.

### Question 3: (See attached background)

? -- FPIA/PPFA requested an injunction for continued funding. Rather than considering the injunction, Judge Walker requested A.I.D. to negotiate an agreement for continued funding. Under the agreement the Agency is providing funds to FPIA and we implement the Mexico City policy directly. Legal proceedings continue.

? -- In the DKT case, A.I.D. has been enjoined from implementing the Mexico City policy with DKT. The case is under appeal and oral argument is scheduled for April 13, 1989.

- We have a new suit as well. The Pathfinder Fund, the Population Council, and the Association for Voluntary Surgical Contraception have asked that the DKT ruling of a preliminary injunction to prevent A.I.D. from enforcing the clauses be applied to them.
- The FPIA/PPFA and DKT lawsuits have had little or no effect on A.I.D.'s implementation of the Mexico City Policy. When FPIA requests approval for a subproject, A.I.D. reviews whether the proposed subgrantee is eligible for funds under the clauses. DKT has no projects with A.I.D. However, the new lawsuit could have a more significant effect because Pathfinder, the Population Council and AVSC have substantial A.I.D. supported programs.
- FPIA had approximately \$9.3 million of A.I.D. funds in 1988, and about \$9.4 million has been negotiated for 1989.

**Question 4:**

- We are already reserving \$20 million within the \$201.6 million requested for the FY 1990 Population Account budget for UNFPA to be used in the event that UNFPA's program in China or the China program itself changes and the organization is again eligible for U.S. funding.

Population: Background for Legal Issues

A.I.D. has not funded abortion activities since the Helms amendment of 1973. At the U.N. International Conference on Population in ~~Mexico City~~ in 19784, the Administration announced a new policy which further separates the U.S. family planning program from abortion activities in foreign countries. Under this policy ~~A.I.D. does not provide assistance to foreign non-governmental organizations which perform or advocate abortion with funds from any source.~~ For reason of U.S. domestic law, ~~this restriction is not applied to U.S. organizations.~~

A.I.D. implements this policy through ~~standard clauses~~ in grant and cooperative agreements which ~~prohibit U.S. organizations from transferring funds to foreign organizations that conduct abortion activities.~~ Rather than signing agreements that contain these standard clauses, two U.S. organizations, Planned Parenthood Federation of America and DKT Memorial Fund, have sued A.I.D. claiming (a) A.I.D. does not have statutory authority to implement this policy and (b) the standard restriction violates the constitutional rights of U.S. organizations, U.S. citizens who live overseas, and foreign organizations. (These issues were anticipated by A.I.D. shortly after the White House announced the Mexico City policy. The standard clauses were developed in consultation with the Department of Justice and were designed to implement the President's policy effectively and to defend these constitutional challenges successfully.) On January 19, 1989, three additional domestic organizations, The Pathfinder Fund, The Population Council and The Association for Voluntary Surgical Contraception (AVSC) which have signed cooperative agreements that contain the standard clause, sued A.I.D. on some of those same bases.

A. Planned Parenthood Federation of America v. A.I.D. In September, 1987, the District Court for the Southern District of New York decided that (a) A.I.D. has statutory authority to implement the policy and (b) Planned Parenthood's constitutional claims challenged the Mexico City policy itself. The court ruled that these issues should not be adjudicated by the judiciary but rather should be decided by the political branches of the government. On those bases, Judge John M. Walker dismissed the lawsuit. On appeal, the Second Circuit in New York agreed with this conclusion regarding statutory authority, but considered the

? constitutional claims to be made against A.I.D.'s implementation of the Mexico City policy through the standard clause, rather than against the policy itself. The Court of Appeals reversed and remanded the case for the district court to decide the constitutional issues.

After Planned Parenthood requested an injunction for continued funding, A.I.D negotiated an arrangement under which the Agency is providing funds to Planned Parenthood and implementing the Mexico City policy directly, without the challenged standard clauses, until the district court decides the constitutional issues in the lawsuit. (The administrative burden on A.I.D. of implementing the policy directly in the Agency's worldwide population assistance program, without the standard clauses, would be staggering. It is possible to do so in Planned Parenthood's case only because the policy is implemented through the standard clauses in all other grant and cooperative agreements with U.S. organizations.) Judge Walker signed a court order approving this arrangement, instead of granting the injunction. Planned Parenthood had approximately \$9.3 million of A.I.D. funds in 1988, and about \$9.4 million has been negotiated for 1989. Judge Walker has required Planned Parenthood to submit, by February 17, its brief in opposition to the government's motion to dismiss this suit which was filed last October. We hope the Court will decide the constitutional issues within the next 3-4 months.

- B. DKT Memorial Fund v. A.I.D. The District Court for the District of Columbia held that: (a) A.I.D. has statutory authority to implement the policy (b) foreign organizations do not have rights protected by the first amendment, but (c) the standard clause used by A.I.D. to implement the policy violates the first amendment rights of speech and association of U.S. organizations. Judge Green's order enjoined A.I.D. from implementing the Mexico City policy in agreement with all U.S. organizations. The government has appealed, and the court of appeals has agreed with the government's position that the relief provided by Judge Green should be limited to the U.S. plaintiff in this suit, DKT, and that A.I.D. should be able to implement the Mexico City policy using the standard clauses in agreement with other U.S. organizations until the court of appeals decides whether the district court was correct in its ruling. (The Court of Appeals generally takes action such as this when it

believes there is a substantial likelihood of success on appeal.) Oral argument on this Appeal has been scheduled for April 13, 1989.

- C. The Pathfinder Fund, et al v. A.I.D. This lawsuit is in the District Court for the District of Columbia and has been assigned to Judge June Green, the same Judge who decided that the standard clause violates DKT Memorial Fund's first amendment rights of speech and association. The three plaintiffs have asked for a preliminary injunction to prevent A.I.D. from enforcing the clause in their agreements, and it is likely that Judge Green will grant their motion based on her decision in the DKT lawsuit. This should happen some time early in February, and the injunction probably will remain in effect until the Court of Appeals reverses Judge Green's decision in DKT.

The DKT and Planned Parenthood lawsuits have had little or no effect on A.I.D.'s implementation of the Mexico City Policy. DKT has not requested any assistance, and in the doubtful event it does before the appeal is decided, the impact probably would be limited to one small project in India which is all DKT has discussed in its court papers. A.I.D. reserved the right in the court-approved stipulation with Planned Parenthood to implement the policy directly without the standard clause challenged in the lawsuit. When Planned Parenthood requests approval for a subproject, A.I.D. reviews whether the proposed subgrantee is engaged in abortion activity and approves the subproject only if it is not.

The new lawsuit may have a significant effect because Pathfinder, the Population Council and AVSC have very substantial programs. In opposing the injunction, we will try to have Judge Green at least limit the scope of her order by enjoining only the use of the standard clause. This would permit A.I.D. to implement the Mexico City Policy directly as we do under the stipulation with Planned Parenthood, but we may not be successful. Judge Green issued a much broader order in the DKT lawsuit, and if she does so again, we may not be able to implement the policy in the Pathfinder, Population Council and AVSC projects until the Court of Appeals reverses the DKT decision. At that time, however, A.I.D. would require these plaintiffs to cease making disbursements of A.I.D. funds to foreign organizations that received commitments while the Mexico City Policy was suspended unless they provide the

certification required under the standard clause. This would limit significantly the adverse effect of any injunction issued by Judge Green, and we will continue to enforce the standard clause in all grant and cooperative agreements with other domestic organizations.

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## Global Poverty Reduction Act (RESULTS Bill)

**Question:** Ambassador Woods, I am sure you are familiar with S. 369, the Global Poverty Reduction Act, which was introduced by Senator Boschwitz and cosponsored by Senators Adams, Cranston, Dodd, Kerry, Lugar, Murkowski, and Simon of this Committee. This bill seeks to eliminate the worst aspects of poverty by the year 2000, and includes such laudable goals as specific reductions in infant mortality, an increase in female literacy and a reduction in the percentage of people who live in absolute poverty in the Third World.

Since the legislation seeks to reinforce activities in which A.I.D. is already involved, and further is compatible with the report you issued emphasizing the need for accountability, why hasn't the Agency's support been forthcoming and why have repeated attempts to solicit formal comments on the legislation met with failure?

### **Answer:**

- A.I.D. considers the issues addressed by the Global Poverty Reduction Act to be of the utmost importance. The subject of global poverty is central to the Agency's mandate. Our programs are designed to address both the causes and results of poverty: inadequate income; lack of education; inadequate access to health care and to food; and, policies that stifle the expansion of social and economic opportunities for individuals and families. A.I.D. programs have contributed significantly in these areas.
- However, the operational parts of the bill are unclear and over-ambitious in some areas and under-ambitious in others. Concentrating our efforts on a few specific targets would tend to drive programs in ways which are not always the most effective use of resources or the best route to our ultimate goals.
- For example, expanding adult literacy programs to achieve 80 percent female literacy by the year 2000 would necessitate massive diversion of human and fiscal resources from efforts to expand and improve school systems. Though adult literacy programs should be encouraged, basic education, particularly for girls, is the key to raising overall education levels with benefits well beyond literacy.

- Achievement of certain globally determined targets may not be feasible because country situations vary widely. For example, infant mortality rates in developing countries range from 174 per 1,000 in Mali to 67 per 1000 in Ecuador. It is the current rates and particular causes of mortality in each country that determine the feasibility and speed at which these rates can be reduced.
- Indicators like those in the bill can provide benchmarks toward which countries can strive and some evidence of how they are progressing. However, such benchmarks, particularly when legislated, tend to oversimplify the problems of poverty, ignoring its causes and highlighting the symptoms. In some cases, they could divert attention from the most effective path to our ultimate goal and cause activities and reforms needed to sustain the gains to be ignored. Finally, country-level goal indicators cannot be used to measure the contributions of individual donors.
- Because of the importance of the issues addressed by this bill, and because of their complexity, I would like to meet with the sponsors of this legislation, both in the Senate and House, to discuss these issues.

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## Center for Private and Voluntary Cooperation

**Question:** Ambassador Woods, I am sure you agree that the private and voluntary organizations (PVOs) and cooperatives are an integral part of the development activities carried out abroad by A.I.D. The preservation of that partnership becomes increasingly important as U.S. foreign aid resources become ever scarcer. A proposal to create a Center for Private and Voluntary Cooperation within A.I.D. has been suggested as a way to improve A.I.D.-PVO coordination.

What is the current level of participation of PVOs and cooperatives with regard to the formulation of A.I.D.-PVO policy? Because they play such an important role in the development process, do you agree that their participation is key to any of the A.I.D.-PVO policymaking which takes place with the Agency? Do you believe the creation of a separate center would better facilitate a more active level of participation on their part?

### Answer:

- The relationship between the Agency for International Development (A.I.D.) and private voluntary organizations (PVOs) and cooperatives has become stronger in the past decade. PVOs and cooperatives play an important role in the formulation of A.I.D. policies and programs. This is particularly true through the central PVO portfolio managed by the Office for Private and Voluntary Cooperation and through their participation in the development of country development strategy statements (CDSSs) which guide A.I.D. country programs. This is in large part because their international programs have matured, particularly as these organizations have gained more development experience and invested significant private resources to upgrade their management systems and technical staff. These professional advances have frequently been undertaken in partnership with A.I.D.
  
- I also agree with the thrust of the Hamilton Task Force Report on pluralism--that it should be U.S. policy to promote political, social and economic pluralism, and that this can be achieved through many institutional forms. It is bringing these two ideas together which leads me to believe that the creation of a Center for Private Voluntary Cooperation in A.I.D. is too narrow a vision of what is needed to promote international cooperation. It is the non-governmental sector broadly constituted that is the foundation upon which our representational government

and the vigor of our business enterprises rest and arise from. It is these independent institutions--universities, research institutions, private schools and hospitals, labor unions, trade associations, cooperatives, civic associations--which contribute an added dimension to the A.I.D. program beyond simply delivering resources or transferring skills and technology. They exert a democratizing influence within societies by increasing the numbers and strengthening broad-based, pluralistic institutions within countries. ~~PVOs and cooperatives are an important segment of the independent sector but they do not constitute the entire sector.~~ I sometimes wonder if we are restricting ourselves by thinking only in terms of PVOs and cooperatives. Understanding the role of this independent, non-governmental, non-business sector and how it functions is a missing ingredient in the development community's analysis of what makes societies function.

- I believe, then, that ~~we share a vision.~~ We are not talking about particular institutions, rather the critical ~~importance of non-government, independent initiative.~~ That vision needs support. ~~The effort to incorporate this idea into the Foreign Assistance Act under the rubric of pluralism is a good first step.~~ As we proceed with the rewrite, we will undoubtedly come to closer consensus on the kinds of things we need to do to promote the vision of a vibrant independent sector abroad--whether those things involve organizational change and include such things as a "center," or whether those things involve programmatic change.
- I understand the motivation behind the proposal, and I applaud the broader sense of vision which guides the proposal. But I would urge that we wait a moment, before rushing to organizational form, to digest the idea and to have it embrace a broader rather than narrower set of concerns and institutions.
- Mr. Chairman, I hope that I will be able to come before this Committee next year with a revised mandate and legislative framework, and that I will be able to report that we have been able to work out a direction with our colleagues in the private voluntary and cooperative communities, as well as in that broader and rich community which encompasses individual and community initiative both here and in our partner states abroad.

## Assistance to Africa

**Question:** Ambassador Woods, as you know, Africa continues to be the poorest area of the world, yet it receives only 7.2 percent of U.S. foreign aid. It reached a high in FY 1985 of 8.9 percent with Ethiopia aid. The Administration's economic assistance request for Africa remains disproportionately small compared to that continent's needs, and compared to the funding requested for Central America and other parts of the world. Can you tell me why this Committee should not increase U.S. economic assistance to Africa above the FY 1990 request level? What is the total economic assistance level requested from all sources (DFA, ESF, PL 480) for Africa compared to Central America and to Asia and the Near East?

### Answer:

-- The Administration's FY 1990 request for economic assistance for sub-Saharan Africa represents an increase of 11% over the FY 1989 request and is also slightly above our currently estimated FY 1989 program.

-- For FY 1990, the following levels of total economic assistance have been requested for the three A.I.D. regional programs:

	(\$ millions)			
	<u>DA</u>	<u>ESF</u>	<u>PL 480</u>	<u>Total</u>
Sub-Saharan Africa	568.0	83.3	171.5	822.8
Latin America/Carib.	370.9	544.6	231.8	1,146.8
Asia/Near East	370.1	2,703.2	585.9	3,659.2

-- For FY 1990, about 70% of the total request for sub-Saharan Africa is from the development assistance accounts, a much larger proportion than in the Latin America/Caribbean (32%) or Asia/Near East (10%) regions.

-- The effectiveness of our bilateral assistance with the flexibility allowed under the DFA has increased, and resources are more easily programmed for developmental purposes.

-- Our willingness to program assistance to Africa in support of strong economic reform programs has had the effect of encouraging other donors to do likewise. This is important, because they provide from 10 to 15 times as much assistance to Africa as does the United States.

-- It should also be noted that the Administration's budget takes into account resources being made available to various geographic regions by all donors. ~~Africa, with less than 12% of the developing world's population, receives over 31% of all Official Development Assistance (ODA).~~ LAC, with just under 11% of the developing world's population, receives just over 13% of ODA. The ANE area (including China), with around 75% of the population, receives 51% of all ODA.

-- We believe this budget reflects prudent management of our limited resources.

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## Development Fund for Africa

**Question:** Ambassador Woods, since FY 1988 you have had the ability to provide economic assistance to sub-Saharan Africa without functional account limitation, through the so-called "Development Fund for Africa." This authority has been included in annual appropriation acts, but has never been authorized. What successes can you point to, based on your experience over the past two years, that would justify our continuing this authority in next year's authorization bill?

Could you explain the inclusion of a new item in the Administration's request for the DFA -- the "disaster reserve" of \$15 million -- and tell us how this reserve will be used and how it differs from the International Disaster Assistance funds provided?

In light of several recent reports by the World Bank and the UN that have had varying views on so-called structural adjustment programs, can you tell us what A.I.D. is doing along these lines? What amount of funds are you using for this type of program, what effect are these programs having, and what efforts have been made by A.I.D. to mitigate the social impact of structural adjustment?

**Answer:**

### Success with the DFA

- The DFA has only been in place just over one full year. In that time, we have restructured our program to make our limited resources more effective.
- Performance-based Programming. The elimination of functional accounts makes it more feasible to shift resources more quickly to programs and activities which are working. As a result our program is becoming much more performance-based. Between FY87 and FY90, counting both DA and ESF, we have tripled resources allocated to ten top performers from \$48 million to \$147 million (Burundi, Gambia, Ghana, Guinea, Madagascar, Malawi, Mali, Mozambique, Tanzania and Uganda).
- Ability to Support Policy Reform and Use Sectoral Approaches: Under the DFA our programs are now more relevant to Africa's problems:

- o Policy reform is the number one development requirement in Africa, and non-project assistance is often the best way to support and encourage such reform. By 1990, we will have policy reform programs in eighteen countries. Before the DFA, policy reform programs were limited to those which matched available functional account funds. Budgets were locked in and could not be adjusted easily to respond rapidly to changing policy issues. The only way to run the African Economic Policy Reform Program prior to 1988 was to fund it out of ESF.
- o By using sectoral assistance to support improved social and economic services, we are focusing on systemic problems rather than problems more limited in scope and effect. We believe this is a more effective way to get at development constraints. For example, we are now working on two health and one education sector programs which will be aimed at increasing equity, sustainability and efficiency in delivery of these key services.

-- An Integrated Program: We have been better able to develop integrated programs, combining in many cases fast-disbursing sector assistance with traditional long-term projects and PL 480 resources.

-- We remain concerned about the Congress providing flexibility with one hand and taking it away with the other. For example, the new initiatives in basic education, however laudable the intent, continue the process of diluting our effectiveness by forcing A.I.D. Missions into more sectors than we have the resources to affect. There are many important development activities that should be pursued in Africa, but Congress cannot expect A.I.D., with its development budget of \$550 million for 40 African countries, to be effective when it pursues all of these activities.

### *DFA Disaster Reserve*

-- For FY 1990, A.I.D. proposes to provide \$15 million to assure funding for locust control programs and other disaster assistance needs in Sub-Saharan Africa.

- Unlike International Disaster Assistance funds, DFA disaster reserve resources are reprogrammed for other eligible DFA program activities if they are not needed for disaster assistance.
- Over the last few years, the Office of Foreign Disaster Assistance has had to exercise its borrowing authority to meet disaster assistance needs in sub-Saharan Africa. Prudent management dictated the creation of the DFA disaster reserve in FY 88 to assure the availability of DFA funds when International Disaster Assistance funds are no longer sufficient for disasters in Africa.

### Support for Structural Adjustment

- A.I.D. is currently supporting structural adjustment primarily through sector policy reform programs in eighteen different countries in sub-Saharan Africa. Funding for these programs amounts to about \$150 million annually for the 1988-1990 period. As is to be expected, the effects of these programs are quite varied:
  - In Cameroon and Kenya, our fertilizer liberalization programs are broadening access to fertilizer supplies by privatizing importation and distribution.
  - In Mali, our cereals market liberalization program has increased the availability of food for those rural people who are dependent on purchases to supplement their own production.
  - In Tanzania, roads are being rehabilitated by private contractors, thus offering the possibility that the country's grain surplus can be marketed in grain-deficit areas in Tanzania.
  - In Mali, our budget restructuring program is enabling the Government to reduce civil service employment and thus expand the availability of non-personnel recurrent budget items.
  - In Niger, our support of export liberalization policies is expected to increase incomes of farmers and traders.

- We are addressing the social costs of adjustment issue in three ways:
- o through a comprehensive research effort with Cornell University aimed at thoroughly understanding the relationships in Africa between structural adjustment and poverty; and
  - o through a series of social sector restructuring programs aimed at expanding sustainable access of the poor to key social services, even during a period of austerity.
    - For example, in Ghana, which has one of the most successful reform programs, we are providing support to the Program of Actions to Mitigate the Social Cost of Adjustment, established by the Government with the World Bank and several other donors, to assist vulnerable groups most likely to suffer economic and social hardships from the effects of the Economic Recovery Program.
  - o We are working with certain host countries to program local currencies in support of activities to mitigate the social costs of adjustment.

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## Angola-Namibia

**Question:** Ambassador Woods, with the advent of the peace agreement between the governments of Angola, South Africa, and Cuba, and the recently completed A.I.D.-PVO assessment team trip to Angola to start the process of assistance to Angola, what are A.I.D.'s plans to provide assistance to Angola? Why did that assessment team travel only to MPLA-held territory and not to UNITA territory despite an invitation from UNITA? Under what authority did the A.I.D. team travel to Angola when there is a legislative prohibition of assistance to Angola?

Concerning Namibia, do you have any plans to start a program of assistance to Namibia? Under what conditions would that assistance be provided? If assistance is provided before the April 1, 1990 elections, how would A.I.D. ensure the fair and equitable distribution of assistance to all people?

**Answer:**

### Angola

- A.I.D. has no plans to start a development assistance program in Angola. U.S. legislation prohibits the obligation or expenditure of assistance funds for Angola.
- To date, the only assistance provided by A.I.D. to Angolans has consisted of (1) a modest contribution of PL 480, Title II emergency food (about 12,000 MT per year) to UNICEF's supplementary feeding program for displaced Angolan mothers and children and (2) a trip by representatives of A.I.D. and three U.S. PVOs to assess the prospects for humanitarian assistance to Angolans displaced or affected by the civil war. PL 480 assistance and humanitarian assistance are not affected by the legislative prohibition on development assistance to Angola.
- The PVO technical team assessment was a specific U.S. response to the Angolan emergency conference held in May, 1988, under the auspices of the United Nations.
- UNITA has not yet responded to our offer to send a survey team to determine the extent of need for humanitarian assistance in the UNITA-controlled areas and how best to meet it. We are prepared to respond if UNITA asks us to conduct a humanitarian needs assessment in UNITA-held territory.

- The most likely avenue of any new assistance to Angola would be through A.I.D.'s Office of Foreign Disaster Assistance. OFDA is prepared to consider proposals from American PVOs to provide modest amounts of humanitarian assistance to "at-risk" populations in Angola. To date, we have received no such proposals.

### Namibia

- A.I.D. anticipates responding positively to a request for assistance from the government of a newly independent Namibia.
- Since Namibia is expected to become independent on/about April 1, 1990 (elections are scheduled for November, 1989), the earliest we would expect to provide assistance is sometime in the latter half of FY 1990.
- We are reviewing Namibia's development prospects but are not yet prepared to recommend a specific aid program and funding level for Namibia.

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## Sudan

**Question:** Ambassador Woods, I understand the rainy season has begun in Sudan and time is running out in getting food to those at risk in southern Sudan where an estimated 250,000 people are believed to have starved last year because of the war between the Islamic government in Khartoum and the Christian-led rebels in the south. Although both parties to the war have agreed to a one-month period of "corridors of tranquility" to allow food convoys to move uninterrupted, I understand that the international humanitarian effort has been slowed by political, organizational and logistical setbacks, including mud and mine-filled roads, the Ethiopian government's refusal to cooperate, and poor coordination with private agencies active in the area.

What effort is A.I.D. undertaking to ensure the timely delivery and distribution of food and emergency relief to southern Sudan?

### Answer:

- While new initiatives under the United Nations "Operation Lifeline Sudan" have been slow to get underway, a number of efforts were begun before the U.N. effort which will have a significant impact upon assuring that food is in the south before the onset of the rains.
- A.I.D. through its Office of U.S. Foreign Disaster Assistance has been working for the last two years on meeting the relief needs of southern Sudanese. Due to the civil war, access to the south has been limited; therefore, early efforts focused on displaced persons who had fled north into what we call the transitional zone, southern Kordofan and southern Darfur provinces. In places like El Meiram, Kadugli, Muglad and Babanusa, A.I.D. has been channeling assistance through a number of NGOs to meet the nutritional and health needs of the displaced.
- In September 1988, OFDA sent a team into Sudan which launched a highly publicized airlift operation into Abyei, a town which had been cut off due to insecurity and marshy terrain. The November move into Aweil was an even more dramatic breakthrough since 8,000 people are known to have died there last summer. That airlift continues and will have delivered nearly 3,000 MT by the end of this month.

- In January, a train carrying 900 MT of relief food provided by the U.S. and the European Community was the first such train to reach Aweil in over a year.
- Further south, the U.S. Government, with other donors, has been for quite some time supporting an airlift into Juba through Catholic Relief Service (CRS), Church World Service (CWS), Lutheran World Relief (LWR), and World Food Program (WFP). This airlift is still in operation and continues to be the city's only lifeline.
- While the ambitious program outlined at the U.N.'s Khartoum conference has been slow to come together, there are many relief channels which pre-date the U.N. plan and which continue to operate. The role which the U.N. has taken upon itself is to move food along those particularly difficult corridors which the other donors have heretofore been unable to negotiate. If the U.N. does not succeed in its effort, it is because the obstacles they confront are so formidable.
- There have been instances of weak management and poor coordination from the U.N. and among the agencies involved. A.I.D./Washington, OFDA, USAID/Khartoum and the A.I.D. Regional Office in Nairobi have worked diligently with all parties to do as much as possible to move the U.N. effort forward.
- The rains have begun, and roads are becoming mired. This does not mean that over-land delivery modes will be abandoned, but there may need to be greater reliance on air deliveries than originally planned. The U.N. family has received large cash donations from the donors to support logistical operations, including airlifts. The U.S., Belgium, France and Germany have all provided aircraft for the relief effort. A.I.D. expects that both the Government of Sudan and the Sudanese Peoples' Liberation Army will allow these aircraft to continue operating beyond the end of April, using the "Corridors of Tranquility" which have been agreed to. Contingency planing is already underway here in Washington as well as New York, Khartoum and Nairobi for air drop operations should they become necessary. Hopefully, this will not be the case.
- [NB: If you are asked about the cooperation of the Ethiopian government, you should ask to respond in executive session.]

## *Afghanistan*

**Question:** Ambassador Woods, despite the recent Soviet withdrawal from Afghanistan, they have left in their wake economic, social, and environmental devastation of that country as well as the world's largest refugee population. This is admittedly a difficult transition period, but can you tell us what A.I.D. is doing to direct, or redirect, your cross-border assistance program to address these problems and to promote the reconstruction of Afghanistan?

Will the Administration be seeking additional funds to augment its FY 1990 request for the program? How can we be assured that these funds can be utilized wisely during such a fluid period?

Has there been any change in support of the Afghan refugees in Pakistan? Has the UN refugee program begun or when will it be fully operational? What is the timeframe with regard to additional multilateral aid programs into Afghanistan?

What are the mujahideen doing to interdict the growth and trafficking of illicit drugs in Afghanistan? Is A.I.D. supporting these efforts, and if so, how and in what amount?

### **Answer:**

- While maintaining current humanitarian efforts, the A.I.D. program has been redesigned in the past year to focus primarily on meeting the Afghan refugee resettlement program; it will complement UN and other donor efforts as they expand in Afghanistan.
- Our expanded efforts provide support for health programs, and are aimed at reviving the agriculture and primary education systems in Afghanistan. Such support will be essential if the refugees are to be able to maintain themselves upon their return. We have also established flexible systems to channel food and other critical commodities for the return of the refugees.
- The Administration has requested \$70 million for FY 1990, which is almost a 60 percent increase over its FY 1989 request of \$45 million. Nonetheless given the enormous challenge of rebuilding Afghanistan, the Administration is taking a fresh and sympathetic look at the need for additional funds.

- A.I.D. contractors (Management Sciences for Health, University of Nebraska, Volunteers in Technical Assistance, RONCO, and Construction Control Services) employ local Afghan and Pakistani personnel to help us monitor the movement of goods to areas in Pakistan and Afghanistan which, for security reasons, are off-limits to all U.S. citizens including USG officials. With the contractors' assistance, we are continuing to improve our systems which allow us to determine that food, medical supplies, and agricultural implements are reaching their intended beneficiaries.
- As a further check, we monitor the primary markets (bazaars) in Peshawar as well as bazaars near the border areas and have found little evidence of AID-funded commodities flowing back into these markets for sale. The program operates under unusual circumstances which obviously preclude the full end-use monitoring typical of A.I.D. assistance in other situations.
- Despite the complexities of monitoring in this situation, A.I.D. is doing all it can to assure effective utilization of the assistance it provides and is reasonably confident that our resources are being used as intended.
- Pakistan's long-standing and generous support to the approximately three million Afghan refugees within its borders continues unabated. The USG continues to support the UN High Commission for Refugee's (UNHCR) and the World Food Program's (WFP) ongoing refugee care and maintenance in Pakistan.
- For a number of years, the UNHCR and the WFP have managed successful programs to assist Afghan refugees in Pakistan and Iran. In preparing to assist the refugees in their return home, the United Nations is undertaking cross-border activities. Two of the most noteworthy were started with a significant amount of assistance from A.I.D. and DOD. A mine-awareness training program is underway with instructional materials prepared by the A.I.D.-financed Education Council for Afghanistan. The WFP has begun to deliver food to resistance-controlled areas of the country with assistance from the A.I.D.-financed Afghan Construction and Logistics Unit. The UN is also funding a number of agricultural projects which voluntary agencies are implementing.

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- The Office of the UN Coordinator, headed by Prince Sadruddin, has opened field offices (Pakistan being the largest and most important), as well as his main office in Geneva, to coordinate the UN effort. In addition to major fund raising for Afghanistan, the Coordinator's Office is discussing with the Government of Pakistan and Afghan representatives how best to facilitate a coordinated repatriation and resettlement assistance program for Afghans.
  
- There is no specific time frame set for additional multilateral aid programs such as activities the World Bank would fund. In informal sessions, World Bank officials have stated that the political situation in Afghanistan (and attendant security concerns) is still much too fluid for the Bank to launch a reconstruction program for Afghanistan. Nonetheless, based in part on information from A.I.D., Bank officials are attempting to assess the extent of the damage caused to the Afghan economy as a result of the war, in expectation of future initiatives.
  
- Given the war-time situation and the limited administrative structure available to the mujahideen, there is no formal mujahideen program at this time to interdict the growth and trafficking of illicit drugs. However, we are aware that some commanders and religious leaders of the resistance have taken a strong and effective stand within their own regions against the growth and trafficking of illicit drugs. On a pilot basis, A.I.D. provided \$200,000 to help curb the production of poppy. Mindful of the provisions of the Antidrug Abuse Act of 1988, A.I.D. will continue to seek opportunities to discourage poppy production.

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## ***Philippines***

***Question:*** Ambassador Woods, the Administration this year has requested \$415 million for the Philippines, which includes \$200 million for the U.S. contribution to the Multilateral Assistance Initiative (MAI). What will the MAI be used for -- budget support to leverage economic policy reforms? How can you justify this additional \$200 million, especially in light of the sizable pipeline in the Philippines? How will the MAI affect the current pipeline problem and will any conditions be placed on the Philippines regarding a reduction in the pipeline before the MAI can be started? What steps is the Philippine Government taking to implement projects more rapidly?

I am also concerned about reports of ongoing human rights abuses. If the Philippines government expects the current level of funding, much less the increase that the MAI represents, they had better get their act together. Can you point to any recent improvement in the current human rights situation there that would justify this additional \$200 million for the MAI?

And finally, what is the official Administration position on whether the MAI or economic assistance in general is a quid pro quo or "rent" for continued U.S. access to military bases?

***Answer:***

### ***Uses of the MAI***

- The objective of the MAI is to assist in restructuring the Philippines economy to achieve sustained growth and in expanding opportunities for the average Filipino.
- The MAI will help and encourage the Government of the Philippines to develop and undertake a comprehensive economic and administrative reform program aimed at restructuring the economy.
- Donor assistance will be based on a Government of the Philippines economic and administrative reform program, and disbursements will be linked to progress in implementing that program.

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### Justification of MAI

- There is a tremendous need for the MAI right now. The survival of the democratic process depends on transforming the economy to provide sustained growth and expanding opportunities.
- Because of the dimensions of the problem, our strong national interest in its success and limited U.S. resources, we are attempting to mobilize an international effort to assist the Aquino Administration.
- It is this leveraging of other donors' funds, within a framework of Philippines economic policy reforms, that makes the MAI unique and distinguishes it from our regular program.
- USG financial commitment of \$200 million will allow us to organize the MAI, encouraging increased assistance from other donors, as well as Government of the Philippines policy reforms. Without this USG commitment, the MAI is likely to collapse.
- Use of USG funds and further appropriations will be linked to Government of the Philippines performance in the implementation of its reform program.
- The USG contribution will concentrate on three areas of assistance:
  - o support for "fast track" geographically focused infrastructure activities;
  - o specific focus on resolving one or more critical policy constraints;
  - o commercial opportunities for U.S. business.

### MAI and the Pipeline

- There is a significant pipeline in the Philippines, but it must be placed in perspective.
- All countries with project assistance have a pipeline because it takes four or five years for projects to be completed. Also, disbursements for projects are generally low in the first one or two years of implementation.

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- The current donor loan pipeline (through 1987) for the Philippines is estimated at approximately \$3.9 billion. The size of the pipeline and the rate of using donor assistance in the Philippines is not unusual compared to other Asian countries:

India	\$ 19.26 billion
Indonesia	12.26 billion
Pakistan	6.56 billion
Bangladesh	3.76 billion

- The rates of utilization for Asian countries vary between 14 and 30 percent of the pipeline, with the Philippines about in the middle at 24 percent.
- Progress has been made in the Philippines. Disbursements from donor loans increased from \$742 million in 1986 to \$948 million in 1988.
- Nevertheless, we have expressed to President Aquino and other senior Government of the Philippines officials our concern about the slow pace of implementing donor programs. Recently, I again emphasized that this issue must be addressed as part of the MAI.
- The Aquino Administration has taken important steps to accelerate project preparation and implementation. A Project Facilitation Committee has been formed to identify bottlenecks and recommend solutions, and a Cabinet-level officer appointed to oversee and monitor implementation of donor projects.
- Specific administrative changes include:
  - o Increased delegation of planning authority to lower levels of government;
  - o Overhauled and simplified contracting and management procedures;
  - o Increased salaries to attract and retain qualified project managers;
  - o Project design fund to accelerate the planning and design process;
  - o Simplified disbursement process;
  - o Simplified auditing requirements.

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- More needs to be done. The MAI encompasses administrative as well as economic reforms, and will link donor assistance to progress in implementing those reforms.
- The MAI offers an important opportunity to accelerate this process. It is a potential instrument to coordinate donor assistance, implement administrative reforms, and improve the utilization of donor assistance.

### ***Human Rights***

- To understand the human rights situation in the Philippines, one must understand the Philippine political context where the left and right are engaged in a cycle of violence. President Aquino, when she assumed office, was confronted with a discredited judicial system, unprofessional military of questionable loyalty and active Communist insurgency. She moved rapidly to release political prisoners, remove media controls, restore democratic institutions, and hold free and fair elections for a new Congress and thousands of local officials.
- In December 1988, President Aquino strongly reaffirmed her government's commitment to human rights and her determination to take stronger steps to ensure respect for them. Some examples are:
  - o She established a special committee under the leadership of the Secretary of Justice to review human rights policy issues.
  - o She designated city and provincial state prosecutors to assist families in searching for missing relatives in military camps and detention centers.
  - o She also has shifted some human rights cases against members of the armed forces from military to civilian courts.
  - o Secretary of National Defense Ramos has directed that military commanders be held responsible for violations by their subordinates and ordered that human rights be an important consideration in military promotions.
  - o Training of military personnel now places greater emphasis on respect for human rights.

- Aquino oversaw adoption of a new Constitution in 1986 that guarantees respect for human rights. The government has begun reform of an inefficient judicial system, but faces severe resource constraints. The Chief Justice of the Supreme Court has implemented a pilot program designed to improve court management and speed up trials. The Government of the Philippines has also taken steps to improve the efficiency of the judicial systems in its consideration of cases of alleged human rights abuses. A new system of continuous trials is leading to faster conclusion of cases, with the recent conviction for the murder of the human rights lawyer Alphonso Surigao in Cebu concluded less than nine months after his death. We understand the Department of Justice is establishing a special Human Rights Division for prosecution of offenses and the lawyers of the Human Rights Commission have been deputized as prosecutors, pending the approval of legislation to give them prosecutorial power.
  
- Undoubtedly, human rights violations are perpetrated by some members of the military, police and civilian militia, but these are in violation of expressed government policy. The government is working to deter these abuses, but the reform process will take time.
  
- While the number of reports of abuses increased in 1988 over 1987, this does not necessarily mean that abuses have increased commensurately. Increased reports are in part a function of increased public interest in human rights both in the Philippines and abroad and of decreased fear of reporting human rights violations. Some abuses now being reported are from the Marcos era. While statistics in the Philippines are not exact and should only be taken as providing an order of magnitude, it appears that the Communists commit the majority of human rights violations in the Philippines. The New People's Army acknowledged the assassination of over 300 policemen last year. The Communists have also been implicated in assassination of civilian government employees who resist communist direction, and have kidnapped candidates for office and businessmen who refuse to bow to extortion threats.

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**MAI and Military Bases**

- Our ESF and DA request for FY 1990 is part of President Reagan's "best efforts" pledge made in conjunction with the recently concluded Military Base Agreement (MBA) review for FY 1990 and 1991. This request is separate from our initial and future contribution to the MAI, and assistance provided under the MAI is not part of any negotiation on the MBA.
- As former Secretary of State Shultz has stated, the U.S. does not pay rent for the use of military facilities. The economic assistance, which is part of our "best efforts" pledge, will be subjected to normal A.I.D. planning, implementation, monitoring and evaluation requirements in accordance with applicable laws, regulations and operating procedures.
- The MAI is not a quid pro quo or "rent" for continued U.S. access to the military bases in the Philippines.

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## Poland

**Question:** Ambassador Woods, the recently announced U.S. plans to provide Poland tariff relief and aid for private investment through existing programs will require Congressional approval. The \$1 billion package would also include international loans and loan reschedulings from the World Bank, IMF and Paris Club of creditor governments, but delivery of much of the money will depend on further economic reforms by Warsaw.

What role will A.I.D. play in implementing this assistance package to move Poland toward a free-market economy? What other assistance is A.I.D. providing to Poland, such as activities in the agricultural sector, to assist the Solidarity trade union, etc.? Describe those activities in terms of the amounts provided for FY 1988, FY 1989 and proposed for FY 1990; types of activities; and means through which the programs are administered.

**Answer:**

### New Initiative

- A recently announced Administration initiative to assist Poland provides for lowering tariffs through the Generalized System of Preferences (GSP), OPIC, conditional support from the IMF and sustainable rescheduling of official debt through the Paris Club as well as a host of initiatives to support Poland's private entrepreneurs. No new A.I.D. funding is planned.

### Ongoing Programs

- A.I.D. will focus on the management of an estimated ~~\$13.7~~ million portfolio of assistance for Poland in ~~FY 1989~~ (\$3.2 million DA, \$3 million ESF and \$7.5 million in PL 480 resources).
- These activities, designed and funded in accordance with Congressional guidance, include provision of medical supplies and equipment, a monetized PL 480 program, agricultural assistance to farmers, and support for Solidarity.

- For FY 1990, the Administration has requested \$1.0 million to complete the Agricultural program in support of private Polish farmers.

### BACKGROUND

- Solidarity

\$1 million in ESF in FY 87 and FY 88.  
\$2 million in ESF in FY 89.

~~Resources for Solidarity have all been channeled through National Endowment for Democracy (NED), which subgranted \$1 million in 1987 and 1989, to the International Rescue Committee to provide medical equipment to Solidarity's Social Foundation. In FYs 88 and 89, NED provided \$1 million each year to the AFL-CIO Free Trade Union Institute on behalf of Solidarity.~~

- Assistance to Private Farmers

Up to \$10 million in development assistance funds.

The funds are granted to the Catholic Relief Service which works in collaboration with the Church Agricultural Committee (CAC), and purchases agricultural goods for sale to private Polish farmers. The local currency generated from the sales are used by the CAC to co-finance rural water systems. In FY 88 \$5.7 million was obligated to the program, another \$3.2 is planned for FY 89. *of what?*

- Medical Supplies and Hospital Equipment

\$1 million ESF in FY 89.

A.I.D. is in the process of identifying a PVO to provide the supplies and equipment before the end of the fiscal year.

- American Aid to Poland

8,000 metric tons of PL 480 Section 416 -- FY 88-92.

Surplus U.S. agricultural products are to be sold, with the local currency proceeds used to improve the quality of life of

the Polish people. Priority is to be given to activities which benefit handicapped or orphaned children, the Jewish Research Center of the Jagiellonian University of Krakow and to support private and independent sectors of the Polish economy especially independent farming and agriculture.

1712G/17

## Egypt Cash Transfer

**Question:** Ambassador Woods, each year the Congress is asked to provide \$115 million of the assistance to Egypt as a cash transfer to support economic reform. Yet every article I read on the Egyptian economy talks of the high government subsidies on just about everything from gasoline to bread to utilities and the absolute political impossibility of reducing any of them without severe domestic instability. Given all that, exactly what economic reforms have we gotten for our money? Since the FY 1989 bill conditioned the release of \$115 million cash transfer on additional economic reforms, and I understand the funds have now been released, what specific reforms have been taken? Is the administration concerned that it may be linking the release of these cash transfers to the Egyptian Government's undertaking economic reforms that could prove to be politically risky?

### Answer:

- Concerning reforms, Egypt has made some progress in implementing its reform agenda. They have
  - broadened agricultural liberalization efforts by raising cotton producer prices by 70% over two years, eliminated the subsidy on feed corn, and sharply cut fertilizer and pesticide subsidies;
  - made quiet progress in reducing the food subsidy burden. Flour and cooking oil prices have been raised, and a new variety of 5 piaster bread is gradually replacing the current 2 piaster variety;
  - made modest adjustments in the exchange rate; and
  - recently increased energy prices.
- These are positive steps. However, most of these measures do not deal significantly with the severe structural weaknesses which need to be addressed to revitalize the Egyptian economy. Further attention is needed to decrease the budget deficit, unify the exchange rate, increase interest rates, ease price controls, reduce subsidies and liberalize regulations in the productive sectors. As a result we did not release the FY 88 cash transfer.

- The Egyptian Government recently proposed a series of reforms which include some measures to address these structural weaknesses as well as a major liberalization of the industrial and agricultural sectors. We strongly support these proposals and are discussing the details of implementation with the GOE. We are prepared to release the FY 88 and 89 cash transfer resources, in consultation with Congress, as implementation occurs.
- The Government is concerned, however, that increasing prices could lead to political disturbances. There is obviously a point at which the Government cannot go further. However, we do not share the view that that point has been reached.

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## Ireland

**Question:** Ambassador Woods, the Administration in 1986 proposed to provide \$250 million over five years to help launch the International Fund for Ireland (IFI) as a demonstration of U.S. support for the Anglo-Irish agreement and as a means of promoting economic advancement and reconciliation in Ireland. Can you tell us how the Administration plans to pursue this proposal and why no funds were requested for the IFI in the FY 1990 budget?

There have been a number criticisms of the Fund's operations, including allegations of misuse of IFI funds for inappropriate activities such as tourism, discrimination in the project approval process, and failure to reach the most disadvantaged areas. Can you tell us what role A.I.D. plays in monitoring the IFI and how we can be assured that taxpayers' money is being used as intended in this Fund?

**Answer:**

### FY 1990 Funding for the International Fund

- The Administration proposal contained \$100 million in cash and \$150 million in resources potentially available in Housing Guarantees, OPIC, TDP, and the PRE Revolving Fund.
- The Administration has in good faith pursued the agreed upon levels of funding, levels which we felt expressed our commitment to the IFI while maintaining proper fiduciary responsibility. We have provided \$120 million in cash. This commitment exceeds the original proposal of \$100 million. Concerning the other \$150 million, U.S. Government representatives have briefed British and Irish officials on various programs and resources available. To date, neither government has shown interest in participating.
- Our decision not to request additional funds in FY 90 does not in any way diminish our strong support for the Anglo-Irish Accord. It is simply that the United States has met its cash commitment to assist in capitalizing the Fund.

### Fund Operations

- The Board has established program teams to carry out project selection in six focus areas. The teams are enjoined to make funding decisions in accordance with the principles of equality of opportunity and nondiscrimination in employment, without regard to religious affiliation; and to address the needs of both communities.
- Each decision by the Board is made within the context of job creation, additional resource mobilization, private sector involvement, and reconciliation. It also assures that no other private or public funds are available.
- A.I.D. has agreed with the Fund on the procedures and precepts governing project selection. Through visits to Ireland, reports from our Consulate, frequent contacts with Fund staff and bimonthly meetings with the U.S. Observer, A.I.D. keeps informed of the Fund's activities.
- A.I.D. is satisfied with the implementation of the Fund, its policy framework, and the institutional arrangement for project review, approval and implementation.

1712G/19

## Pakistan

**Question:** Ambassador Woods, over the past few years, Pakistan has been the third largest recipient of foreign aid, in large part because of its role in supporting the Afghan resistance. Now that the Soviet troops have withdrawn from Afghanistan, how can you justify continued high levels of assistance to Pakistan, especially in the face of that country's determined efforts to develop nuclear weapons?

Also, please address A.I.D.'s narcotics control efforts in Pakistan.

**Answer:**

### Post-Soviet Assistance Levels

- In 1987, the United States committed itself to assist Pakistan from 1988 to 1993 by providing \$2.28 billion dollars of economic assistance. The Pakistan Government expects us to honor that commitment. I believe that a reduction in funding before this commitment is honored would be inappropriate and possibly counterproductive.
- The U.S. has a stake in the success of Pakistan's progress toward democracy and in the survival of the democratically elected government of Prime Minister Bhutto. A reduction in U.S. aid at this time would inevitably be interpreted as a lack of faith in Pakistan's new democratic order. A deep cut could even jeopardize the stability of the current democratic government.
- While Soviet troops have withdrawn from Afghanistan, about 3.5 million Afghan refugees remain in Pakistan. This places an extraordinary burden on Pakistan's economy. The Government of Pakistan estimates that it spent \$180 million in 1988 to support the refugee population. Even when Afghanistan's political and economic circumstances return to a much greater degree of stability, Pakistan will continue to bear economic costs of repatriating refugees and rehabilitating refugee areas, thus continuing to warrant high levels of U.S. economic assistance.

we are applying in relief?

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- It is not in our interests to be seen as befriending a nation until American goals are achieved, and then turn our back on that friendship. Pakistan has been a good friend in a region of the world where good friends are valuable. We would be terribly short-sighted to be perceived as rejecting Pakistan's friendship simply because the Soviet Union has suffered a setback in Afghanistan.
  
- Pakistan is a poor country with a per capita income of roughly \$390/year. It has serious social problems and social indicators such as literacy, population growth, infant mortality are among the worst in the world. However, Pakistan also has the potential for continued economic growth. Our economic assistance serves important development goals in a country that has moved increasingly toward privatization and is now planning to mount major social programs to improve education, health and family planning services. Our economic assistance program of \$2.02 billion over six years also alleviates Pakistan's foreign exchange needs through quick-disbursing grants and loans, and lays the foundation for long-term economic growth.
  
- Finally, it is also important to note that over the past seven years, since the start-up of our assistance program in 1982, we have worked together with the GOP to design and implement some very important development projects. The response from the GOP has been very good but we still have a long way to go in carrying these projects to fruition so that they can benefit greater numbers of Pakistanis.

### *A.I.D.'s Narcotics Control Efforts*

- In 1979 opium production in Pakistan reached a high level of 800 metric tons but declined to 55 metric tons in 1985. Since 1985, production has steadily increased. Last year Pakistan produced an estimated 205 metric tons of opium. Pakistan is also a transit and processing country for poppy cultivated in Afghanistan which may be currently over three times this amount. With only half of the United States population, Pakistan has roughly the same number of heroin addicts, approximately 650,000. It is estimated that Pakistan consumed domestically 280 tons of opium per year to satisfy its internal heroin addict population. Pakistan consumes more opium than it produces.

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- The new Bhutto Government has made narcotics suppression a "number one" priority. Prime Minister Benazir Bhutto has named a special advisor for narcotics, who reports directly to her, and she has under consideration options for upgrading GOP narcotic programs and organizations. A.I.D.'s activities fully support her Government's efforts.
- eg. -- A.I.D. since 1983 has been promoting development alternatives to poppy production in the Gadoon-Amazai area where once more than fifty percent of Pakistan's poppy crop was produced. Today the Gadoon-Amazai project is considered a model for other "poppy projects" in Pakistan. Production in Gadoon-Amazai has declined from over 7,000 acres in 1985-86 to under 500 acres in 1988. Only 100 to 150 acres of poppy was planted in Gadoon-Amazai this year. According to the GOP, virtually all was eradicated. The Embassy has verified independently that eradication was virtually complete. While these efforts show signs of success, the A.I.D. project interventions take place in a restricted area.
- Narcotics production is on the increase in areas where donors have not funded activities. Consequently, A.I.D. is expanding its project into the Kala Dhaka area, adjacent to our present project area. In addition, \$10 million in A.I.D. funding has also been provided to the United Nations Funds for Drug Abuse Control (UNFDAC) to manage a similar development project in Dir, Pakistan's second largest poppy-growing area.
- A.I.D. is providing \$3 million over five years to help the GOP's Pakistan Narcotics Control Board (PNCB) establish a center to promote demand reduction through public awareness campaigns and training. Over the last three years A.I.D. has provided \$672,000 for public awareness campaigns against drug abuse.

## West Bank and Gaza/Jordan

**Question:** Ambassador Woods, please describe how the West Bank and Gaza development program is administered and the effect on the program, if any, of Jordan's withdrawal. Have the recent violence and uprisings in the area affected current project activities? The Congress doubled the Administration's FY 1989 request for activities that are implemented by PVOs in the West Bank and Gaza to \$15 million. I understand that A.I.D. is now considering use of the \$7 million originally provided for the Jordan West Bank Development Program in FY 1988 for expanded PVO activities in the West Bank/Gaza territories. Given the Administration's original request, why is there sudden interest in, or reason for, such a rapid expansion of these activities? What mechanisms does A.I.D. have in place to monitor and evaluate what the PVOs are doing? What is the status of the PVOs' performance? Why shouldn't this \$7 million be used to augment the regular Jordan program, for which I note you are requesting an increase in FY 1990?

### Answer:

- We are making a significant contribution in humanitarian and development assistance to Palestinians in the West Bank and Gaza. For example, the PVOs which we fund have:
  - managed food programs and health-related services which together have touched over 65% of the villages in the West Bank;
  - provided over 2,000 undergraduate scholarships and 15% of all recent graduate degrees in the territories;
  - strengthened a major portion of the territories' private agricultural marketing cooperatives.
  
- Our planned reallocation of the \$7 million of FY 1988 ESF funds seeks to ensure that the assistance directly benefits the inhabitants of the occupied territories, as was originally intended by Congress. The proposed reallocation to our direct West Bank/Gaza program is the only mechanism remaining after Jordan's cancellation of its program. It will allow us to restore and implement our original commitment to assist the people of the occupied territories made during FY 1988.

- There is a continuing and increasing need for humanitarian and development assistance to the Palestinian people in order to respond to the declining economic base of the territories and the disruption of self-sustaining enterprises and institutions. This has become especially critical as Israel's economic situation and the effects of the uprising have constrained the Government of Israel's ability to provide important services to the Palestinian population.
- Following its July 1988 policy declaration, the Government of Jordan agreed with our intention to reallocate the \$7 million so that it still benefits the Palestinians through the direct program. The Government of Israel has also encouraged us to use the funds for the originally intended purpose.
- We have been encouraged by the willingness of the U.S. PVOs to expand their involvement in the territories, despite the current difficulties there. We received over \$60 million in new proposals from PVOs for FY 1989, \$22 million of which we are prepared to proceed with for new projects, provided the \$7 million in funds are reallocated. The PVOs would continue to provide their established expertise, including health care, services for the handicapped, agricultural marketing cooperatives, scholarships, and training.
- Our direct program, which is primarily implemented through PVOs, will continue to provide among other things, health care education, handicapped services, assistance to agricultural cooperatives, and scholarships or training -- but not large infrastructure projects which had been the emphasis of the Jordan program that was cancelled in July 1988.
- The uprisings have created some implementation problems for the PVOs, but generally they have adapted well and have met their project objectives and disbursed project funds in a timely manner. The experience of the PVO field staff and their rapport with both the Palestinian communities and the Government of Israel have made it possible for A.I.D.-supported activities to proceed without major disruption.
- The basic nature of PVO responsibilities has not really changed, through the magnitude of those responsibilities will grow due to the doubling of the West Bank/Gaza earmark for FY 1989.

- We expect that they will continue to perform well, and the direct program will continue to be administered by the State-A.I.D. Working Group in Washington and monitored by two State Department officers and two local foreign service national PSC assistants in Tel Aviv and Jerusalem.
- Our external AID evaluations, financial audits, site visits from AID/Washington, and field monitoring from Embassy/Tel Aviv and CONGEN/Jerusalem State Department staff will continue, in order to ensure that the PVOs continue to manage their programs effectively.
- The six major PVOs in the program are Catholic Relief Services, Save the Children, AMIDEAST, America Near East Refugee Aid, Agricultural Cooperative Development International, and the Society for Care of the Handicapped.

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## **Humanitarian Aid to the Nicaraguan Resistance Forces**

**Question:** Ambassador Woods, following an agreement negotiated by Secretary Baker with Congressional leaders, the Congress passed legislation which provides \$49.75 million for the Nicaraguan contras through February 1990 when the Sandinista government is tentatively scheduled to hold elections. This aid can also be used to return the resistance members to Nicaragua if they want to take part in the civic and political life there. Supporters of the legislation believe it marks an end to the contra war in Nicaragua and a return to bipartisanship on foreign policy issues. Some opponents believe it is a sell-out of the resistance forces and that military aid should have been provided or at least conditions should have been specified for a resumption of weapons shipments. I have several questions regarding this program.

(1) How will A.I.D. implement and monitor this program? What has been A.I.D.'s experience in implementing the current program of humanitarian assistance and what systems does A.I.D. have in place to ensure adequate control of the program? Should one or more of the four Congressional committees object to continued assistance after November 30, what impact would the cessation of this humanitarian aid have on the contras?

(2) It has been brought to my attention through your Inspector General's office and other sources that some members of the Contras are alleged to have practiced torture against some of the people they had taken as prisoner. Moreover, the GAO investigations indicate that the families of some of these contras accused of human rights abuses have been receiving assistance under A.I.D.'s family assistance program. What is A.I.D.'s response to these charges?

(3) The New York Times recently report that leaders of the Yatama Indian rebels have alleged that A.I.D., under the earlier assistance program, did not provide the Indians the \$2.19 million earmarked specifically for them but provided these funds to the contras. I would appreciate your comments on this allegation and also A.I.D.'s plans to help repatriate these Indians who have indicated a willingness to return to Nicaragua.

(4) And finally, would you also explain why A.I.D. failed to offer humanitarian assistance to Nicaragua after it was devastated by Hurricane Joan last fall in contrast to the assistance provided to Soviet Armenia following the earthquake there?

**Answer:**

**PROGRAM IMPLEMENTATION AND CONTROLS**

- At the inception of this program on April 1, 1988, I established a Task Force on Humanitarian Assistance in Central America, which reports directly to me, to implement this mandate in Washington and in the field. A number of U.S. Government agencies are cooperating with us in this endeavor.

The principles of openness and accountability guide the program. All operations will continue to be monitored by our own staff, the GAO, A.I.D.'s Inspector General, and a private accounting firm (Price Waterhouse).

Regarding the question of "adequate control," in May 1988, following an in-depth examination, Congressman Panetta testified before the House Foreign Affairs Committee that A.I.D. should be commended for how it has administered this program in the difficult political climate; he recommended that a resolution of inquiry he had introduced be tabled by the committee. Moreover, after an exhaustive independent review of A.I.D.'s efforts, on October 14 the GAO reported to Congress that there is no legal basis to sustain an objection to the way A.I.D. is administering the program.

- In February 1989, the A.I.D. Inspector General's Office and Price Waterhouse submitted draft audit reports to us on the implementation of the first phase. The draft reports, which were finalized in March, were favorable considering the complexity of the program.
- Also in March, the General Accounting Office, in a draft report on the first six months of this program, indicated that due to the close scrutiny by A.I.D. managers the GAO had no recommendations to make to improve implementation of the program.

Regarding the impact of possible cessation of aid in November, we would hope the conditions of the Bilateral Accord will prevail, and the assistance will not be terminated November 30.

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- The existence of the Resistance is an essential element in our "carrots and sticks" diplomatic strategy to ensure free and fair Nicaraguan elections be held February 25.
- If the aid is terminated precipitously on November 30 before the écon safeguards, political and human rights conditions are right in Nicaragua for voluntary reintegration, one could imagine the aftermath:
- Some Resistance will return to fight on their own, others could turn into unruly groups on the borders, both moves undermining regional security; others will likely attempt illegal entry to the U.S. and Central America; and others would likely apply for U.N. support as refugees. Very few would go back into Nicaragua without reliable safeguards for their personal security and economic options.

### **HUMAN RIGHTS**

- The Nicaraguan Resistance and the Nicaraguan Association for Human Rights, working with the State Department office that has primary responsibility in these matters, have been investigating and prosecuting persons accused of gross violations of human rights.
- On March 24, after weeks of investigation, a Resistance tribunal found four persons guilty of human rights abuses, one commander guilty of complicity in an abuse, and one commander guilty of concealing an abuse. Five other persons were found innocent. The tribunal is continuing its inquiry in two other cases.
- The six persons found guilty of abuses were expelled from the Resistance, and relevant evidence and testimony were turned over to Honduran authorities. Two persons are exercising their right, under the Resistance's Code of Conduct, to appeal the tribunal's verdict. Of the six convicted, two were receiving family assistance payments.

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- A.I.D. has a policy, which is being strictly enforced, that any person judged guilty of a gross violation of human rights (and who has exhausted the right to appeal) is barred from receiving any form of assistance through the U.S. humanitarian assistance program. That individual's family also loses eligibility under the family food program. Any person suspended pending investigation or any person appealing a verdict (and their families) can receive daily rations pending outcome of the investigation or appeal; however, any family assistance payments are deferred pending outcome of the investigation or appeal.

### **YATAMA**

- Congress earmarked \$2.19 million (for the period April to October, 1988) which was to be provided only to the Yatama, the Indian Resistance group. A.I.D. supplied Yatama resistance forces with approximately the same level of assistance as other resistance forces received, but spent only \$1,200,000 in doing so. The difference in these amounts was returned to the U. S. Treasury at the end of the program, and was not given to other resistance forces.
- In consultation with Congressional staff members during Phase I, TFHA explained the situation and asked if the sum of \$2,190,000 was based on a higher number of Yatama resistance members than we were able to locate. If so, TFHA requested information as to where they were. No one could give a known number for Yatama resistance members, nor was anyone familiar with the basis for calculating the \$2.19 million.
- As is the case with all assistance to the resistance, we are allowed by the Government of Costa Rica to conduct only very limited humanitarian assistance activities in Costa Rica.
- Regarding the New York Times article (April 19, 1989), while we are sympathetic to the plight of the 35,000 Miskito Indian refugees in Honduras noted in the

article, our mandate is to assist in the reintegration of all resistance members and their families. We do not have authority to assist refugees or the Nicaraguan population at large. To ensure strict accountability, TPFA supplies assistance directly to resistance units and does not pass funding through political leaders.

### HURRICANE JOAN

- A.I.D. was unable to offer humanitarian assistance to Nicaragua because a Government of Nicaragua executive decree issued on October 5 by the Ministry of External Cooperation prohibits "the entrance into Nicaragua of aid in money and in-kind connected to the U.S. Government." The Nicaraguan National Assembly also passed a law on October 6 making it a treasonous offense (subject to penalties of up to 12 years in prison) for any person or organization to accept Congressionally approved U.S. funds. The law includes "direct or indirect" assistance.
- President Ortega on October 28 specifically rejected USG disaster relief assistance.
- Over the years, the assertion that the USG international disaster assistance program is a political and strictly humanitarian has been tested (for example, assistance to Ethiopia) and we have been able to provide aid whenever needed and acceptable to the host country. However, with Nicaragua, provision of USG assistance was severely handicapped when President Ortega refused such assistance and stated that "defense of the Revolution" takes precedence over the economic and social welfare of Nicaraguan citizens.
- In lieu of direct disaster relief, the USG facilitated export licensing for a number of private and voluntary organizations delivering privately donated relief supplies to the people of Nicaragua.
- After the earthquake that devastated Soviet Armenia, then President Reagan made an offer of USG assistance to relieve the suffering of the people of Armenia. Within

several days of the offer, the Soviet Union stated that they would willingly accept assistance to cope with that disaster. The result of that acceptance by the Soviet Union led to the deployment of a disaster response team comprised of medical personnel, search and rescue teams, and a shelter expert.

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### Costa Rica - FY 90 ESF Request

**Question:** Ambassador Woods, once again the Administration is requesting a significant reduction in ESF for Costa Rica from an FY 1989 earmarked level of \$90 million to a request level of \$57 million. There is widespread suspicion--both in Congress and in Costa Rica--that this reduction is an effort by the Administration to pressure President Arias on his Central America peace plan. Although the Administration claims that the reduction is a result of improvements in the Costa Rican economy, where I come from, you don't reward good performance by cutting the incentives. What is the real reason the Administration continues to reduce the request for Costa Rica? And since you know Congress will restore this cut, where would you suggest we take the money from?

### Answer:

- The reduction in ESF for Costa Rica from an FY 1989 earmarked level of \$90 million to a request level of \$57 million in no way reflects an effort by the Administration to pressure President Arias on his Central America peace plan.
- Nor is the reduction an attempt on the part of the Administration to cut incentives following Costa Rica's exceptional economic performance since 1983. The proposed reduction in ESF for FY 1990 reflects recognition that the economic, financial and structural reforms begun by the Monge Administration and continued under President Arias have restored stability and growth to Costa Rica's economy.
- Per capita GDP growth has averaged more than 4% since 1983.
- Foreign exchange earnings from non-traditional exports have increased from \$128 million in 1983 to \$440 million in 1988.
- The government deficit amounts to less than 1.7% of GDP.
- Unemployment has been reduced to 5.6%.

- Other donors are increasing their contributions to Costa Rica's stabilization and growth objectives. The IMF is considering a follow-on standby for Costa Rica after the current program expires in March. The World Bank has approved a second Structural Adjustment Loan for \$100 million to Costa Rica, to be accompanied by another \$100 million from the Government of Japan.
  
- We would be opposed to additional cuts in other programs to provide more ESF for Costa Rica rather than use these scarce resources to help poorer nations in greater need of assistance. Long-term dependence on ESF runs counter to indicators that Costa Rica has entered a period of economic recovery.

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## El Salvador

**Question:** Ambassador Woods, after eight years of pouring some \$3 billion in foreign assistance into El Salvador, the U.S. has precious little to show for the aid which many say has been wasted. In fact, at this stage the situation in El Salvador is especially bleak -- death squad activity is increasing and the right wing ARENA party is ready to assume control of the government. Yet despite the major infusions of U.S. aid, El Salvador has failed to undertake the needed judicial reforms and human rights abuses continue. In view of this record, can you tell this Committee why any ESF we may give to El Salvador should not be projectized?

As a result of several investigations last year into allegations of corruption in the El Salvador aid program, I'd like to know what steps A.I.D. has taken to improve the management of its program there.

Also, I would be interested in your opinion regarding the accomplishment of the Administration of Justice Program because it seems too clear to me that it simply is not accomplishing anything at all.

### **Answer:**

#### OUR AID HAS MADE A DIFFERENCE:

- The economy has stabilized. Growth is modest but positive. Unemployment is below 15%.
- The infant mortality rate has dropped from 77/1000 in 1979 to 50 in 1988.
- Private sector investment has been increasing at 12% a year.
- Over half a million rural landless have received land.

#### AND PERHAPS MOST IMPORTANTLY:

- The democratic process has survived and is deepening. The recent Presidential election, held in spite of FMLN anti-election terrorism acts, showed the commitment of the people to choose their own government.

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THE HUMAN RIGHTS SITUATION HAS IMPROVED:

- ~~Politically motivated killings decreased~~ from an average of 750/month in 1980 to 19/month in 1988. ~~Right-wing death squad activity has decreased substantially.~~ ~~Left-wing political murders are, however, increasing.~~
- Several members of the Administration have stressed to President Elect Cristiani the importance of improving the human rights situation even further.
- For the first time, the military has turned over officers alleged to have violated human rights to civilian authorities. They have been indicted. (San Sebastian/San Francisco case).

ADDITIONAL PROJECTIZING IS COUNTERPRODUCTIVE:

- It will directly reduce our leverage in all policy reform areas, economic, social, and human rights.
- ~~In El Salvador A.I.D. already operates the largest D.A. portfolio in the world.~~ *Pe*
- In 1990 we have requested \$67.5 million in D.A. and \$45 million in projectized ESF. Together, this represents 45% of the portfolio.
- The balance of ESF, plus P.L. 480, supports imports needed to prevent economic contraction which would cause increased unemployment and hurt the poor and unskilled the most.
- ESF and P.L. 480 local currency counterpart is vital as counterpart funds to our and other donor projects in health, education and agriculture.

CONTROLS ARE IN PLACE TO PREVENT CORRUPTION:

- As with any activity involving the funding of a large number of diversified activities, in either the public or private sector, there is always the chance of problems occurring.

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- Both the Inspector General's office and local CPA firms actively audit both dollar and local currency projects in El Salvador.
- There have been isolated instances of diversion, but they are detected quickly by our own monitoring systems. In the CONARA case, no U.S. appropriated funds were involved.
- A.I.D. is working closely with a number of Salvadoran agencies to improve their internal controls. They are receptive to the need for sound management.

THE ADMINISTRATION OF JUSTICE PROGRAM HAS HAD POSITIVE IMPACTS: \

- The Special Investigative Unit (SIU), with its forensic lab, has investigated a number of the more difficult criminal cases in recent years. Their work led to the extradition from the U.S. of a key participant in the murder of Archbishop Romero and indictment of the alleged San Sebastian murderers.
- The Revisory Commission has prepared a wide variety of proposals for revision of laws including the code of criminal procedures.
- Significant progress has been made in improving and streamlining the system of judicial administration.
- Much more needs to be done. Judicial reform is a high priority in our program.
- President-Elect Cristiani indicated to Administration officials that he intends to pursue further judicial reform.

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## Sanford Commission Report on Aid to Central America

**Question:** Ambassador Woods, I am sure you are familiar with the February report of the 47-member International Commission for Central American Recovery and Development (ICCARD) which urged the international community to increase its contribution from \$1.5 billion to \$2 billion in aid annually to the region for the next five years. The current level of U.S. assistance is about \$760 million. The so-called Sanford Commission includes 20 Central Americans and a number of European and American diplomatic figures. In the report, the Commission noted a lack of coordination among the donors in the region. In view of the recent bipartisan agreement on Central America, what are your plans to improve regional coordination and cooperation and what are your views on the report's recommendations?

(Background: Senator Sanford, a member of the SFRC, is expected to conduct hearings relating to the recommendations contained in the report with the hope of incorporating them into the FAA. The recommendation for increased international assistance to the region does not envision increased U.S. assistance but sustained current levels.)

### **Answer:**

- We have found that the best mechanism is that of the Consultative Groups, led by the World Bank. Three such newly-formed groups have met - on Costa Rica, Honduras and Guatemala. These groups provide a mechanism for consultation and coordinated investment in priority areas.
- Consistent with the bipartisan agreement on Central America and the Tesoro Beach and Esquipulas II agreements we are encouraging other donors to provide resources to Central America. However, we stress that this assistance should accompany democratic reforms.
- ~~The Sanford Commission Report is basically sound in its analysis and recommendations.~~ The report is generally supportive of U.S. economic assistance efforts, and endorses the main economic policy initiatives we have pressed - - establishing a sound macro-economic policy framework supportive of growth, export development and a generally greater reliance on markets.

-- The Sanford Report is optimistic about the short-term prospects for peace and reconciliation among the Central American states, but presents no alternatives should that process be delayed.

-- We see two basic problems in the report:

- an overemphasis on Central American regional cooperation as both an economic and political panacea for the problems of the region. In particular, it overlooks structural problems confronting a reinvigoration of the Common Market such as bringing exchange rates into equilibrium, and it overemphasizes the importance of intra-regional trade versus hard currency-earnings exports to world markets.
- a "welfare worldview" in the non-economic recommendations -- where the poor in Central America are seen more as objects to be benefited by aid agencies and governments rather than as full-fledged working participants in the development process.

-- In addressing Central America, we need to:

- promote faster, sustainable economic growth and job creation, particularly through better macroeconomic and sectoral policies, nontraditional exports outside the region, and encouragement of private investment;
- focus on a broader base for that growth and development of the human resource base through public and private programs in education and health in particular;
- intensify our efforts to support democratization in the region, through judicial reform, support for the electoral process, and strengthening legislative functions.
- attack these issues where the fundamental responsibility lies -- bilaterally with individual national governments. Regional efforts can then support these efforts where common approaches are indicated and larger total gains for the region can be achieved.