

PN-APP-028

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

April 15, 1988

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

FROM : LEG, Kelly C. Kammerer *KCK*

SUBJECT: Briefing Materials for Your Appearance Before the
Inouye Subcommittee

DISCUSSION: Attached are the 25 key questions we anticipate will be asked at each of the Senate Appropriations Foreign Operations Subcommittee hearings scheduled for Tuesday, April 26 and Thursday, April 28. Answers to the questions have been prepared by relevant Bureaus and Offices and cleared by PPC and GC.

We have scheduled a briefing to review these and other issues that may be raised at the hearings at 11 a.m. on Friday, April 22. A followup briefing is scheduled for 2 p.m. on Wednesday, April 27.

A separate memorandum describing the format of the two hearings and the background and interests of the participants will be submitted on Friday, April 22.

Also attached are transcripts from Peter McPherson's appearances before the Foreign Operations Subcommittee in 1987 (chaired by Senator Inouye) (Tab A) and 1986 (chaired by Senator Kasten) (Tab B). The transcripts include questions and answers submitted for the record.

A comprehensive briefing/reference book, including budget tables, will be submitted on April 18.

Attachments: a/s

cc: AA/PPC, Richard Bissell (w/out attachments)
PPC/PB, George Hill (w/out attachments)
PPC/PDPR, Kathy Blakeslee (w/out attachments)
GC, Tim Fry (w/out attachments)
GC/LP, Bob Lester (w/out attachments)
LEG, Tyler Posey (w/out attachments)
LEG, Marianne O'Sullivan (w/out attachments)

Senate Appropriations Foreign Operations Subcommittee
April 26, 1988

Twenty-Five Key Issues

1. Operating Expenses (AID)
2. Operating Expenses (IG)
3. Operating Expenses (IDI Program)
4. Operating Expenses (Fiscal Responsibility)
5. Operating Expenses (Management Studies)
6. Basic Education
7. Salary Supplements
8. Microenterprise
9. Women in Development
10. Aging
11. Population Planning (UNFPA)
12. Population Planning (PPFA)
13. Functional Account Funding Levels
14. Agricultural Research Funding
15. PRE Revolving Fund Management
16. Mediterranean Fruit Fly
17. Global Environment Improvement
18. River Blindness and Ivermectin
19. Energy
20. Surplus Dairy Products
21. Acquired Immune Deficiency Syndrome (AIDS)
22. Deobligation/Reobligation Authority
23. Participant Training and Brain Drain
24. ASHA (Funding Level and Esperanca)
25. Management: Decentralization and Mission Oversight

0064G

Operating Expenses (A.I.D.)

Question: Ambassador Woods, from FY 1981 through FY 1989 A.I.D.'s operating expenses request, as well as the actual amount appropriated, increased at a rate that exceeds inflation in the United States. Local currency available to pay certain A.I.D. operating expenses overseas has also increased from \$7 million in 1981 to more than \$50 million today. At the same time, the total number of A.I.D. employees has declined substantially. It seems to me that the operating expenses account is becoming disproportionately large compared to program funds. Given the increases each year in A.I.D.'s operating expenses request, notwithstanding a decline in the level of full-time personnel, what steps do you believe you can take as a manager to bring operating costs under control? More specifically, what have you done since you arrived at A.I.D. to cut costs and what concrete plans do you have for the future?

Answer:

- From FY 1981 through FY 1989 (estimated), cumulative inflation rose at a rate of 36 percent, based on the GNP deflators for those years. During this same period, the A.I.D. Operating Expense appropriation increased by 39 percent. If local currency trust funds are added to the appropriated levels, the increase is approximately 54 percent. This increase is somewhat misleading, however, since these are local currencies translated into dollar amounts at the official rate of exchange versus the market rate.
- Several factors combine to explain the increase in operating expense requirements in excess of overall U.S. inflation rates.
 1. While U.S direct hire employment levels have declined, salary and benefit costs will have increased by about 35 percent (\$53.3 million) from FY 1981 actual to the estimated FY 1989 cost. This increase is due to Federal pay raises from 1981 through 1988, increased allowance costs resulting from the Foreign Service Act of 1980 (implementation of which did not begin until FY 1982), and increased costs resulting from the new Federal Employees Retirement System.
 2. The workforce reduction was primarily in U.S. direct hire employees located in Washington and in foreign national direct hire employees overseas. In the case of the latter, they were in large part replaced by foreign national personal service contract employees. Thus total employment overseas has remained relatively constant during this period.

3. The cost of operating USAID missions or offices in over 70 countries cannot be compared to the U.S. inflation rate. In many countries local inflation has greatly exceeded the U.S. inflation rate, in many cases reaching double and even triple digits. While the purchasing power of the dollar has effectively equalized the inflation rate in some countries, this has not been the case in many others. This has been particularly true in many West African countries, whose currencies are tied to the French franc. In these countries the value of the dollar has declined substantially which, combined with internal inflation rates, is resulting in a much higher cost of maintaining personnel.
 4. Even in Washington, some costs have increased at a much higher rate than inflation. For example, in FY 1981 we paid \$5.2 million for office space in Washington. The estimated FY 1989 cost is \$15.9 million, an increase of over 200 percent.
- In the area of automation, we have had to increase our funding by almost \$9 million or about 200 percent for Washington alone. In FY 1981 very few of our activities were automated. With the reduction in personnel it became essential to introduce automation in order to carry out our work. While the funding for automation is much less than would be required to hire additional personnel to maintain manual reporting systems, it is becoming a significant factor in the operating expense budget. Our overseas missions have also become automated, resulting in increases in overseas dollar costs of the same magnitude as has occurred in Washington.
- During this period of time the Agency has been very sensitive to the need to reduce the cost of its operations. We were able to achieve a sizable reduction in our Washington workforce by decentralizing a number of functions. We have also held the line in budget allocations wherever possible (dollar allocations to our overseas missions have been held virtually constant since FY 1985, increasing from \$130.5 million then to a proposed level of only \$132.4 in FY 1989).
- During the coming months we will be reviewing many Agency operations, both in Washington and at overseas missions, to see where opportunities exist for reducing the overall cost of managing the foreign assistance program.

Inspector General Operating Expenses

Question: Ambassador Woods, in an A.I.D. briefing on the FY 1989 budget, our staff was told that the Inspector General's operating expenses request to OMB for FY 1989 was approximately \$30 million. The level appropriated for the IG in FY 1988 is \$23,970,000. However, notwithstanding the fact that A.I.D.'s own operating expenses request for FY 1989 has gone up, and the IG requested an increase from its FY 1988 level to meet its obligations in FY 1989, the actual FY 1989 budget request that you submitted for the Inspector General's office has actually gone down from FY 1988 by \$851,000.

We were told by A.I.D.'s Inspector General last year that he didn't have enough staff to adequately audit A.I.D. programs. He testified that he could only audit 25 percent of the total number of A.I.D. projects. In view of that, what possible justification, especially given the large number of actual and potential cases of abuse of A.I.D. funds, is there for cutting the Inspector General's operating expenses request?

I would also like to know how many full-time professional audit personnel you plan to have in place in FY 1989?

Answer:

- The Administration's FY 1989 budget request for the A.I.D. Inspector General is \$23,119,000. In the context of the government-wide review of the Inspector General budgets, the request reflects decisions as to the appropriate level of funding for the IG in view of current and projected staffing levels.
- In response to the second part of your question, the Inspector General has advised me that his total authorized staffing level for FY 1989 will be 200, of which 96 will be professional U.S. direct-hire auditors and 19 foreign national auditors.

0064G:2

Operating Expenses (I.D.I. Program)

Question: Recent Operating Expense appropriations have been greater than they otherwise would have been in order to allow A.I.D. to continue a strong International Development Intern (I.D.I.) program. The Committee has conveyed its strong feeling that A.I.D.'s cadre of development professionals is its most valuable asset. By bringing bright young professionals into the Agency through the I.D.I. program, training and sending them to work in the field, the Agency builds and maintains this valuable development tool. How much funding is budgeted for the I.D.I. program in FYs 1988 and 1989? Have you used these additional funds as the Committee intended? You may supply specific data for the record--numbers, age, background and specific assignments of the I.D.I.s--but please tell us in general terms now whether the program is bringing "new blood" to the Agency for the long haul.

Answer:

- A.I.D. has budgeted \$1.4 million for the administrative costs of the I.D.I. program in FY 1988. These funds include such activities as initial travel to Washington and training costs. Salaries and other personnel costs associated with current I.D.I.s are derived from A.I.D.'s regular OE account and will total over \$6 million in FY 1988.
- It is our intention to continue the current pace of the I.D.I. recruitment effort in FY 1989. Specific budget figures will depend on the actual number of new I.D.I.s in FY 1989 (we expect approximately 50).
- After FY 1989, we will be hiring under the I.D.I. program to replace employees lost through attrition. Historically, A.I.D. has experienced a F.S. attrition rate of approximately 7% per year.
- The Agency is extremely pleased with the results of the I.D.I. recruitment effort since the program was reinstated with the help of this Committee in 1986. The quality and ability of new I.D.I.s is very high. They fill positions in 18 different occupational categories. Thus far, I.D.I.s hired since the program began again in 1986 have been assigned to 41 different countries. Most of these I.D.I.s have worked overseas previously; many have lived and worked in developing countries. The number hired with foreign language skills is very high. Fully 45% have met their language training requirements at the time of initial appointment.
- In general, the reports we have received on their performance during their on-the-job training have been highly laudatory.

Operating Expenses (Fiscal Responsibility)

Question: Ambassador Woods, I am sure you share the abiding commitment of this committee to ensuring the highest practical degree of integrity in the operations of the foreign aid program, but I am concerned that the quality and number of A.I.D. controllers, contract officers, and other administration and legal specialists may not be adequate to ensure tight, effective management of your dollar and local currency programs. If I am incorrect, why are we experiencing this rash of allegations concerning diversion of funds, misuse of local currencies, and improper payments to host country project employees?

Answer:

- One of my first actions on becoming Administrator was to establish a task force of outside experts to look at A.I.D.'s financial management systems. Frankly, I was as concerned as you are about reports of problems in this area. I have received the report of the task force and have made several changes based on their recommendations.
- I have also rigorously solicited the advise of A.I.D.'s Inspector General. I meet with him regularly and have encouraged a participatory approach to auditing -- I want to know about problems before they occur, if possible. (Note: mention relationship between IG and Nicaragua Task Force.)
- Without getting into specifics, I think it's fair to say that some problems overseas regarding fiscal responsibility can be attributed to a shortage of available personnel to provide the necessary monitoring and oversight. It is my understanding that during a time when the size and complexity of A.I.D. programs was increasing in the mid-1980s the Agency had a moratorium on hiring because of successive reductions in its authorized personnel ceiling.
- A.I.D. is addressing this problem through an aggressive recruitment effort. We have been hiring not only entry level employees but more experienced mid-level personnel. Thirty percent of our new hires have been in occupations critical to the integrity of A.I.D.'s fiscal operations overseas. We have been vigorously recruiting Management Officers, Financial Managers, Legal Officers, and Contracts Managers.

0064G:4

Operating Expenses (Management Studies)

Question: Ambassador Woods, this Committee last year directed A.I.D. to undertake management studies of nine of its Washington offices. Of particular interest to this Committee was the effectiveness of these offices in supporting A.I.D.'s missions and their project portfolios. What were some of the major findings of these studies? As a result of these studies, do you plan to initiate any organizational changes in order that A.I.D.'s Washington offices can better serve your overseas missions? (Background: These management studies are due to the SAC by April 15, 1988.)

Answer:

- On April 15, the Agency submitted to this Committee nine reports assessing the management and performance of A.I.D. Washington offices and directorates. The offices included were: Office of Education and Directorate of Health (S&T); Office of Private and Voluntary Cooperation (FVA); Office of the Science Advisor; Office of Economic Affairs and Center for Development Information and Evaluation (PPC); Bureau for Private Enterprise; and Office of Development Planning (Africa).
- There are several common themes that run through the nine reports. Generally, the teams concluded that the offices studied have valid objectives, that those objectives are being achieved, and that the general performance of these offices is satisfactory. Also the teams stated that all of the A.I.D./Washington offices that have a field support responsibility are effectively meeting field requests and needs. These conclusions were based on extensive interviews with A.I.D./Washington staff, mission staff in Washington on temporary duty and cables from all field posts.
- At the same time, the teams recognized some constraints to A.I.D./Washington's performance.

First, the teams report that a number of offices are facing both staff and operating expense budget shortages, thereby putting workload pressure on staff and limiting field travel and interaction with mission personnel and programs.

Second, the teams generally believed that central offices needed more Foreign Service officers on their staff, and that restrictions and grade ceilings on GS employees in all offices inhibit the flexibility to fully use these officers.

Third, several teams pointed out that the lack of adequate and up-to-date automation restricted the capability of some offices to function as effectively as they might otherwise.

Finally, several teams urged the central offices to do a better job of marketing their services and products to regional bureaus and field posts in order to maximize the utilization of the central offices' programs.

- These studies provide interesting and useful insights and information which the Agency must evaluate seriously. Accordingly, I have asked the Deputy Administrator to oversee a detailed review of the reports to assure that the value of the teams' studies will be fully considered by the Agency. I am also instituting action to incorporate similar type reviews of A.I.D./Washington offices into our regular management program.

0064G:5

Basic Education

Question: Ambassador Woods, this Committee has expressed the need for a higher percentage of funds devoted to basic education. Yet negligible progress has been made by the Agency in devoting funds to this effort, particularly in Africa where the United Nations has reported such low literacy rates. Why does A.I.D. continue to devote such a small amount of its resources, particularly in Africa, to this vital need? This committee has earmarked \$42 million in the FY 1988 Continuing Resolution for basic primary and secondary education and plans to earmark 50 percent of the Education and Human Resources Development account for basic education in FY 1989. Do you believe such earmarks are helpful or harmful? Can you assure this Committee that, without such earmarks, A.I.D. would provide adequate resources to basic education?

Answer:

- First, A.I.D. will meet the \$42 million earmark for basic education in FY 1988. However, earmarks of this type are definitely not helpful to our budgeting and programming process. For example, meeting this earmark will require reprogrammings and dislocations in existing programs. Some Mission requests for funding from the EHR account for programs other than basic education will not be met. Examples of other activities funded from the EHR account include: (1) labor (AIFLD, African American Labor Center, Asian American Free Labor Institute); (2) participant training; (3) vocational training; (4) public administration and management training; (5) narcotics awareness education programs and (6) WID activities.
- Second, if the basic education earmark is continued in FY 1989, and increased to 50 percent of the EHR account (which would mean \$64.7 million at the request level (exclusive of the Development Fund for Africa), or \$22.7 million more for basic education in FY 1989 than was earmarked for all of AID in FY 1988), these other valuable programs would be further squeezed and I doubt that basic education programs would be substantially improved.
- Having said this, I want to stress that I share the Committee's concern with the need to improve basic education. My own personal experience leads me to this conclusion. But funding increases are not necessarily the answer. What is needed is to continue to improve the quality and diversity of existing programs.

- A.I.D.'s basic education programs do not involve large-scale resource transfers (the cost of operating educational systems must be borne by recipient countries). Rather, we concentrate on targetting our assistance to help countries assess education requirements and options, strengthen analytic and research capacities, improve management and logistic systems, and experiment with alternative technology, media and delivery systems. In these areas relatively small amounts of funding can pay big dividends.

- In summary, rather than dramatically increase the basic education earmark, I would rather see us diversify the distribution of the existing level of resources beyond the relatively small number of countries (14) that now have basic education programs. I am particularly anxious that we develop programs in Africa and in countries in Asia that have high illiteracy rates. I think this can be done without any increase in funding for existing programs (most of the 14 countries with existing programs have pipelines) and without the need for an earmark (I am personally committed to using the appropriate amount of EHR funds for basic education).

0064G:6

Salary Supplements

Question: Ambassador Woods, last year A.I.D.'s Inspector General uncovered a very serious situation in Ecuador where a number of high-ranking Ecuadorian government officials received salary supplements from A.I.D. In reports submitted to this Committee, A.I.D. officials insisted that this practice was an aberration and had not been approved by Agency officials in Washington. Subsequently, and at our request, A.I.D. surveyed all of its overseas missions and discovered that quite a few overseas posts were routinely paying salary supplements to local officials. I seriously question the wisdom of this practice. As we saw in Ecuador, it can become the subject of widespread abuse. I had been led to believe that you shared this position. I was therefore surprised to see draft A.I.D. guidelines to its field missions that listed a number of situations in which the payment of salary supplements could be approved. My reaction was that the bureaucrats had won again. It looks to me like you told your policy officials that you opposed salary supplements and they implemented that instruction by stating that, as a general proposition, salary supplements were not to be approved, but then they added enough loopholes to drive a truck through. I would like to know what your personal position is on the payment of salary supplements to local officials overseas and, if you disapprove of this as a general policy, can you assure this Committee that such payments will not be made in the future?

Answer:

- A review of the practice of salary supplements with my senior staff has convinced me that salary supplements should not be approved except in special circumstances where they may be necessary to attain development objectives. For example:
 - the need to pay supplements to attract or retain highly skilled personnel, to compensate for housing and relocation costs, and for working in a hardship or dangerous area;
 - the need to compensate host country employees for foregoing "outside employment" opportunities. Otherwise low pay and short hours would compel employees to seek outside employment.
- I also note that the payment of supplements is a common practice of the World Bank and other donors for these same reasons. Nevertheless, as a matter of policy, I discourage salary supplementation unless it is deemed to be essential

to achievement of joint A.I.D./host country objectives and outside the capacity of the host government to provide. In such cases, we require, among other things, that supplementation be limited to technical or managerial as opposed to policy level personnel; that it be permissible under local laws and regulations, limited to rates reasonable in the local context; that it be approved in Washington; and that it be provided through mechanisms assuring financial integrity and adequate monitoring and reporting.

0064G:7

Microenterprise

Question: Ambassador Woods, in last year's Continuing Resolution the Committee earmarked \$50 million for microenterprise activities and directed A.I.D. to establish an Advisory Committee to assist A.I.D. in developing appropriate guidelines. We also asked for a report on the status of the program by March 31, 1988. I understand that you have moved very slowly in implementing this program. You did not appoint an Advisory Committee until mid-March, and did not schedule its first meeting until March 28, three days before the report was due. The report, in fact, was not submitted until April 11. Why have you not moved faster to implement the microenterprise program? How much do you intend to dedicate to this activity in FY 1989? I would also like to know whether the \$50 million that was set aside for FY 1988 required A.I.D. to develop any new microenterprise activities or whether you were already funding microenterprise activities in at least that amount? Finally, will you adhere to the guidance in the Committee report that loans in most cases be below \$300?

Answer:

- I don't agree that A.I.D. has moved slowly to implement this legislation. After all, the earmark was not enacted until December 22, 1987. In addition, we have had an ongoing microenterprise program for many years - that program was not interrupted while this legislation was being considered in the Congress last year.
- Since last December we have established a highly qualified National Advisory Committee; it has held its first meeting, and a second meeting is scheduled for early May.
- We have also developed and shared with the Advisory Committee preliminary microenterprise guidelines and issued a report to the Congress on the status of the program (the report, which was due on April 1, was not submitted to Congress until April 11, because the first meeting of the Advisory Committee could not be scheduled until late March).
- The Advisory Committee is composed of 17 prominent Americans well known in the microenterprise field, many of whom were recommended to us by Members of Congress. Obviously it was logistically difficult to consult with all the individuals involved and to constitute the Committee (including meeting the notice requirements of the Federal Advisory Committee Act) within such a short period of time.

- In regard to funding, preliminary estimates for FY 1989 indicate a total level of funding (ESF, DA and local currency) in excess of \$50 million (current projection is \$66 million). In FY 1988 we will meet the \$50 million earmark level.
- Based on current estimates, we believe our total FY 1988 microenterprise program will increase by more than twenty percent over what had originally been projected. Certainly some of this increase can be attributed to the earmark. In summary, I believe these programs are an integral part of our efforts to encourage employment and economic growth in developing countries. I intend to stress the need for increased levels of funding (subject to availability of funds) in the future.
- In regard to the size of loans -- \$300 or less -- I think this is a question that should depend on local conditions. What may be appropriate in Bangladesh may not work in the Dominican Republic. I agree that loans should be small, but I think we need the flexibility to determine the correct amount based on local conditions. I think the same flexibility, within limits (e.g. maximum of 10), should apply to the number of employees of an eligible enterprise. I look forward to working with the Advisory Committee on these issues.

0064G:8

Women in Development

Question: Ambassador Woods, this Committee is interested in improving the economic conditions of women in developing countries. A.I.D. states that its policy is to involve women fully in the development processes supported by the Agency. Yet 15 years after the Percy Amendment required that U.S. bilateral development assistance programs be administered so as to give particular attention to integrating women into those programs, the Agency has failed to meet its policy objective. What should this Committee do to ensure that the Agency carries out the women in development mandate? Is stronger legislation necessary in order that the Agency live up to its stated objectives? Is additional funding required for the Office of Women in Development? What has the Agency done to strengthen this program under your leadership?

Answer:

- First of all, we need to keep in mind that the role of women in development is a development issue and not a women's issue per se.
- Secondly, I am totally committed to A.I.D.'s efforts to integrate women into developing countries' economies, as called for in existing legislation.
- In this regard, early in my tenure I held a senior-level Agency-wide meeting on the issue of WID. I asked all A.I.D. bureaus to supply me with specific Bureau Action Plans to ensure that our systems and processes, along with established lines of authority, be detailed explicitly to meet our WID objectives. I intend to continue these periodic senior-level meetings to ensure that we are addressing the role of women appropriately in all our projects and programs.
- A.I.D. has an exceptional record on integrating women into its programs. We have commissioned several recent evaluations on our progress, and where we have found deficiencies, we are developing better systems to correct these problems.
- I do not believe we need additional legislation. As a technical matter, certain provisions of the Schroeder/Leland bill (H.R. 4049) would enact into law actions already being taken by A.I.D. in carrying out its mandate, and several provisions would impose requirements on A.I.D. that are counterproductive (e.g., attempting to reach 50% of women in all sectors; imposing WID training Agency-wide; adding extra layer of bureaucracy to manage WID issues).

-- In my view, we are doing a good job of incorporating women into our programs. In fact, we cannot possibly do development programs without looking at women's roles and contributions; they are an integral component of our work.

0064G:9

Aging

Question: Ambassador Woods, our Committee for the past two years has recommended that A.I.D. allocate some of its health resources to international research on problems affecting older persons in developing countries and work in collaboration with the National Institute on Aging on joint programs. A report on how A.I.D. will implement these recommendations was also requested. Since we have traditionally given A.I.D. more funding for its Health account than it has requested, the resources exist for A.I.D. to carry out this research. Nevertheless, A.I.D. has actually allocated only a fraction of the funding that we recommended for these programs and has been seemingly reluctant to enter into any meaningful relationship with NIA. What, in fact, has A.I.D. done to carry out the Subcommittee's recommendation and what do you consider the key findings of your report on the needs of the elderly in developing countries?

Answer:

- I believe we are effectively implementing the recommendations contained in the Senate Appropriations Committee report. We have:
- commissioned and distributed a data compendium entitled Aging in the Third World from the Census Bureau;
 - provided support to enable the National Institute on Aging to collaborate with WHO on the latter's Special Programme for Research on Aging (SPRA);
 - convened an expert panel of the National Academy of Sciences (in which a senior official of NIA participated as a resources person), and subsequently the Agency's Research Advisory Committee, to advise the Agency on priority research and research strategies in this area; and
 - held extensive deliberations with experts in U.S. universities, government agencies (primarily Census Bureau and HHS), private and voluntary organizations, A.I.D. field missions, and LDC researchers and research institutions in order to further develop and refine the research agenda requested in the Senate report.

- In addition, as requested by the Committee, we have submitted a report that examines aging in the LDC context. The report concludes that in terms of development impact and A.I.D.'s comparative advantage, our greatest contribution is likely to come from concentrating our attention over the next 2-3 years on the impact of aging on the health sector in LDCs.

- Specifically, the report states that A.I.D. has developed, and I personally have approved, a medium-term strategy involving three key steps:
 1. improving the demographic and health statistics data base on aging;
 2. research to understand the aging phenomenon, including the specific health care requirements of an aging population, and the impact these will have on the health system; and
 3. dissemination of information gleaned from the research.

- We anticipate that this research agenda may require approximately \$2 million over the next 2-3 years.

- On a personal level, I share the Committee's concern that Aging is or will be a significant development problem in many aid-recipient countries. As a reflection of my concern, I recently chaired an Agency-wide senior staff meeting on A.I.D.'s role on aging issues. I also met earlier this month with Dr. Williams, the Director of the NIA, and the Director of NIA's international division, to discuss ways in which NIA and A.I.D. can collaborate in the future.

0064G:10

Population Planning (UNFPA)

Question: Ambassador Woods, your FY 1988 Congressional Presentation indicates that you intend to fund the UNFPA this fiscal year. However, I am advised that no Congressional notification has been submitted on the UNFPA to date. What are your plans relating to funding the UNFPA this year? I would also like to know your assessment of the role that the UNFPA plays in China? More specifically, in previous years A.I.D. has determined that the UNFPA participates in the management of a program of coercive abortion in China. What specific evidence do you have that would support such a conclusion?

Answer:

- We have reserved \$20 million for FY 1988 for the UNFPA within A.I.D.'s Central Population Office account. (Note: The FY 1988 request and OYB both contain \$25 million for UNFPA. Five million has been transferred to the strategic reserve since the OYB was submitted to Congress.) We have also included funding (\$20 million) for the UNFPA in A.I.D.'s FY 1989 budget submission.
- I expect to make a decision on whether we will actually be able to fund UNFPA this year within the next few months. I will let the Congress know when I make that decision.
- Since I have not had the opportunity to examine this issue in detail previously, I have requested information from the Bureau of the Census updating family planning activities in China in order to allow me to take a fresh look at the issues. I will also be reviewing relevant information that my staff in A.I.D. will provide.

0064G:11

Population (PPFA)

Question: Ambassador Woods, the so called Mexico City Policy has been declared unconstitutional by Federal courts when applied to programs in the United States. Yet you have applied this policy to grantees overseas. This has resulted in the defunding of a number of important population intermediaries. What justification do you have for applying this policy abroad when U.S. courts have held that it cannot be applied in the United States?

Answer:

- The Mexico City Policy reflects the Administration's continuing commitment to voluntary family planning and opposition to abortion as a method of family planning.
- Abortion is a controversial issue throughout the developing world.
- The Administration believes that family planning programs are very important and that they could be compromised by association with abortion.
- The U.S. is not alone in this view. Representatives of more than 140 nations at the Mexico City Conference adopted by consensus a recommendation urging governments to "take appropriate steps to help women avoid abortion, which in no case should be promoted as a method of family planning."
- It is not in the interests of U.S. foreign policy to support programs which include abortion because of its sensitivity and because of our own stated opposition to abortion as a method of family planning.
- Application of the Mexico City policy has not reduced funding for voluntary family planning programs. Many competent family planning organizations are willing to work within this policy framework.

0064G:12

Functional Account Funding Levels

Question: Ambassador Woods, the Budget Summit Agreement between the Congress and the Executive Branch included a two percent overall funding increase in the 150 budget category. I note that in allocating funds within the 150 request for FY 1989 the total amount requested for A.I.D.'s functional accounts has actually decreased by approximately two percent. Among the individual accounts, I further note that your requests for the Agriculture, Population and Health accounts have all decreased from FY 1988 levels while the requests for the Education and Section 106 accounts have increased. This Committee has consistently supported higher levels for Agriculture, Population and Health. We obviously disagree on funding priorities for A.I.D. functional accounts. Can you please explain to the Committee why your requests for Agriculture, Population and Health have been cut in order to fund increases in the Education and 106 accounts?

Answer:

- Let me start by saying that the total amount requested for all A.I.D. programs -- functional development assistance, other development assistance (e.g., DFA, Disaster Assistance, ASHA, OE) and Economic Support Funds (ESF) -- represents a \$19 million increase over the FY 1988 level, which is in keeping with the Budget Summit agreement reached last December.
- Regarding our request levels for the individual functional accounts, the answer is contained in the funding levels in this year's CR. The FY 1988 Continuing Resolution made deep cuts in both the PSEE and education accounts.
- Many country programs were forced to make serious adjustments since their project mix relied heavily on the shortfunded accounts. We believe it is necessary to restore some of these funds, recognizing that such increases -- however modest -- must come at the expense of other important activities.
- The amounts requested for the Education and Section 106 accounts will help to restore funding for activities which both A.I.D. and the Congress attach significant importance, such as participant training, energy, environment and our work with voluntary agencies.

0064G:13

Funding for Agricultural Research

Question: Ambassador Woods, for the past two years this Committee has expressed concern about disproportionate cuts in centrally funded programs within the Office of Agriculture of the Bureau of Science and Technology. The Committee continues to be concerned that programs of agricultural research, particularly the Collaborative Research Support Program (CRSP), are being disproportionately cut in comparison to other Agency programs. The Committee believes these programs are extremely important and must be funded adequately. What is the level of funding that you have approved for FY 1988 for agricultural research? What is the level for the CRSPs? How do those two figures compare with funding levels for the same programs in FY 1986 and FY 1987?

Answer:

- I share your view of the importance of agriculture research in the Agency's programs. The CRSP program, in particular, represents an outstanding example of U.S. university research collaboration to solve key development problems overseas.
- We are funding the CRSP program at \$13.5 million in FY 1988 and are requesting the same amount for FY 1989. In contrast, we funded the CRSP program at \$12.8 million in FY 1987.
- While we have been able to increase the funding for the CRSP program in FY 1988 and maintain that level in our FY 1989 request, we have had to distribute part of the Agency's FY 1988 budget cut to the remaining research portfolio in the Office of Agriculture. We have approved \$24.5 million in FY 1988 for all research in the Office of Agriculture and are requesting \$24.4 in FY 1989. This compares with \$25.9 million approved for research in FY 1987.
- In comparison to FY 1986, the first year of the Gramm-Rudman budget deficit reductions, the FY 1988 level of research for the Office of Agriculture represents a 13 percent reduction from the \$28.1 million funded in FY 1986. The FY 1988 CRSP figure is 9 percent less than the \$14.2 million funded in FY 1986.

0064G:14

Management Practices of Revolving Fund

Question: Ambassador Woods, this Committee has expressed concern in the past about the need for sound financial management practices in the Agency's oversight of the Private sector Revolving Fund operations. What steps have been taken by A.I.D. to incorporate these management practices and why has it taken so long to establish such procedures? The Committee is also concerned about the high level of deobligations planned under this program. How much will be deobligated in FY 1988 and what is the reason for such a large amount of deobligation? Could you cite some recent accomplishments of A.I.D.'s Private Sector Revolving Fund investments.

Answer:

- From what I have seen, the Revolving Fund operates under sound financial management practices. Financial statements are prepared on the Fund which meet generally accepted accounting principles.
- We expect that there will be approximately \$4 million in deobligations in 1988. At the end of this year, the Fund will have deobligated \$5 million, or less than 7 percent of the portfolio. All but \$200,000 of the FY 1988 amount will be deobligated because the recipients of the loans could not use the obligated amount. This has occurred for a variety of reasons. In one case, a \$3 million loan was extended to a pharmaceutical company in India but the government limited the loan to \$1 million, requiring a \$2 million deobligation. Fund managers, in fact, regard the ability to deobligate as a significant management tool. In the high-risk environment in which the Fund operates, deobligation gives management the flexibility to end an obligation before incurring a loss.
- Recent accomplishments include:
 - A Revolving Fund loan to the Far East Bank and Trust Company in the Philippines that has made funds available to private small and medium sized businesses, some of which are in the health sector.
 - A loan to Bank Niaga in Indonesia that has enabled small Indonesian private enterprises to provide health and sanitation services.
 - Innovative projects pursued in 1987 include a loan to a venture capital company in Thailand and a securitized trade finance arrangement in Turkey.

Mediterranean Fruit Fly

Question: Ambassador Woods, this Subcommittee and the CR conferees have been deeply concerned about the potentially hazardous effects of efforts to eradicate the Mediterranean fruit fly in Central America. We are aware of the strong financial interests exposed to the fruit industry by the Medfly. Nevertheless, the health and environmental consequences of the pesticides being used to eradicate the fruit fly could prove even more dangerous, both to Central America and, through our importation of their sprayed produce, to the United States. Given the issues at stake, A.I.D.'s environmental assessment of the underlying MOSCAMED project is of great importance. What are the results of A.I.D.'s environmental assessment of this MOSCAMED project? Do you believe A.I.D. is able to fully carry out this assessment in an atmosphere that is relatively free of the pressures being brought to bear by the competing interests in this issue?

Answer:

- A.I.D. has contracted for an environmental impact analysis (EIA) of the MOSCAMED program in Guatemala to be completed by July 5, 1988. The contractor is the Consortium for International Crop Protection (CICP), a consortium of the principal U.S. universities with major crop protection departments.
- CICP began work in December, 1987, and delivered preliminary draft sections to A.I.D. on April 4, 1988. We are reviewing the preliminary drafts.
- An Inter-Agency Working Group established in August, 1986, between A.I.D., USDA's Animal and Plant Health Inspection Service (APHIS) and the USDA's Agricultural Research Service (ARS) has provided a forum to air divergent points of view.
- A.I.D. agrees that it is important to U.S. and Mexican agriculture to maintain a medfly barrier at some location in Central America or Mexico. Until the CICP report is submitted and a location determined, we hope that a barrier can be maintained in Guatemala. For this reason, A.I.D. has offered to support a USDA request to Congress to release USDA funds to maintain the barrier.
- We are also reviewing with USDA the economic impact of expanding the eradication program through Central America and Panama (CAPMED). A preliminary review will be completed by July, 1988, and further analysis will be carried out during the coming year. The CAPMED proposal, however, is of questionable practicality due to extremely high estimated costs, low benefits to the Central American region and the difficulties of overflying border areas.

Improving the Global Environment

Question: Ambassador Woods, A.I.D. has been commended by this Committee for the key role it has played as a watchdog on environmental issues in developing countries. However, I am concerned that despite the "early warning system" this Committee recommended to detect and improve the environmental performance of Multilateral Development Bank (MDB) activities, the World Bank shows little sensitivity on environmental issues. How would you assess the progress A.I.D. has made in improving the environmental components of MDB activities through the early warning system? Within A.I.D.'s own portfolio, what are the major programs you currently have under way to protect the global environment?

Answer:

- We appreciate the confidence of the committee in A.I.D.'s environmental record and the support the committee has shown for our early project notification (EPN) system.
- Through our participation in the EPN system, the U.S. Government is building a strong record within the MDBs on environmental issues. In the last year, the U.S. has abstained from voting or voted against a number of bank loans on the basis of environmental concerns.
- We believe that more must be done by the MDBs to ensure environmentally sound projects. Our participation through the EPN system has had a significant and positive impact. We are working to make it more effective in the future. A.I.D. expects to work with other donor nations to build a consensus on environmental issues related to bank loans.
- Within A.I.D.'s portfolio, our energy development and forest and natural resource management projects respond to the growing threat to the global environment. Principle mechanisms to achieve a reduction in the rate of CO₂ emissions are increased efficiency in energy generation, distribution, and use; encouragement of renewable energy; and support for fossil fuels that emit less CO₂ per unit of energy produced. To varying degrees, A.I.D. is pursuing all three approaches.
- A.I.D.'s support for improved forest management also contributes to protecting the global environment. Forests, and other vegetative cover, benefit the environment by producing oxygen, fixing carbon, and modifying temperatures (through radiation absorption).

-- A.I.D.'s forestry sector strategy has three principle goals: to assist countries in the management of their forests, range, and other wildland resources for long-term sustained production; to assist other sectors to achieve sustained production of food, water, and energy in ways that conserve natural resources; and to develop resource management programs that will protect and maintain biological diversity. During 1987, A.I.D. supported 132 forestry projects in 43 countries.

0064G:17

River Blindness and Ivermectin

Question: Mr. Ambassador, what has A.I.D. done to implement this Committee's recommendation last year that \$4 million in Health account funds be used to distribute Ivermectin, a drug to treat river blindness? This disease afflicts over 20 million people in the developing world and since Merck and Company, Inc. has developed and agreed to donate this drug free of charge, I think this is a very cost-effective program that the American taxpayer would like to see more of.

Answer:

- I agree with the Committee that river blindness, or onchocerciasis, is a terrible disease that afflicts many in the developing world. For this reason, A.I.D. is a major supporter of the World Health Organization/World Bank Onchocerciasis Control Program (OCP) which has successful programs in 11 West African countries. In FY 88 we plan to contribute \$2.8 million to this program.
- I also agree that once the safety and efficacy of Ivermectin has been determined, all possible steps should be taken to make it widely available. A.I.D. is working with the OCP to carry out an accelerated program of field trials to determine the drug's safety and utility in treating the disease and in blocking its transmission. We must have this information before we participate in its broad distribution. According to WHO, \$1.0 million is needed in FY 1988 for the field trials.
- Although Ivermectin does not cure the infection, a single dose destroys the embryos (microfilariae) in the skin and eye. WHO field trials in several West African countries are testing the impact of broad use of the drug. Judicious treatment of people on an intermittent basis may remove the main reservoir of infection. In this way, Ivermectin may contribute importantly to the control of river blindness. Merck and Company are to be commended for its announcement last summer that it would provide the drug free of charge to combat river blindness.

0064G:18

Energy

Question: Ambassador Woods, this Committee has raised concern over A.I.D.'s failure to commit adequate resources to address energy problems in developing countries. We have directed A.I.D. to restore funding for energy programs and to prepare a comprehensive plan by March 1, 1988, for expanded energy programs that focus on improving the capacities of LDCs to develop and distribute increased energy supplies to productive end users, particularly rural industry and agriculture. Why has the Agency repeatedly failed to provide adequate funding for this critically important program? In FY 1987 and again in FY 1988, this Committee directed that the Office of Energy be funded at not less than \$10 million to carry out its essential leadership role in worldwide energy efforts. Yet last year, the Agency funded a \$5 million India Program for the Acceleration of Commercial Energy Research project as part of this Energy Office earmark. Can you assure this Committee that the funds earmarked for the Office of Energy will be used for the purpose for which we have directed?

Answer:

- The Office of Energy funding level for FY 1988 is \$10 million and we have proposed a level of \$9.3 million in FY 1989.
- The Office of Energy budget totalled \$8.029 million in FY 1987, of which \$1.0 million was from ESF funds.
- In FY 1987, we initially planned to fund the India program for the Acceleration of Commercial Energy Research from the Office of Energy budget since much of the initial project design work had been done by the office. However, it was eventually decided that the project should be entirely funded by the India mission. Consequently no funds from the Office of Energy budget were used to support the project.
- A.I.D. obligations for energy activities are expected to total at least \$100 million in FY 1988 and about the same level in FY 1989. This constitutes a very significant program and reflects the Agency's continuing interest in helping developing countries to meet their energy requirements.

0064G:19

Surplus Dairy Products

Question: Ambassador Woods, I understand that A.I.D. has no current plans to fund new development projects of private entities and cooperatives utilizing surplus dairy products, even though this Committee provided that up to \$5 million be made available for these activities in FY 1988. We understand that these activities have been adversely affected by the seasonal variations in U.S. surplus milk supplies and with U.S. domestic dairy policies. However, developmental uses of dairy surpluses, especially those involving monetization, have not been given priority. How does A.I.D. propose to improve its performance in making available surplus dairy commodities for innovative economic development projects?

Answer:

- As you mention, there are variations in the supplies of surplus milk owned by the U.S. Government. Surpluses have been greatly reduced, in part by the dairy termination program and the reduction in the price support level.
- The Secretary of Agriculture is responsible for making a determination of the surplus commodities available for donation programs. In fiscal year 1988, dairy commodities have not been determined available from USDA inventories for use in Section 416(b) programs. Section 416(b) provides for the overseas donation of surplus commodities owned by the U.S. Government.
- The dairy inventory is being used in high priority domestic feeding programs and P.L. 480 traditional Title II donations.
- Should surplus dairy commodities again become available for use in the Section 416(b) program, A.I.D. will resume its efforts to develop innovative projects utilizing such products.

0064G:20

Acquired Immune Deficiency Syndrome (AIDS)

Question: Ambassador Woods, last year this Committee approved an appropriation of \$30 million for AIDS prevention and control. Your budget for FY 1989 straightlines this request. How have you allocated the FY 1988 funds for this program and is your request for FY 1989 a reflection of your view that additional funding to combat this epidemic is not necessary?

Answer:

- Our decision to request \$30 million reflects our judgment as to how much we can sensibly apply this year for this most urgent purpose. As the Committee is aware, and thanks to its support, our AIDS program has grown dramatically in the past three years -- from \$2 million in FY 1986, to \$17 million in FY 1987, to \$30 million in FY 1988.
- Those funds have been or are being rapidly put to work on AIDS prevention and control, principally through the World Health Organization and also through our own worldwide communications and technical program.
- The judgment on FY 1989 AIDS funding takes into account that funds will also be provided from other A.I.D. accounts. Separating out the exact contributions of these other accounts to our AIDS prevention and control program is really not practical at this early point. But Health and Population funds and the Development Fund for Africa will also contribute to the effort. For example, in FY 1987 over \$3 million was applied to AIDS prevention and control efforts through existing Health and Population programs. In FY 1989, these contributions from other accounts should amount to an additional \$5 million or so.
- I can assure this Committee that, whatever happens, I will not permit this critical effort to be slowed down, much less held back, for lack of funds. I think we are making a good judgment here, one that is aggressive about how much we can spend effectively, but reasonable as well. This commitment will continue to be the cornerstone of our effort.

Deob/Reob Authority

Question: Ambassador Woods, this Committee took the lead five years ago in authorizing A.I.D. to deobligate funds from poorly performing projects and to reobligate those funds for new projects. This gave the Agency significant management flexibility. I am happy to see that for at least the last two years a budget request for this authority has been included in the President's foreign assistance request. The amount requested for FY 1989 is \$25 million, \$12.5 million in DA and \$12.5 million in ESF. How does this total compare with the actual use of deob/reob authority in the previous three fiscal years? I would also like you to give the Committee several examples of how you have used this authority in the last year or so and to project some concrete examples of its possible use in FY 1989.

Answer:

- Agency use of deob/reob authority declined from \$182 million in FY 1984 to \$131.5 million in FY 1987, an average of about \$17 million a year. On that basis, we could estimate the FY 1988 level to be about \$114 million and could extrapolate the FY 1989 level to be about \$97 million if all other things remained equal.
- However, we do not expect to see this historical pattern continue. To begin with, only about 40 percent of the FY 1989 pipeline will be subject to deob/reob authority. (The largest portion of the pipeline will be comprised of funds obligated in FY 1987 and FY 1988--funds which become "no-year" once they are obligated.)
- Given the decline in deob/reob activity over the last several years and the composition of the pipeline (the majority of funds not subject to this authority), we have reduced the estimate to \$25 million.
- In response to your latter question, in FY 1987 we deobligated \$23 million in Indonesia from a number of non-performing, or "dead" projects, and reobligated these funds to the Agriculture and Rural Sector Support Program to help the Indonesia government institute fundamental, long-term policy reforms. In Egypt, we reobligated \$9.5 million to the water/wastewater construction project, a program which has reduced sewage flooding and significantly improved service to millions of residents.
- Although we cannot project specific deob-reob uses for FY 1989, we expect to continue to use the authority as we have to date--to free up funds from non-performing projects for use in pursuing our current priorities.

Participant Training and Brain Drain

Question: Ambassador Woods, with regard to the proper mix of A.I.D.'s Education account funds, is it not correct to say that your scholarship and participant training programs--as distinguished from basic education programs which help people located in the host country--actually contribute to the "brain drain" in developing countries? Is it true that, when we bring foreign nationals to the U.S. to be educated, far too many fail to return permanently to their own countries to assist in their countries' development? If that is so, why should we continue to fund participant training at the expense of basic education?

Answer:

- Basic education is fundamental to the viability of all nations and the personal success of individuals. The intent of primary and secondary education, however, is to keep pace with the growth of the student. As basic education is long-range, it is not intended to address the immediate needs of developing countries for technically competent professionals who must solve constraints to economic and social development. Participant training, on the other hand, is intended to meet these very urgent organizational and technological objectives in the short- and mid-term.
- While the A.I.D. participant training program in FY 1987 sponsored 17,506 individuals for study in the United States, this was only a small percentage of the foreign students and professionals from regions other than Europe and North America who study in the U.S. each year (there were 293,437 in 1985/86). Annual reports sent to A.I.D./Washington by the USAIDs indicate that each year less than 1% of all A.I.D. participants are identified as having failed to return home and resume, or assume, the position for which they were trained.
- Each participant comes to the United States on a J-1 visa which requires him/her to return home for at least two years after his/her training program is completed before he/she can apply for a U.S. immigrant or non-immigrant (H or L) visa. This requirement to remain at home is reinforced in many A.I.D. projects by a requirement for service longer than two years on the project in the host country.

ASHA Funding Level

Question: Ambassador Woods, I have two questions on the American Schools and Hospitals Abroad (ASHA) program. First, despite the fact that we appropriated \$40 million for ASHA last year, your FY 1989 request is \$30 million. Why are you proposing a 25 percent cut in this program? Second, over the past 8 years, A.I.D. has provided grants totaling over \$1.8 million to Esperanca, a medical education facility in Brazil. I understand Esperanca has submitted to the Agency a grant application for \$950,000 under the ASHA program in FY 1988. Will they receive this funding and, if so, when will they be notified? If not, what are your reasons for not providing these funds in view of their previous excellent performance record?

Answer:

- The recommendation for ASHA in FY 1989 reflects AID's continuing evaluation of priorities in the face of budgetary constraints. ASHA is a valuable tool, but not the only, nor the major, means available to A.I.D. in addressing the interests of countries seeking to become more economically and socially self-reliant.
- In fact, the Administration has increased the ASHA request to \$30 million, almost triple the budget level recommended for FY 1988. This is in response to the increasing number of requests from institutions in low and low-middle income countries. We believe \$30 million is sufficient to fund institutions which best meet the program's objectives.
- We agree that Esperanca is a successful program. Its proposals usually compare well for ASHA assistance. As a result, the \$1.8 million granted to date represents 73 percent of the total amounts requested by Esperanca.
- Final decisions on ASHA grants for FY 1988 are expected later this spring. I can assure you that Esperanca is being given careful consideration.

0064G:24

Management: Decentralization and Mission Oversight

Question: Ambassador Woods, A.I.D. has increasingly been decentralizing its decision-making process to its missions. This Committee has no philosophical problem with that trend. However, we do become concerned when we read of alleged mismanagement of A.I.D. funds, as recently occurred in Costa Rica and El Salvador. Beyond the particulars of these cases, we are concerned that they may suggest a broader problem with A.I.D.'s management oversight of its missions. What are you doing to ensure that you have effective management oversight over your missions during this time of increasing decentralization?

Answer:

- Shortly after becoming Administrator I had the same concerns. I established a Financial Management Task Force. The purpose of the task force was to look into these issues and make recommendations on what actions should be taken to strengthen management oversight.
- After carefully considering the advice of the Financial Management Task Force and reviewing other factors, I concluded that A.I.D.'s effectiveness and efficiency could be enhanced by dividing the responsibilities of the present Management Bureau into two bureaus, headed, respectively, by two Assistants to the Administrator. I have established a new Bureau of Personnel and Financial Management headed by an Assistant to the Administrator. I have also appointed a new Controller and Director of Personnel.
- These changes, I believe, will bring new emphasis, particularly on financial management oversight of A.I.D. operations worldwide.
- I am still reviewing the effectiveness of Regional Bureau Mission Management Reviews to determine if I need to make any changes in this process.

0064G:25

Senate Appropriations Foreign Operations Subcommittee
April 28, 1988

Twenty-Five Key Issues

1. El Salvador (Allegations of Corruption/Misuse of AID Funds)
2. Costa Rica (Audit Report)
3. Asia and Near East Bureau
4. Expropriation Policy (Jamaica)
5. Contra Aid
6. Narcotics Control
7. Liberia
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9. West Bank/Jordan
10. Post-Noriega Panama
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13. Cash Transfer to Egypt
14. Costa Rica (Arias Plan)
15. Development Fund for Africa
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19. Separate Accounts for ESF (Israel)
20. African Famine
21. SADCC
22. Pakistan
23. Ireland
24. Chile
25. El Salvador (Impact of Elections)

0068G

El Salvador: (Allegations of Corruption/Misuse of A.I.D Funds)

Question: Under this Administration, the U.S. Government has poured literally billions of taxpayer dollars into El Salvador, with questionable results. While Senators may disagree about the policy merits and the actual achievements of the program, I daresay that we are united in our insistence that these funds be managed effectively, audited closely and completely insulated from corruption and misuse. But that does not seem to be what is actually happening, if we can believe the recent front page New York Times story, concerning President Duarte's son and the misuse of funds by CONARA. That article is just the latest in an ongoing series of reports documenting fraud and abuse in A.I.D.'s El Salvador program. Previous articles have focused particularly on the earthquake reconstruction program, which Congress has now required the A.I.D. Inspector General to audit and report to us on.

Have A.I.D. funds been misused in the earthquake program, or by CONARA, or elsewhere, and if so, what corrective actions have you taken?

Answer:

-- We believe that adequate financial controls are in place to prevent diversion and insure proper use of funds appropriated by the Congress.

Earthquake:

-- A.I.D.'s Inspector General's audit of the \$50 million earthquake recovery program, provided the Senate Committee on Appropriations on April 15, 1988, concludes that the program was well-managed and successful in providing funds for temporary shelter, employment, slum rehabilitation, restoration of public services and loans for damaged homes and businesses.

-- The audit points out, however, that some participating Salvadoran banks did make a few loans to ineligible employees. These loans were detected earlier by our financial monitoring systems, and corrective actions were taken, including reimbursement to the project. We believe the system worked as it should.

Conara:

-- A.I.D. provides no appropriated funds to the Salvadoran Commission on Restoration of Areas (CONARA), but we jointly program host country-owned local currency (El Salvador currency) for small rural reactivation projects.

- In June 1987, we became alarmed by rumors of mismanagement of funds and we requested a non-federal audit of CONARA. Our A.I.D. Mission asked IG investigators to look into diversion of funds, and we believe that several high level CONARA employees were involved.
- The Salvadoran authorities are investigating the case, arrests have been made, and they are cooperating fully to ensure that proper controls are in place.
- Even with sound financial management and accountability controls in place, no system can be completely foolproof against collusion and forged documents, as was the case in CONARA. Nevertheless, a series of actions have been taken to strengthen further its financial management:
 - The U.S. Ambassador has taken up the matter with President Duarte, and the Government agreed to suspend further disbursement of local currency funds to CONARA until proper financial accountability was restored in that agency.
 - We have a team of auditors in CONARA pre-auditing all transactions. Longer-term technical assistance under contract will improve CONARA's financial management capacity.
- Contrary to the recent New York Times article, we have no evidence that President Duarte's son, Alejandro, was involved in any wrongdoing in this case.

Overall Controls:

- Our A.I.D. Mission is also reviewing the financial management capacity of all Salvadoran agencies which receive appropriated funds or host country-owned local currency in connection with our program. The Mission has also strengthened its non-federal audit capability and has added more monitoring staff to ensure strict accountability.
- Our A.I.D. Mission has recently received allegations of misuse of funds by a Salvadoran non-government agency. The matter has been referred to the A.I.D. Regional Inspector General's Office which is beginning its investigation. I have not yet heard from the IG on this matter. As soon as we know more, we will share this information with the committee.

Costa Rica: Audit Report

Question: Ambassador Woods, the A.I.D. Inspector General recently completed a very disturbing investigation and report which document numerous instances of mismanagement and misuse of funds in the A.I.D. program in Costa Rica, particularly with respect to programming and management of local currencies, the awarding of scholarships and implementing projects without adequate oversight by A.I.D./Washington. As a result of that report -- which, I might add, this Committee had some difficulty obtaining in a public, unclassified form -- Committee staff went to Costa Rica to investigate further and confirmed the I.G.'s findings. What are the problems that exist, and what are you doing to resolve them before the credibility and effectiveness of the entire Costa Rica program are destroyed?

Answer:

- We have had a team thoroughly analyze and review the issues raised by the IG, especially in the area of scholarships, local currency management and program oversight. We have taken corrective actions where we found them necessary, and we have provided detailed material to Committee staff on these actions. I sent you a letter and statement of views which I would be glad to resubmit for the record.
- Overall, we are very proud of the Costa Rica program and I am satisfied that the A.I.D. Mission there is now operating the way I want it to. The Costa Rican program has had many innovative accomplishments and has made excellent progress in stabilizing the economy and renewing growth through greatly improved economic management, ambitious privatization efforts, and an aggressive, highly successful effort to increase non-traditional exports.
- However, in one key problem area -- local currency programming and management -- we have had certain concerns, a number of which were flagged for our attention by the Inspector General. I should add that inadequate Agency and Bureau guidelines on the use of local currency contributed to the Mission's problem. A.I.D. sent new worldwide guidelines on local currency in October 1987.
- The issue of the individual conduct of the Mission Director is under review under Agency procedures which govern questions of personal conduct.

[NOTE: This statement tracks what we have said to the Committees. We have not wanted to respond by point-by-point rebuttals tracking the allegations in the IG letter. Your three-page statement is attached for use if needed.]

Asia and Near East Bureau

Question: Ambassador Woods, this Committee last year expressed its strongly held view that A.I.D.'s consolidation of its Asia and Near East bureaus into a single bureau was a mistake. The committee continues to believe that the size and diverse culture of A.I.D. programs contained within these two regions make this too large and complex an area to manage within one bureau. In particular, we're concerned that the Asian portion of this new bureau has been shortchanged in its budget allocations during the past two years. In our report last year, this Committee directed A.I.D. to reestablish the Asia and Near East programs as two separate bureaus in its FY 1989 budget request. This Committee directive has been ignored by A.I.D. Can you explain why? Tell us how you intend to meet our concerns about sufficient management oversight, sensitivity to diverse cultures, and adequate budgetary resources for the small Asian programs under this consolidated bureau.

Answer:

- First let me say the Committee's views were not ignored. We considered dividing the Asia and Near East Bureau as recommended by the Committee and concluded that such an extensive reorganization in such a short period of time, even if desirable, was simply not feasible.
- Frankly, I am not convinced such a reorganization would serve the best interests of the Agency, and I am not sure it would achieve the Committee's objectives.
- We combined the two bureaus because A.I.D. was under tight constraints on Operating Expenses and staffing levels. These bureaus had large field missions with extensive delegations of management authority, so they needed less support from Washington. By combining the two bureaus, we saved approximately 45 staff positions in Washington and \$2.5 million of Operating Expenses.
- In terms of span of management control, the new ANE Bureau is larger by some measures than other A.I.D. Bureaus, but not by others. The ANE budget, excluding cash transfers with virtually no A.I.D. management overhead in Israel, Turkey, Portugal and Ireland, is \$1.7 billion. The Africa budget is \$648 million and the Latin America (LAC) budget is \$849 million. However, Africa has more U.S. staff positions--632 to 626 for ANE. LAC has more projects--605 to 465 for ANE. Africa has a higher operating expenses budget; last year it was \$183 million compared to \$165 million for ANE.

- In terms of sensitivity to diverse cultures, I must say I have been impressed by how each A.I.D. country is unique. Certainly there is diversity among countries in Asia and the Near East, but Haiti is as different from Bolivia as Egypt is from Indonesia, and Somalia is as different from Cameroon as Morocco is from Sri Lanka. I might note that A.I.D.'s Africa Bureau is managing programs for 41 countries compared to 25 by ANE.
- In terms of "hot spots," the Philippines, Afghanistan and the West Bank require substantial management attention, but so do Ethiopia, Panama, El Salvador and Haiti.
- In terms of resource levels, I would like higher budget levels for East Asia and we proposed higher levels for FY 1988. However, earmarkings in the FY 1988 CR for other parts of the world made that impossible. I do not believe a reorganization would solve the problem of budget levels but I would welcome the opportunity to discuss this issue with the Committee.
- The bottom line in terms of management is how well a bureau runs. I am well satisfied with the performance of the ANE Bureau and its field missions. Problems inevitably arise, but "it ain't broke" as far as I can tell. Nevertheless, I am still reviewing the Agency's management structure and will continue to consider carefully your recommendations.

0668G:3

Jamaica: The Rollins Case - Expropriation Policy

Question: Ambassador Woods, our FY 1988 Committee report notes that cases are often brought before the Committee involving American citizens who allege that foreign governments in aid-recipient countries have taken actions to deprive them of real property, investments, or the means of earning their livelihood. We noted that because of the legal considerations in such cases it is difficult for the Committee to make judgments or to intervene on behalf of American citizens. We suggested that a possible legislative remedy might be the procedure followed in the Ramirez case and asked that the Department of State prepare a report on the status of all pending expropriation claims, including a detailed explanation of what specific action has been taken on cases previously raised by the Committee. One particular case that we asked the Department to examine was the alleged expropriation by the Government of Jamaica of certain land and properties owned by Rollins Jamaica, Ltd. Can you give the Committee an update on the current status of this case and explain what actions, if any, you have taken since we issued our report to facilitate the resolution of this case? I would also like to know what you believe to be the appropriate role of A.I.D. in helping to resolve these cases.

Answer:

- The State Department and our Ambassador to Jamaica are continuing efforts to bring the parties together. State is the proper U.S. Government agency to undertake fact finding and help to settle alleged expropriation claims. Statutory authorities and the applicable executive orders place in State the responsibility of handling such cases.
- A.I.D. may be able to assist State in the settlement of such claims, but State retains the lead role in order to ensure a consistent and unified USG position.
- The Interagency Expropriation Group met several times on the Rollins case and decided that there was no basis to determine whether an expropriation had taken place absent the pursuit of the legal remedies available to Mr. Rollins in Jamaica.
- Mr. Rollins has not exhausted his remedies in Jamaica. The Jamaican court system is considered fair and independent.

- The Rollins case is complex, and involves four principal issues: unsettled title claims for land received in a land swap; squatters on a portion of Rose Hall, Ltd. land; foreclosed property by Chase Manhattan from Rose Hall, Ltd. that was later sold to the Urban Development Corporation (UDC), a parastatal of the GOJ; and tennis courts and hotel staff quarters related to the foreclosed property.
- The State Department submitted a report requested by the Senate Appropriations Committee on the Rollins case on March 1, 1988, which will be updated as necessary.
- In response to questions from the House staff, the State Department is preparing a chronology of its involvement in trying to help the parties resolve the issues and additional information on the squatters issue. A preliminary response was submitted on April 1, with additional information to be submitted shortly.
- Efforts are underway to try to settle the problem of the squatter-occupied lands, and the issue of titles to inadequately surveyed land. An independent appraiser was selected by Mr. Rollins from the three firms recommended by the GOJ, and the appraisals were accepted by the Attorney General of Jamaica on March 3, 1988.

[Note: There are currently Congressional holds by the SAC and HAC on 17 Jamaica project notifications.]

0068G:4

Contra Aid

Question: Ambassador Woods, last month the Congress voted overwhelmingly to provide humanitarian aid to the Nicaraguan contras as part of a bipartisan effort to support the ceasefire in the region. This legislation also provides for assistance through PVOs and international relief organizations to children within Nicaragua who are victims of the conflict. This is the first time since the cut-off of our bilateral aid program that we have targeted assistance to individuals within Nicaragua. Many of us believe it is important to demonstrate our commitment to the welfare of the people of Nicaragua so that they associate the U.S. with something other than armed conflict. I have been concerned in the past that so-called "humanitarian aid" only allows the continuation of the contra war and have been uncomfortable letting intelligence or military organizations handle such assistance. The legislation we passed requires that the assistance be delivered through neutral organizations but also authorizes the detailing of personnel from other agencies to A.I.D. to assist in implementation of the program. How is A.I.D. implementing the contra aid package and to what extent are personnel from other agencies, including any intelligence personnel, involved in the assistance effort? Also, if the ceasefire remains in place, are there any plans to continue humanitarian aid to the Nicaraguan people through PVOs as provided for in the contra aid legislation?

Answer:

- In order to implement the legislation in an open environment with the greatest accountability possible, I have established an interagency Task Force on Humanitarian Assistance for Central America.
- The Task Force reports directly to me. It is headed by Ted Morse, temporarily detailed from his post as A.I.D. Mission Director in Zambia, who has previously done an excellent job in leading emergency task forces in the Sahel, Grenada, and during the African drought.
- Additionally, we have added staff from various offices in the Agency, with experience both in the region and with emergency assistance.
- The program is being operated in the field with support from Washington.

- As you noted, the legislation calls for the full cooperation of all U.S. Government agencies that can render assistance to this effort. We are consulting with the State Department, the Department of Defense, the Office of Management and Budget and other USG agencies, as appropriate. A.I.D. is implementing the program.
- The Humanitarian Aid for the Nicaraguan Democratic Resistance component of the legislation was premised on the assumption that the Resistance and the Government of Nicaragua would sign a definitive cease fire agreement based upon the Sapoa agreement, with a Verification Commission in place and agreed upon modus operandi for the cease fire zones. We find ourselves in an interim situation, and are therefore proceeding with the intent of the legislation by supplying the increasingly needy Resistance, where possible, with aid in as open, accountable and neutral a manner as possible. In doing so we have had continued consultations with appropriate committee members on the Hill, as well as with the Secretary General of the OAS and Cardinal Obando Y Bravo.
- The Children's Survival component of the legislation will be implemented through nonpolitical private voluntary and international relief organizations as directed by the legislation. At least 50% of this aid will be provided to groups operating inside Nicaragua. The legislation states that no assistance will be provided to or through the Government of Nicaragua.
- Funds for the Resistance are available through September 30, 1988. Funding for Children's Survival assistance and for the Verification Commission is available until expended. We cannot predict whether this program will be extended, or what levels or type of aid will continue to either the resistance or the Nicaraguan people if the ceasefire remains in place.

0068G:5

Narcotics Control

Question: Ambassador Woods, the American people and this Congress are fed up with the business-as-usual approach of A.I.D. and the State Department providing taxpayer-financed foreign aid to countries who send us deadly narcotics in return for our goodwill. Consequently, legislation is pending to decertify and cut off foreign aid for Bolivia, Peru, Paraguay, Mexico, and the Bahamas.

In addition, the DeConcini-D'Amato "Omnibus Anti-Drug Abuse Act of 1988" introduced on March 23 toughens the certification standards for Bolivia and requires that all countries meet objective eradication targets or else lose their foreign aid, which would then go to countries that were meeting their targets. The bill also authorizes an annual fund of \$200 million in economic aid which is available for those countries who meet their anti-narcotics obligation. It is an incentive for them to cooperate. Does A.I.D. support the DeConcini-D'Amato bill? What has A.I.D. done to date that offers more hope for an end to this narcotics problem?

Answer:

- The bill is far-reaching and deals with many narcotics issues. A.I.D. is part of an ongoing inter-agency review process intended to produce a formal Administration position on the bill shortly.
- We look forward to working with Congress on this process, but I can address some of our preliminary concerns now, particularly on four key points in our area.
- First, although the provision which creates a special incentive program is a step in the right direction -- because it takes a positive approach instead of undermining these governments, our allies in this fight -- the incentive fund has not been included in the Administration's budget request for FY 1989.
- Second, I believe eradication targets should be negotiated, rather than established by legislation, which deprives us of the flexibility to tailor requirements to country situations.
- Third, I do not believe it is within the expertise of the Attorney General or the Administrator of DEA to make decisions about foreign assistance eligibility, any more than A.I.D. should decide on criminal law policy.

-- The bill also has a punitive provision: countries which do not reach targets would lose aid. This would affect our ongoing income substitutions projects in Bolivia, Peru, Pakistan, and Thailand, as well as our growing narcotics education program in ten countries. We expect to spend \$20.4 million in income substitutions and \$4.7 million in narcotics education in FY 1988.

0068G:6

Liberia: Operational Experts and Certifications

Question: Ambassador Woods, for some time now this committee has been concerned about allegations of financial mismanagement, misuse of U.S. assistance funds and human rights abuses in Liberia. As a result of these allegations and of the importance of Liberia as a U.S. ally, A.I.D. last year took an unusual step and supplied the Government of Liberia with U.S. financial management contractors and computers in an effort to untangle Liberia's financial management problems. Because of this unique situation, the FY 1988 CR stipulates that no ESF or MAP assistance can be made available to Liberia until you certify to the Congress that significant financial management reforms have occurred and the Secretary of State certifies that significant political reforms have taken place in Liberia. Can you tell us what effect the A.I.D.-sponsored financial management team is having in Liberia? Do you expect to be able to certify to Congress that significant financial management reforms have occurred in Liberia?

Answer:

- The U.S.-financed team of Operational Experts has been functioning as a unit in Liberia only since January of this year. They occupy key financial positions within the Government of Liberia (GOL).
- It is too soon to predict the degree of success the program might have or to report on any major progress made toward economic reform. However, early indications are that the Operational Experts are beginning to have a beneficial impact on the financial practices of the GOL. For example: the cash disbursement system has been consolidated and improved; government salaries are more current than at any time in the past two years; and some international debts are being paid, including \$5 million repaid to the United States in January, February, and March.
- USAID/Liberia and the Operational Experts will prepare a report for submission to Congress in July 1988. Based on its findings and other information on the progress of economic reform and stabilization in Liberia, I will decide whether or not to request continuation of the project.
- In addition, that report will be a major factor in determining whether the GOL has met the requirements which would allow us to provide the certification required to obligate FY 1988 ESF and military assistance funds for Liberia.

Poland

Question: Ambassador Woods, this Committee has again provided \$10 million for agricultural activities in Poland. Although previous appropriations had not been exercised because of resistance of the Polish Government, a Committee delegation to Poland in 1987, led by Senator Lautenberg, reports that Polish authorities have now indicated a willingness to permit the Church Agricultural Committee to establish a nonprofit foundation for such a program. In view of these developments, can you assure me that these funds will be programmed expeditiously? Also, please tell this Committee how you plan to expend these Agriculture funds, as well as the \$1 million ESF earmarked for the support of the Polish trade union, Solidarity. Finally, what has A.I.D. been able to accomplish through the use of local currencies generated by the sale to Poland of surplus U.S. dairy products for the reconstruction of the Jagiellonian University of Krakow?

Answer:

- I am happy to tell you that A.I.D. and Catholic Relief Services (CRS) signed a grant agreement on January 28, 1988 to provide \$5,775,000 in FY 1988 to begin a commodity import program. The project is to be implemented through CRS and the Polish "Church Agricultural Committee" created by the Catholic Church. It will help private sector farmers by increasing their access to water and appropriate farm machinery. It also involves procurement and marketing of agricultural inputs and equipment (sprayers, mowers, balers, pumps, pipes, well-drilling equipment, vehicles, and spare parts) to private farmers. Local currency proceeds will fund water and sewage installations.
- A.I.D. has requested \$3.225 million for FY 1989 for the commodity import program and we expect to fund the balance of the \$10 million in FY 1990.
- The \$1 million in ESF earmarked for Solidarity will again be programmed through the National Endowment for Democracy (NED). In FY 1987, we had also programmed the \$1 million earmark through the NED, which granted it to the International Rescue Committee to assist "Solidarity" in maintaining a social fund to provide medical assistance and related services to workers and their families. NED is awaiting program plans from Solidarity for FY 1988.
- In regard to the use of local currency, there are competing and pre-existing commitments for the use of excess zlotys.

In 1984 Congress authorized "such amounts as may be necessary of the Polish currencies held by the United States shall be available for construction of a new facility at the American Childrens Hospital in Krakow Poland which would be known as the Clement J. Zablocki Outpatient Facility". I understand that this facility will be completed in 1990. Availability of zlotys for the Jagiellonian University will have to be reviewed in light of this and other statutory commitments.

0068G:8

West Bank/Jordan

Question: Ambassador Woods, this Committee recommended that a substantial part of the \$18 million of FY 1988 ESF available to Jordan be used in support of King Hussein's development program for the West Bank. We also urged that additional funds made available through the transfer of funds into the ESF account be used for the West Bank program. You have informed this Committee that only \$5.7 million has been allocated so far to the West Bank and Gaza program and an additional \$1.4 million will be made available at a future date. Given the serious and ongoing problems in the Occupied Territories, could you assure this Committee that adequate resources are being provided? Also, would you update the Committee on the A.I.D. program in the West Bank and Gaza. Has the unrest disrupted the program?

We are also concerned about the sharp decline in economic assistance to Jordan in recent years. Could you explain the status of the \$23 million in DOD funds to be transferred to A.I.D. this year for additional economic assistance to Jordan.

Answer:

- We plan to provide as much funding to the two West Bank/Gaza programs as those programs can handle and as our A.I.D. budget will allow.
- Of the \$18 million for Jordan in FY 1988, \$7 million is for Jordan's West Bank/Gaza program. This amount, plus \$23 million we are still seeking from DoD and \$19.5 million already provided, funds the program to its present absorptive capacity.
- The \$5.7 million (\$2 million in FY 1988 funds and \$3.7 million in deobligations from the Syria Account) and an additional \$2.1 million we are proposing to reobligate from a completed Israel project will provide \$7.1 million for the direct West Bank/Gaza program. This amount will meet the program's most basic FY 1988 needs. It will allow for the continuation of existing programs and a few new ones. No other funds are available in this year's budget.
- The disturbances in the Territories have only slightly affected the direct program's activities. Most activities are implemented in rural areas and smaller municipalities of the Territories, away from much of the violence.
- The money was requested by a budget amendment to rescind \$48 million in Department of Defense (DOD) Budget Authority (receded to offset outlays) and an increase in ESF of \$23 million. Defense Appropriations Subcommittee cut DOD by \$48 million, but it would have violated Budget Summit agreement to increase ESF. Thus, the money was lost.

Panama -- Planning for Post-Noriega

Question: Ambassador Woods, the United States has been involved for some time now in efforts to remove General Manuel Noriega from his position of power in Panama. Though U. S. actions to remove a key figure involved in corruption and narcotics trafficking are well justified, they have taken a tremendous toll on the Panamanian economy. As a result of our efforts to deprive the Noriega regime of funds, the banking system is in shambles, businesses are bankrupt, and workers are suffering because they cannot receive their pay. If General Noriega is forced out, what will the Agency for International Development do to help rehabilitate the Panamanian economy?

Answer:

- Upon General Noriega's departure and the withdrawal of the military from political direction of Panama, we plan to review with Congress the possibilities for renewed assistance to Panama. The fundamental problem is restoration of confidence in the political stability of the country which will encourage private sector activity.
- While we are not yet in a position to make any firm assessment of assistance requirements, judging from the current situation, there are three possible categories of assistance:
 1. Assistance for economic stabilization and reactivation. This could include Balance of Payments, project assistance and dialogue with the GOP on policies needed to reestablish a private sector-led, market-oriented growth process.
 2. Humanitarian assistance. I should note we are already providing humanitarian assistance through OFDA. However, additional food and other humanitarian assistance may be necessary for an initial period to mitigate the worst impacts of the crisis on the poorest segments of the population;
 3. Assistance to Strengthen Democratization Process. A.I.D. would provide assistance, such as work with local civic organizations in voter education to help Panama consolidate a stable, democratic, political environment.
- However, it should be noted that the amount of assistance we can provide will be limited by our extraordinarily tight budget.
- We will also urge other donors to assist in addressing Panama's economic recovery needs.

Afghanistan

Question: Ambassador Woods, there have been continuing reports in the press that humanitarian support to the Afghan resistance has been diverted from its intended purpose. Tons of wheat, army jackets, boots and other supplies have reportedly been sold to Pakistani merchants for resale on the black market and there have been allegations that program records were altered to shield such diversions from GAO investigators. To what extent are these allegations true and how is A.I.D. working to see that our assistance is getting to those who truly need it inside Afghanistan? In view of the recent Soviet accord to withdraw its troops from Afghanistan, what kind of additional economic assistance does the U.S. plan to provide in Afghanistan?

Answer:

- Traditional monitoring mechanisms are not possible for assistance flowing into Afghanistan because of the war and a U.S. policy which prohibits A.I.D. from financing the travel of American citizens inside Afghanistan. Nevertheless, A.I.D. is committed to monitoring its program as closely as possible and a variety of monitoring systems are in place. Markets in the border regions are monitored frequently and systematically to ensure that commodities designated for Afghanistan are not diverted. Refugees and other travelers crossing the frontier between Pakistan and Afghanistan are interviewed regularly and a network of local monitors operating inside Afghanistan has been established and is expanding. Based on information gathered through these systems, we feel confident that the great majority of our goods do reach intended beneficiaries.
- We have met with the sources of press reports citing program diversion but they have been unable to substantiate their claims with specific evidence. It is also untrue that program records have been altered to shield diversion.
- The Office of the A.I.D. Representative is prepared to take action if specific evidence of diversion or corruption is brought to A.I.D.'s attention.
- Once the Soviets have actually withdrawn their troops from Afghanistan, we expect to continue our humanitarian assistance without interruption, with the bilateral nature of that aid eventually shifting in a larger degree to a multilateral effort.

- The Administration believes that the immediate problem upon Soviet troop withdrawal will be resettling eight million refugees (three million in Pakistan, two million in Iran, and approximately three million displaced Afghans inside Afghanistan).
- We also believe that the UN has a major role to play in the resettlement of these refugees and that the UN should now be engaged in contingency planning for their return. A.I.D.'s cross border program will complement the UN effort through the continuation of health, agriculture, and education activities and the provision of essential commodities.
- Upon withdrawal of Soviet troops and when politically prudent, we believe that an international organization, such as the World Bank, should send an assessment team to Afghanistan to determine requirements for reconstructing and developing Afghanistan's economy. Subsequently, the World Bank might chair a pledging conference of donors to encourage broad donor participation in the massive reconstruction effort which will be required. We envision coordination of this reconstruction effort under a multilateral umbrella, possibly with World Bank leadership.

0068G:11

Philippines: DA and ESF and Mini-Marshall Plan

Question: Mr. Ambassador, our Committee has had a long standing interest in the security and economic development of the Philippines. We view the A.I.D. program as a pivotal means for expressing our support for this country. Last year we earmarked \$40 million of A.I.D. Development Assistance for the Aquino economic reform program and provided an additional \$50 million in ESF contingent upon that Government's undertaking an effective agrarian reform program. Tell us about the status of both programs and if A.I.D. expects to be able to provide the additional ESF for the agrarian reform program and, if not, whether those funds will be programmed for other uses in the Philippines. Would you also give us an overview of the status of the mini-Marshall Plan for the Philippines.

Answer:

- Our Mission in Manila is currently developing detailed plans for the obligation of the earmarked \$40 million in DA. These funds will be used to increase rural incomes, primarily through rural infrastructure development, rural electrification, and private sector development.
- With regard to ESF, we are currently discussing with the GOP the allocation of these funds. We anticipate that there will be a continuing need for significant budget support, but will also want to allocate a sizeable proportion of these funds for infrastructure development.
- In terms of the additional \$50 million in ESF contingent upon the GOP's undertaking an effective agrarian reform program, we are currently working with that government to develop the details of plans for the use of these funds. We fully expect to agree upon a plan which meets the conditions Congress established for the use of these funds, and to obligate these funds before the August 31 deadline.
- Finally, the Administration applauds the objectives of the "Mini-Marshall Plan" and agrees with the proponents of this plan that we should do everything we can to assist with the establishment of a stable and prosperous democratic order in the Philippines. However, we find it difficult to see how such a program can be financed. We do not believe that it is possible to provide additional funds for the Philippines by reducing our programs in other areas. The Secretary of State and I have met with some members of Congress to see what kind of funding might be required and how it can be obtained. These discussions are still under way. I will keep your Committee informed of their progress.

Cash Transfer to Egypt

Question: Ambassador Woods, for a number of years now we have been providing a cash transfer to Egypt to provide balance-of-payments support to an Egyptian economy that has been badly hurt by effects of falling petroleum prices, among other things. The infusion of foreign exchange provided by our cash transfer has helped Egypt maintain economic and political stability during difficult times. Egypt has continued to be an important supporter of U.S. policy in the Middle East - it is the only Arab state to sign a peace agreement with Israel and the only country in the region to express support for Secretary Shultz' recent Middle East initiative. During President Mubarak's visit to the United States earlier this year, he pointed out Egypt's need for more assistance in the form of cash to help meet the critical needs of Egypt's economy. He also stressed that Egypt is firmly committed to economic reform but must move slowly to prevent political disturbances that may result from the painful effects of reform. Yet, A.I.D. has so far refused to release the \$115 million cash transfer appropriated last year because it claims Egypt has not made sufficient progress in economic reform as called for in the legislation. When do you expect to release the cash transfer to Egypt? What significant economic reforms has Egypt undertaken and what is the status of compliance with the current IMF agreement and of negotiations on a new arrangement? If pushing the pace of reform creates political problems for the current government, reform objectives as well as U.S. political goals may be jeopardized. Doesn't the ceiling on cash transfer to Egypt, along with the reform conditions placed on it, limit our flexibility in responding to economic and political conditions within Egypt?

Answer:

- We are very aware of the importance of Egypt as a key U.S. ally. However, we also take seriously the requirement in the FY 1988 legislation that cash transfer for Egypt be disbursed in the context of "significant additional" economic reform. The Egyptian Government accelerated the pace of reform in 1987, undertaking major agricultural liberalization measures, tightening monetary policy, strengthening the budget, and partially unifying exchange rates. For FY 1988, however, we continue to await further progress on reform before releasing this year's cash transfer.

- We are gratified by the economic reforms that Egypt has already undertaken. They include major progress on exchange unification, completing unification of the

commercial bank exchange rate in March, 1988, some three months ahead of schedule. Egypt also raised short-term interest rates on its pound loans and deposits by 1-2% in May 1987. Energy and electricity prices were increased by 66% and 29% respectively in May 1987. Monetary and fiscal policies have also been tightened. However, Egypt has fallen behind the schedule anticipated by the IMF for defining and implementing a second round of reform measures. The IMF program was approved with the understanding that a second round of strengthening measures would be undertaken in connection with the first review of the program. Egypt's IMF agreement remains in place, however, and sensitive policy discussions are currently underway with the IMF staff on the magnitude and timing of the next set of reforms.

The Administration has always and continues to favor a flexible approach to cash transfers and has opposed placing ceilings on such transfers because of the limitations on flexibility which they entail.

0068G:13

Costa Rica (Arias Plan)

Question: Mr. Administrator, persistent stories in the press and other indicators have led many of us in the Congress to wonder whether this Administration, through the foreign aid program, has tried to manipulate or retaliate against the Central American peace process headed by President Oscar Arias of Costa Rica. In other words, if the Administration does not approve of some aspect of the Arias Peace Plan, it exerts pressure on President Arias by either withholding disbursement of foreign aid funds already approved by this Congress for Costa Rica or by requesting less funding for the Costa Ricans than it would otherwise. For example, this year's ESF request for Costa Rica is \$20 million less than we actually appropriated last year. We would like your assurance that the Peace Plan and related political considerations are not affecting your Costa Rica program in any way whatsoever.

Answer:

- The A.I.D. program in Costa Rica has not been delayed or otherwise used to pressure Costa Rica on regional issues. The United States supports full compliance with the Guatemala Accord, the Central American peace plan promoted by President Arias.
- The bulk of U.S. aid to Costa Rica is in the form of ESF balance of payments support. It has been critical to the success of the Costa Rica's economic recovery.
- Each year, as a part of the ongoing policy dialogue, we negotiate an agreement with the Costa Rican government on the package of economic policies and reforms that we will support with ESF financing. These agreements include specific performance targets against which the ESF dollars are disbursed
- Where there have been delays, they have been on the part of the Costa Ricans in formulating adequate economic plans necessary in negotiating new ESF agreements.
- Similarly, when actual performance has lagged significantly, disbursements have awaited corrective action or new targets have been negotiated.

- Our approach to the Costa Ricans in this regard has been no different from that followed elsewhere in the region. It is totally consistent with A.I.D.'s approach to policy dialogue.
- The ESF level requested for FY 1989, \$70 million, is down for several reasons:
 - o ESF aid for Central America was intended to meet short-term foreign exchange shortfalls and ease economic restructuring. Thus as the economic crisis of the region recedes it should be reduced. We signaled our intent to do this in last year's Full Funding Report to Congress.
 - o The Costa Rican economy, spurred by increased non-traditional exports, is steadily improving. The governments economic program has financial support from both the IMF and the World Bank.
 - o Costa Rica's standard of living and per capita income are already the highest in Central America.
 - o The World Bank and Japan are ready to approve a \$200 million Structural Adjustment Loan which will cushion the impact of the lower ESF level in 1989.

0068G:14

Development Fund for Africa

Question: Ambassador Woods, this Committee agreed to provide A.I.D. significant new flexibility in administering its program in Africa. With the new Development Fund for Africa, has A.I.D. been able to "shift gears" to take advantage of the flexibility provided? Please provide some concrete examples of what A.I.D. has been able to do under the Fund that it could not do otherwise. Would this approach be advisable for other regions of the world? Also can you assure this Committee that you will meet the 10 percent target contained in the Continuing Resolution for environment, health, and family planning?

Answer:

- Let me begin by saying that I am very grateful to this Committee for its key role in providing us with the funding and flexibility contained in the Development Fund for Africa. And I can assure you that I intend to see that A.I.D. fully utilizes the economic development tools provided by this Fund.
- Let me give you some examples of the activities we intend to support this year under this Fund. We are planning to support sectoral reforms by parallel financing activities with the World Bank and other donors in Guinea, Tanzania, Madagascar, Uganda, Ghana, Malawi and Niger.
- Additionally, as a result of this Fund, we have been able to substantially increase our assistance levels in a handful of countries which are proving to be good economic performers. They include Botswana, Guinea, Ghana, Malawi, Mali, Madagascar and Uganda.
- We are planning on supporting export manufacturing in Malawi, market town development in Kenya, a sectoral approach to family planning in Botswana, banking sector reform in Zaire and protection of grazing lands through a policy reform program in Lesotho.
- The Madagascar program provides a good example of the unique opportunity available under the DFA. In Madagascar the DFA has allowed us to increase our budget by 76% to \$9.5 million as well as add a \$10 million African Economic Policy Reform Program in support of a concentrated sector program. Over the next two years we will support agricultural sector reform both in marketing and input delivery largely through the use of non-project assistance.

- The policy thrust in Madagascar complements well our efforts with the International Rice Research Institute to improve rice strains in Madagascar because new varieties would be useless without a way of distributing the seeds and fertilizer. At the same time, increasing yields on rice lands will reduce the pressure of expanding rice cultivation on marginal lands, thus reducing erosion problems. Finally, we are supporting family planning activities and examining ways of expanding the existing involvement of U.S. PVO's in biological diversity issues in Madagascar.
- I should add that we are also developing guidance on how to use the new flexibility in procurement.
- I feel certain that the new tools provided by the Development Fund for Africa, i.e., increased program flexibility and the elimination of functional accounts, would also be useful for other regional programs. We will continue to keep you informed of the kinds of programs we are funding and the underlying reason for our programmatic decisions.
- Finally, I can assure you that we will exceed our ten percent obligation requirements for environment, health/child survival, and population in FY 1988.

0068G:15

Mozambique: Why We Provide Aid

Question: Ambassador Woods, given the current ideology (Marxist government) in Mozambique, why should the U.S. use scarce foreign assistance resources there? What improvement, if any, can you report in church-state relations, legal protection of private property and the number of East bloc advisors in Mozambique?

Answer:

- A large portion of our aid to Mozambique is for emergency relief, which is provided pursuant to our humanitarian tradition, without regard to politics.
- Our development aid is helping revive Mozambique's private sector and transform its socialist, centrally-planned economy to a more market-oriented one. Our food aid, in part, is providing food security while Mozambique undertakes a tough and far-reaching structural adjustment program with the IMF and World Bank. This program has already led to reductions in subsidies, a devaluation of the currency by 90 percent, and major cuts in the Government's budget. There is ample evidence that Mozambique is turning away from the Marxist economic model it adopted at independence.
- The Secretary of State has prepared a report to Congress on the three issues mentioned in your question. Church-state relations have steadily improved since 1982. The Government has already returned some church property and is negotiating on other properties. Churches have been reopened. Religious organizations are revitalizing schools, clinics and other social services. The Government has encouraged religious organizations to take a larger part in the ongoing emergency relief program.
- Although Mozambique has nationalized all of its land, it constitutionally guarantees personal property. It has begun to sell off many nationalized firms (many of which were "intervened" by the government when their colonial owners abandoned them). Mozambique's foreign investment law allows expropriation only in exceptional circumstances and provides for compensation in such cases.
- There are approximately 1500-2000 East bloc military and security personnel in Mozambique. There does not seem to have been a substantial change in these numbers since 1984. Mozambique has been trying to diversify the sources of its military training and aid, drawing more from the West.

Economic Policy Reform

Question: Ambassador Woods, the Committee supports A.I.D.'s recent efforts to use its economic assistance resources to influence appropriate economic policy changes in A.I.D.-recipient countries. We share your view that unless sound economic policies are in place a developing country has little prospect for achieving long-term sustainable economic growth. Now that you have had at least several years of experience in this area, including the new Development Fund for Africa, can you please give the Committee three examples of your most successful economic policy reform programs and three examples of programs that you would consider less than successful.

Answer:

- I would like to preface my examples by stressing that economic policy reform is being assisted by the IMF, the World Bank, regional multilateral banks, and other bilateral agencies as well as by the United States. Our successes and our less-than-full successes therefore, in most cases, are shared with other reform-oriented institutions. However, I can identify cases in which A.I.D.'s role has been especially prominent.
- Examples of successful programs:
 - In Mali, U.S.-supported fiscal reforms have improved the effectiveness of government in providing health and education services, have increased recurrent-cost expenditures on books and medicines, and have reduced personnel expenditures.
 - In Bangladesh, U.S. assistance has been conditioned on policy reforms that have moved wholesale fertilizer distribution toward the private sector, made rural finance interest rates positive, and raised electricity rates to cover long-run costs.
 - Since 1982, A.I.D. helped Costa Rica to reduce its fiscal deficit from 13% of GDP in 1979-81 to under 4% in 1983 and under 1% in 1987, to cut inflation from 90% in 1982 to 14% over the last four years, and to raise manufactured exports to the United States from \$73 million in 1982 to \$265 million in 1987 and horticultural exports to the United States from \$13 million to \$42 million over the same period.

-- Examples of less-than-successful programs:

- In Zambia, A.I.D.'s initially successful agricultural reform program fell afoul of Zambia's failure to continue its comprehensive structural adjustment program because of the government's inability to resist political pressure from urban workers and party ideologues.
- USAID/Cairo is well satisfied with agricultural sector reforms, but is disappointed that 1984-87 electricity price increases were exceeded by general inflation, that large 1987 increases have left petroleum prices at 25% of international levels, that the exchange rate, though now less complicated, remains overvalued, and that the budget deficit, after some reduction in 1986/87, is again rising. USAID/Cairo is concerned that Egyptian government overcaution about short-term social/political factors will result in a reform pace inadequate for the economic resurgence required for sustained, broad-based improvements in living standards.
- In Peru A.I.D. tried to use its modest resources to elicit policy reforms to stimulate long-term economic growth. Instead, the Peruvian government opted for short-term economic and political gains, which now appear to have come to an end. Foreign exchange reserves are depleted; the fiscal deficit is large; inflation is headed toward a 300% annual rate; and there is likely to be no growth in the economy in 1988.

0068G:17

ESF Cash Transfer Separate Accounts

Question: Ambassador Woods, the FY 1988 Continuing Resolution requires that A.I.D. place all ESF cash grants and all local currency generated under ESF cash grants in separate accounts. We took this step to help assure the Congress and the American people that foreign assistance provided in the form of cash grants is used only for appropriate economic development purposes. Have you encountered any difficulty in establishing these separate accounts? Also, describe the procedures that you require countries to follow when establishing a separate dollar or local currency account and tell us whether you would have any objection to our including this provision in the FY 1989 legislation. For example, do you believe that the creation of separate accounts imposes an unfair or cumbersome burden on A.I.D.-recipient countries?

Answer:

- First, Mr. Chairman, I want to thank you for the cooperation we have had from your committee in working out our approach to the separate accounts legislation.
- It is important to distinguish between the purposes and uses of Cash Transfers. The purpose of Cash Transfers is generally balance of payments or budget support usually linked to economic adjustment and reform programs. The uses of Cash Transfer, which we track, are imports - preferably U.S. imports - and debt repayments - preferably non-FMS official debt owed the U.S..
- We have been working hard to comply with the Separate Accounts legislation. While the results we seek are related to economic growth and reform, I think it important that we track Cash Transfer uses to assure the Congress and American public that those uses are appropriate.
- On the other hand, accountability should not be so cumbersome as to undermine the nature of the Cash Transfer - quick disbursing economic support and policy leverage. I think the legislation generally gives us the flexibility to account for uses and maintain the nature of the Cash Transfer.

0068G:18

Israel Separate Accounts

Question: Last year Congress mandated that separate amounts be maintained for all ESF assistance provided as cash transfer assistance and that a detailed description of the uses of the funds and economic reforms promoted by such assistance be provided for all countries. Has this provision been implemented and how is it working in the case of Israel?

Answer:

-- In conformance with the Congressional requirement, A.I.D. required that the Government of Israel establish a separate bank account to receive the cash transfer funds. The government of Israel established a separate account with the Federal Reserve Bank of New York in October of 1987 and subsequently with the Bank of Israel, also in October of 1987. All cash transfer funds, \$1.2 billion, were transferred to these accounts. Neither we nor the Government of Israel are currently experiencing any problems with the separate accounts arrangement. Given that the accounts are in place, we do not anticipate that this requirement will affect our cash transfer program with Israel.

0068G:19

Africa Famine Relief Needs

Question: Ambassador Woods, given the current budget constraints, is A.I.D. adequately meeting the famine relief needs of African countries, such as Ethiopia, Sudan, Mozambique and Angola? Can you assure this Committee that our assistance is reaching the people for whom it is intended? What has been the effect of resistance forces in those countries in blocking delivery of emergency relief? Also, can you provide examples of how A.I.D.'s Famine Early Warning System (FEWS) has improved the U.S. response in such drought/famine situations?

Answer:

- The U.S. makes every effort to aid people suffering from drought and famine in those countries. In Ethiopia for FY 1988 we have approved over 267,000 MT of food, in Angola 12,000 MT, in Mozambique 82,000 MT, and in Sudan over \$10 million in food and non-food aid.
- To assure that our assistance reaches the people for whom it is intended it is U.S. policy to identify organizations, usually U.S. private voluntary organizations (PVOs), to implement, monitor and evaluate our programs to ensure that our aid goes to its intended recipients.
- In some cases resistance forces have impeded delivery of food; for instance, recent escalation in fighting in northern Ethiopia has now brought distribution outside the major cities of Asmara and Makelle to a standstill. In Angola and Mozambique, civil strife impedes delivery of food outside major cities. In Sudan, fighting in the south has made transport of food so difficult that we have only been able to deliver 35,000 MT of food, or roughly half what we estimate was needed.
- The famine early warning system (FEWS) in Ethiopia helped us to predict a drought as early as July and to program food assistance in a timely manner. We were able to ship food to arrive well before a crisis situation developed. Unfortunately, at this time the security of the roads has deteriorated to such an extent that distribution is very slow and food is backing up at the ports.

0068G:20

Southern Africa Development Coordination Conference (SADCC)

Question: Mr. Ambassador, the FY 1988 CR provided \$50 million in Development Assistance for Southern Africa Development Coordination Conference (SADCC) member states, in addition to the \$500 million for the Development Fund for Africa. It was also stipulated that none of the SADCC funds could be provided to Mozambique unless the President certified that it was in the U.S. national interest to do so. Do you expect that any of the SADCC funds will be given to Mozambique in FY 1988? Why did the Administration not request a separate and additional line item for SADCC in its FY 1989 budget?

Answer:

- We are developing and plan to fund from the SADCC funds this fiscal year a \$41.5 million project to support a regional rail system. Recently, A.I.D./Washington reviewed and approved a concept paper for the proposed project. The initial project design calls for the supply of spare parts, equipment and training for purposes of rehabilitating locomotives and maintenance facilities for Mozambique, Swaziland and Malawi Railways. This project design was based on a detailed assessment of transport needs and resources throughout Southern Africa and a prioritized ranking of all potential transportation projects according to cargo demand, economic returns and overall feasibility.
- For FY 1989, we have requested \$50 million in support of SADCC activities. The Administration, as a general rule, does not request or support specific earmarks. We strongly support SADCC in our budget request and do not feel that a separate line item is necessary.

0068G:21

Pakistan

Question: Ambassador Woods, Pakistan is a vital U.S. ally. Yet Pakistan's activities in the areas of nuclear weapons development and poppy eradication are of major concern. Would you summarize for this Committee the basis on which the President waived the Symington amendment for Pakistan.

In spite of substantial anti-narcotics assistance provided to Pakistan, poppy production continues to spread to new areas of the country and total production remains roughly the same. What additional efforts do you believe need to be undertaken to improve the Government of Pakistan's performance in opium poppy eradication and public awareness of drug abuse?

Answer:

- On January 15, 1987, the President signed the waiver of the Symington amendment. Further questions on nuclear issues can best be addressed by the State Department.
- It is true that while Pakistan undertook a major program of crop eradication in 1987, including aerial spraying, net production was essentially unchanged from the previous year. It is also clear, however, that Pakistan has a serious domestic narcotics problem and, consequently, is a net importer of opium.
- The State Department is responsible for poppy eradication programs in Pakistan. Their assistance is designed to help improve the enforcement as well as eradication capabilities of Pakistan. I believe we must continue the ongoing programs of eradication through manual destruction and aerial spraying. We must also continue our efforts to work with the GOP to develop better crop control measures and increase our development assistance program in poppy growing areas to further eliminate cultivation. We will continue our efforts towards public awareness by supporting additional nationwide narcotics awareness programs. A.I.D. is also moving forward in establishing a Narcotics Awareness Center in Islamabad to provide both the media and educators with drug awareness information.

0068G:22

Ireland

Question: Ambassador Woods, we continue to read about the ongoing turmoil and violence in Northern Ireland. In an effort to alleviate some of the underlying causes of this explosive situation, this Committee supported the U.S. commitment of \$120 million in ESF to the Fund for Ireland. The FY 1988 CR earmarked the last installment of \$35 million for that Fund. Would you tell us how the U.S. contribution to this Fund has been used? Is there any truth to the reports that little of this assistance has been used to create employment opportunities in war-torn areas?

Answer:

-- Since January 1987, over 1700 applications for assistance have been received by the Board of Directors for the International Fund for Ireland. In principle the IFI has decided to support geographically dispersed small-medium scale projects. Within the priority sectors (manufacturing, commercial, agriculture and fisheries, urban development, science and technology, training and education and tourism) some 30 projects have been funded. They include such projects as:

Eurocentre West which provides workspace accommodation for small scale entrepreneurs.

Newry-Mourne Cooperative which allocates seed capital for a local enterprise group to establish a business development revolving fund.

The fitting of a trawler to be used for training young fisherman.

The initial funding of two investment companies, in the north and the south which will seek to stimulate viable and self-sustaining growth in the private sector.

-- Disbursements for these projects are in an early stage. An internal review of the Fund's first 18 months will be conducted this month.

-- The Fund is concentrating its efforts on employment generating efforts in disadvantaged areas in many of its priority sectors as specified in the precepts of the USG contribution. Presently, the Board is examining the options involved in commissioning an outside expert study to devise a strategy for use of Fund resources in particularly disadvantaged areas such as West Belfast. This study would be coupled with support from existing community groups who could draw upon the expert advice in making appropriate proposals to the Board for use of Fund resources.

Promotion of Democracy in Chile

Question: Ambassador Woods, for the current fiscal year we appropriated \$1 million in Economic Support Funds for the promotion of democratic activities in Chile. The funds were to go through A.I.D. to the National Endowment for Democracy. What have you done to implement that program, and when can we expect it to be fully operational?

Answer:

- In February, 1988, A.I.D. obligated the \$1 million in a grant to the National Endowment for Democracy (NED) to assist various democratic groups that are engaged in promoting free elections. I understand that nearly all of the money has been granted to Chilean organizations, except for \$35,000 which will be obligated shortly.
- The specific activities supported were selected by the NED staff and approved by its board of directors. They include equipment and supplies for Chile's leading independent daily newspaper; publication of civic education pamphlets and newsletters; development of training programs in organizational skills for democratically-oriented community leaders; financing ID photos for lower income citizens so that they can register to vote; supporting voter education and opinion polling by democratic labor organizations and other groups, and enabling them to monitor the fairness of the plebiscite.
- Since A.I.D. has no official presence in Chile, USIA has assumed responsibility for audit and management oversight of these activities, and will furnish periodic progress reports to A.I.D.

0068G:24

El Salvador: (Impact of Elections)

Question: Ambassador Woods, given the recent political developments in El Salvador -- a contested election that appears to give the far-right ARENA party a plurality in the Salvadoran National Assembly -- what assurances do we have that the FY 1989 foreign assistance request for El Salvador will not be ineffective at best or counterproductive at worst? I am particularly concerned about the future prospects of land reform, judicial reform, human rights reform, and similar projects that A.I.D. funds.

Answer:

- The elections should not affect adversely A.I.D.'s assistance to El Salvador, although one can never be sure of future events.
- The President of the National Republican Alliance (ARENA) has said that land reform in El Salvador is "irreversible". He ruled out categorically the return to original owners of lands distributed under the land reform, but ARENA may well press for some changes in the program.
- ARENA says it wants to improve on the existing land reform by introducing improved management and increasing productivity of the agricultural cooperatives. A.I.D. shares this objective.
- The election results should not curtail the government's program to complete titling and compensation. The few Phase I landowners who still hope to regain individual properties are doing so legally in the court system.
- A.I.D. intends to continue to work with the Duarte government and the leadership of the National Assembly for less government involvement in the Phase I cooperatives; for a redefinition of beneficiary rights; and for more commercial linkages with Salvadoran private sector investors -- especially in non-traditional exports.
- We would like to see more land reform beneficiaries, but we will not support an expansion of Phase I production cooperatives. We prefer willing buyer -- willing seller market mechanisms, such as the proposed "land bank" which will allow landowners to sell voluntarily their lands to eligible beneficiaries.
- As for administration of justice, the current ARENA leadership says it is committed to democracy, human rights and the rule of law. Growth in ARENA popularity reflects in part its new, more moderate leadership, which seems to be committed to refrain from the human rights abuses of the past

-- I believe we can work with both ARENA and President Duarte to preserve the progress made in human rights and establishing the rule of law in El Salvador. We should deal with the new ARENA leadership on the basis of its actions and not the past. Nevertheless, we would anticipate some complications arising from the fact that the executive will be in the hands of one party; whereas another party will be the dominant force in the National Assembly.

0068G:25