

BRIEFING BOOK
FOR
DEPUTY ADMINISTRATOR - DESIGNATE, MARK EDELMAN

TABLE OF CONTENTS

- A. LAC/SAM ISSUES
- B. STATEMENT OF UNITED STATES INTERESTS IN THE ANDEAN REGION
- C. THE ECONOMIC SITUATION IN THE ANDEAN COUNTRIES
- D. LAC/SAM PROGRAM OVERVIEW

- Economic Stabilization
- Achieving Long-Term Economic Growth
- Sharing the Benefits of Growth
- Democratic Institutions & Human Rights
- A.I.D. Support for Narcotics Awareness & Control

- E. COUNTRY PROGRAM SUMMARIES

- Bolivia
- Peru
- Ecuador

- F. THE ADVANCED DEVELOPING COUNTRIES (ADCs)

- Overview
- Country Summaries

- G. NARCOTICS

- Overview Statement
- Table - Funding Levels
- Legislative Restrictions
- Peru - Upper Huallaga Valley Project
- Bolivia - Chapare Project

- H. PROPOSED INTERNATIONAL & REGIONAL NARCOTICS STRATEGIES

- The Andean Strategy
- Andean Action Plan
- The Gorman Report
- INM Report to the National Security Council

South America and Mexican Issues

Debt and 620(q)

Each of the Andean countries has had problems in repaying official U.S. debt, and at various times have been subject to 620(q) sanctions. Delays in processing Paris Club rescheduling agreements caused both Ecuador and Bolivia to violate Section 620(q). We secured a Presidential waiver for both countries, but Bolivia has again fallen behind in payments.

President Garcia's policy in Peru is to service debt to countries that are net donors to Peru. Nonetheless, payments to the U.S. have been sporadic, require personal interventions with the President, and are mired in Peru's bureaucracy even though payment has been ordered. Peru has been in violation of 620(q) for all of FY 1989. A.I.D.'s decision to include Housing Guarantee payments in determining 620(q) will make the U.S. a net creditor, and could jeopardize future payments.

Colombia Judicial Protection

Congress earmarked \$5 million for the protection of judges, other officials and journalists in Colombia in the 1988 International Narcotics Control Act. We will use \$1 million of this to fund an ongoing A.I.D.-managed judicial administration program, and plan to transfer the remaining \$4 million to State for it to administer since it will involve a series of activities in which A.I.D. has little expertise. We have been working with State, INM and the Justice Department on designing a coherent program before transferring funds outside of A.I.D.

AIFLD Involvement in Labor Leader Training in Colombia

Last month an A.I.D. contractor was at the point of awarding a subcontract to Miami Dade Community College for the short term training of Colombian labor leaders under the Andean Peace Scholarship program. AIFLD bid on the training program, but was ranked third, based on the technical proposal and cost. When AIFLD learned it would not be awarded the contract, it wrote to all Florida AFL-CIO leaders asking them not to assist Dade in carrying out the program. AIFLD also asserted that Congress had directed A.I.D. to award all labor programs to AIFLD. The LAC Bureau protested to AIFLD, which eventually withdrew its request that labor leaders not cooperate with A.I.D. and Dade College.

Ecuador Salary Supplements

When Frank Almaguer arrived in Ecuador as the new Mission Director in August, 1986, he discovered that the Mission was paying substantial salary supplements to Ecuadorean officials "to attract the private sector talent needed to help President Febres Cordero carry out his economic program." At the same time, he found that the Mission's Controller operation was fraught with mismanagement. The AA/LAC removed all top Mission officials, and the IG carried out an extended investigation and audit, resulting in five separate reports. The Justice Department declined to prosecute A.I.D. officials that were involved.

The problem has been cleaned up, and the Agency and Bureau issued instructions on the payment of salary supplement. There was considerable Congressional interest in this problem.

Resident A.I.D. Representative in Paraguay

When Congress earmarked ESF funding for Uruguay in FYs 86 and 87, we managed the program by transferring the A.I.D. Representative in Asuncion to Montevideo, where he continued to handle both Paraguay and Uruguay. Since then, Uruguay has been designated as an Advanced Developing Country (ADC), and with the change in government in Paraguay and the possibility of additional programs, it appears that one person cannot handle both countries. Ambassador Towell in Paraguay has requested a full time ADC Representative. We will address this issue along with associated OE and staffing implications next month during the Action Plan review.

Citibank Seizure of Ecuadorean Assets

On May 4, Citibank informed the GOE that it had unilaterally debited \$81 million from GOE accounts for principal and interest owed Citibank on commercial debt. Citibank took this action because of its perception that the GOE was not seriously negotiating a resumption of commercial debt payments. The GOE reacted with moderation, but many are calling for the expropriation of Citibank assets in Ecuador. The USG has officially remained neutral but has helped keep the parties talking. Secretaries Baker and Brady along with Allen Greenspan have talked with Citibank but to no avail.

The problem has broad implications for the commercial debt renegotiations and the Ecuadorean political scene. Citibank's action has seriously damaged the GOE perception of the foreign banking community and its role in Ecuador's economy. The GOE is under pressure from political interest groups to take stronger action against Citibank. This could have two effects: a) force the GOE to find a scapegoat in order to take the heat off the government, b) move the GOE economic team to a more nationalistic, left of center stance.

USGS Minerals Assessments

The U.S. Geological Survey recently visited a number of the Andean countries, and has attempted to stimulate interest in carrying out major minerals assessments and institution building programs. Ambassador Gelbard in Bolivia has urged A.I.D. to fund a 4-5 year \$13 million program, while Ambassador Holwill in Ecuador has stated that he would be interested only if the Ecuadoreans redo their mining code and provide greater guarantees against nationalization. We have urged Bolivia to determine if the lack of an inventory of minerals information is the key constraint to investment, or whether other factors may be more important. We have also pointed out that funding would have to come from within current levels programmed for Bolivia.

123(e) Determination for Peru

Section 123(e) permits A.I.D. to continue funding programs through PVOs and cooperatives that were being carried out when a prohibition on assistance became effective. Peru currently cannot receive assistance from A.I.D. because of 620(a) and Brooke-Alexander sanctions. Given the critical economic situation and growing humanitarian concerns, we urged the Mission to consider developing more programs through PVOs and cooperatives in order to continue our dialogue until a new government comes to power. The Mission may soon request the Administrator's approval for a 123(e) determination to allow assistance to continue. This must be reported to Congress.

6090a

U.S. INTERESTS IN THE ANDEAN REGION

U.S. interests in the Andean Region are broad and substantial, encompassing political and security concerns, trade, investment and economic issues, shared cultural and social values, and of course narcotics. With Colombia straddling the Central America isthmus, the Andean countries have outlet to both the Caribbean and the Pacific. Together they border on all the other countries in South America except Uruguay, Guyana and Suriname. Their total population, at 69.3 million, is three times larger than the total for the four Central American democracies and four times greater than that of the Dominican Republic, Haiti and Jamaica. In another decade or so, when its population reaches 90 million, it will be double that of the Central American and Caribbean regions combined. Three of the four countries, Colombia, Peru and Ecuador, in that order send more immigrants to the United States than any other South American country. As illegal immigration patterns normally reflect legal patterns, it can be assumed that illegal immigration from these countries is significant.

The economies of these countries are large enough to be of interest from trade and investment perspectives, but not so large as to be beyond the capacity of present and future A.I.D. programs to be a help. Total GNP for the region is \$70.8 billion. Except for Bolivia, in the pull of Argentina, the United States is the region's largest trading partner. Imports in 1987 were \$9.55 billion, \$3.36 billion of that, or 35%, came from the United States. They exceed the historical average of imports from the Central American and Caribbean regions combined by about one-third. Figures on investment are not readily available, but the U.S. stake is substantial and has even greater potential in oil, gas and other minerals.

The Andean region has significant natural resources of oil, gas, fish, timber, nickel, iron ore, copper, coal, phosphates, potash, diamonds, silver and gold.

Our political interests in the Andean region are led by, but not limited to the fact that all are democracies. Although they are currently headed by moderate or center-left governments, there is a substantial likelihood that a Marxist coalition containing radical elements could come to power through free elections in Peru in 1990. Peru probably has the most radicalized political environment of any South American country. Ecuador has just elected a center-left government, Colombia installed a moderate president in 1986 (term ends 1990), Bolivia recently held elections. Although the

Andean region has not been an area of serious inter-state conflict in modern times, all four countries have unresolved border and/or territorial claims with each other or neighboring states that could, as the South Atlantic war of 1982 showed, erupt into hostilities under certain circumstances. The legacy of past conflict still exerts its influence in national defense postures that are oriented more toward external defense than internal defense or narcotics. Although such allocations of scarce resources appear misplaced in our view, they reflect the view prevailing among political and military elites. There now appears to be some evolution toward mounting concern over internal threats and increasing efforts to build external foreign relations that would permit reduced expenditures on external defense.

The Andean region, Peru specifically, hosts the largest Soviet presence in South America. The relationship picked up during the military government in power from 1968 to 1980, but has persisted through two democratic governments since then and is broadly based in military relations, economic development, fishing, education and training. The relationship began after United States military assistance programs were terminated altogether in 1971 and could not be altered quickly except at great expense to Peru and any alternative supplier. The Soviets maintain close relationships as well with the Communist Party of Peru and the General Confederation of Peruvian Workers, the dominant, communist-controlled labor organization. To the best of our knowledge, the Soviets have no communication with or sympathy for the Shining Path (Sendero Luminoso) Maoist guerrillas. They probably have indirect communication and other links to the more traditional Tupac Amaru Revolutionary Movement.

The Andean region was home to one of the most advanced pre-Colombian Indian civilizations in the western hemisphere. Interest in the region among academicians, anthropological and archaeological specialists and other private U.S. citizens is substantial and widespread for that reason alone. U.S. tourism to the region is significant. U.S. private foundations such as Ford, Rockefeller, Tinker, National Endowment for Democracy, among many others, have long-standing, active programs in the area. The region has long been a focus of interest among political scientists concerned with the problems of political development and modernization and there is a substantial body of academic and specialized literature dealing with cultural, social, economic and political aspects of difficulties faced by these multi-racial, multi-linguistic and largely unintergrated Andean nations.

THE ECONOMIC SITUATION IN THE ANDEAN REGION

Bolivia, Ecuador, and Peru have severe poverty problems. Since the early 1980s they have suffered serious economic declines caused by falling prices for their exports, natural disasters, heavy external debt burdens, and inappropriate economic policies. Courageous economic reform programs in Bolivia and Ecuador have begun to address these problems effectively, although Ecuador experienced some implementation problems in 1988. Peru continues to follow misdirected economic policies, but there are hopeful signs that better policies may soon be implemented.

Bolivia's fairly good economic performance in the 1970s, due in large part to higher mineral exports, was reversed in the 1980s. In the period 1980-86 the GDP declined every year, resulting in a cumulative decline of per capita GDP of over a third; the investment rate was halved to less than 10% of GDP; and the national savings rate declined steadily to less than zero.

In late 1986 the GOB began to implement a highly successful stabilization program which resulted in a reduction in inflation from more than 10,000% in 1985 to 15% in 1987 and to 20% in 1988. The budget deficit was lowered partly through large scale dismissals of public sector employees, especially in the overstaffed mining industry. The marked improvement in the policy framework has resulted in a modest reactivation of the economy--the GDP grew by 2.1% in 1987 and by 2.8% in 1988.

Since 1982 Ecuador has faced two severe natural disasters (flooding in 1983 and earthquake in 1987) as well as a sharp drop in oil prices in early 1986. Nevertheless, economic growth in the 1980s has been generally higher than in other countries in the region. The decline in the price of oil in 1986 had a negative effect on public finances as the public sector deficit increased to 5% of GDP in 1986 and to over 10% of GDP in 1987. Inflation, which had been relatively moderate in the 1960s and 1970s, averaged more than 30% in the period 1983-87, and increased substantially to an annual rate of over 100% by early 1989. The economic program of the new administration is beginning to reduce the inflation rate, which averaged less than 2% a month in April and May.

In the 1970s Peru stagnated in comparison to other countries in Latin America even though investment as a percentage of GDP was relatively high. This poor performance was due to the economic policies followed (extreme import substitution), and to political uncertainty. Additionally, the average inflation rate exceeded 50%.

The 1980s began with very poor economic performance which culminated in 1983 when the GDP declined by 12.5%, partly a result of floods in the North of the country and a drought in the South (these two phenomenon may have accounted for a 4% decline in the GDP), but also the result of a loss in foreign finance. In 1986 and 1987 an expansionary fiscal policy resulted in rapid GDP growth, but this was followed by a decline of GDP of 8.9% in 1988. Average inflation in 1988 was 667%, and it is expected to be significantly higher in 1989. The government has not developed a comprehensive, coherent economic program to reduce significantly the fiscal and balance of payments deficits.

LAC/SAM:revised 6/15/89:6079a

South America and Mexico Program Overview

In South America, A.I.D. has relatively large assistance programs in Bolivia, Peru and Ecuador, plus much more modest Advanced Developing Country assistance programs in Mexico, Brazil, Colombia, Chile, Paraguay and Uruguay. Cross-cutting themes and emphases include: the need for economic stabilization; dealing with poverty; strengthening democratic institutions; and dealing with the narcotics crisis.

1. **Stabilization.** In late 1985 Bolivia began to implement a highly successful stabilization program which reduced inflation from more than 10,000% in 1985 to 15-20% in 1987 and 1988. Ecuador maintained fiscal and monetary austerity up to 1986, when the fiscal situation deteriorated markedly as oil prices dropped. Conditions worsened in 1987 when an earthquake severed the principal oil pipeline. In 1988 there was a relaxation of fiscal discipline, which the new government taking office in August is attempting to restore; inflation rose from 30% in 1987 to accelerated GDP growth, but the GDP declined in 1988 by about 6% and inflation may have exceeded 1,000%. Since before the beginning of the Garcia administration in Peru in 1985, the country has carried out policies totally inappropriate to the economic circumstances.

2. **Achieving Long-Term Economic Growth.** The average GDP growth rate during 1984-88 was moderate in Ecuador and Peru but low in Bolivia. Again, however, averages can be deceiving. Bolivia, along with its stabilization program, implemented measures to halt a severe economic decline and lay the basis for long-term economic growth. These include the maintenance of a competitive exchange rate, a tax reform designed to provide greater incentives to private sector activity and to reduce distortions, and a far-reaching liberalization of trade based on a virtually uniform import tariff of 20%. Even though Bolivia continues to face low prices for its key exports, economic growth has resumed.

In 1984 Ecuador began an effort to accelerate economic growth by promoting exports. Key policy measures were a reduction of price controls, particularly in agriculture, the elimination of exports taxes, greater incentives to foreign investment, and a sharp currency devaluation. Peru's economic program focused on maximizing short-term economic growth without much regard for longer-term effects. Faced with a sharply deteriorating economy, the Peruvian authorities are making some efforts to improve the policy framework; but much stronger measures will be required.

3. **Sharing the Benefits of Growth More Broadly.** Infant mortality in Bolivia is the second highest in the LAC region (only in Haiti is it higher). A.I.D. support for its reduction includes assistance for oral rehydration targeted to poor infants and children. Preliminary data indicate that infant mortality has decreased steadily since 1985.

The negative short-term effects of the economic stabilization program have been felt more severely by some segments of society, particularly the employees of state-owned enterprises who lost their jobs. To mitigate those effects, the GOB has implemented a widely praised emergency employment program which has been supported by A.I.D., the World Bank, and other donors.

Ecuador's income increased rapidly during the petroleum boom of the 1970s, and much social progress was made despite rapid population growth (2.8% per year). Since 1970 educational enrollments have increased significantly; the infant mortality rate has been lowered by about 40%; and life expectancy has increased from 46 to 56 years. To help maintain progress in the face of current economic difficulties, A.I.D. is focusing on programs to reduce infant and child mortality, lower the incidence of malaria, expand access to potable water, and further decrease the high birth rate. In Peru A.I.D. has been notably successful in promoting family planning through private sector institutions.

Both to stimulate economic growth in the Andean region and to spread its benefits more broadly, A.I.D. has provided support for microenterprise development, notably to the Institute for Liberty and Democracy (ILD) in Peru. The ILD's work has shed much light on the formidable constraints faced by the informal sector, and it has important implications for microenterprise development not only in Peru but also in other countries.

4. Democratic Institutions and Human Rights. Administration of Justice (AOJ) programs in Colombia and Peru have produced studies that identify possible judicial system reforms, computerized case-tracking systems, judicial training, and law library development. In Bolivia, plans for a multi-year AOJ project are under way, beginning with a judicial sector assessment and technical assistance for law reform. A.I.D. is funding assistance to strengthen the electoral process in Bolivia through the purchase of computers to modernize the system and technical assistance from CAPEL to train pollworkers in election procedures.

Under the Andean Peace Scholarship program, initiated in FY 1987, 286 of a projected total of 1,740 students had begun training through FY 1988.

5. A.I.D. Support of Narcotics Awareness and Control Efforts.

A.I.D. activities to help control narcotics production and trafficking also support U.S. efforts to promote the rule of law and reduce the corrupting influence of narcotics traffickers, who threaten the integrity of government authority and hinder balanced economic growth and development of legitimate private enterprise.

Projects in Peru and Bolivia, documenting the harmful consequences of drug production and trafficking on these countries' own societies, have increased public support for coca eradication. The Government of Bolivia has acted courageously against narcotics production and trafficking, beginning in August 1987 a program of voluntary coca eradication, the largest in the Western Hemisphere. The initial target of eradicating 1,800 hectares of coca plants was exceeded by more than 15%. A.I.D. activities include development of alternative income and employment opportunities to provide coca farmers a safety net of services and options after destruction of their drug crops.

6. The Advanced Developing Countries.

A.I.D.'s Advance Developing Countries (ADC) program covers Mexico, Colombia, Brazil, Uruguay, Paraguay, and Chile -- countries which were once major bilateral aid recipients. It provides modest LAC/Bureau support for narcotics awareness programs, training, microenterprise development, health and population planning through the private sector, and AIDs awareness. The ADC programs attempts to leverage complementary private funding, strengthen institutional relationships initiated under bilateral programs, and reinforce a common approach to economic, political, and social problems.

LAC/SAM:revised 6/14/89:6080a

Bolivia

I. Purpose of A.I.D. Program

- Support economic stabilization and recovery, to bolster courageous economic reform program.
- Expand private sector-led, broad-based economic growth.
- Bolster stable and democratic government, through strengthened democratic institutions, enhanced economic pluralism and Administration of Justice programs.
- Support narcotics eradication and alternative income program.
- Strengthen narcotics awareness to sensitize Bolivians about dangers of narcotics to themselves and their society.

To accomplish this, A.I.D. is pursuing nine specific objectives:

- o increase agricultural production
- o strengthen the private sector
- o stabilize financial structures
- o promote exports
- o increase access to voluntary family planning
- o improve health and child survival
- o improve housing
- o strengthen democratic institutions
- o promote alternative development

II. Accomplishments of GOB with A.I.D. Assistance

- GDP grew by 2.1% in 1987 and 2.8% in 1988, reversing a decade of economic decline, as a result of GOB commitment to an economic austerity program which halted hyper-inflation of 10,000% in 1986 and contained the fiscal deficit.
- GOB passed comprehensive narcotics law and successfully eradicated over 2100 hectares in 1988, voluntarily.
- Adaptive research for alternative crops for coca substitution has identified over 10 crops which could compete economically for coca (e.g. projected net income per hectare of \$2800 to \$6000.) In 1988, over 2000 farmers purchased improved genetic material for these crops with their own resources.
- Private sector institutions such as coops and farm organizations and financial institutions are expanding traditional export base and generating income and employment opportunities.
- Child survival activities expanded to reach more needy Bolivians.

I. Financial Data

(\$millions)	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Estimate</u>	<u>FY 1991</u> <u>Proposed</u>
DA	22.0	21.7	22.1
ESF	25. a/	30.0	30.0
Title I/III	17.0	20.0	20.0
Title II	12.7	13.2	13.7
Section 416	<u>0.0</u>	<u>0.0</u>	
Total	76.7	85.9	85.8
Pipeline, end FY)	77.2	84.9	

a. LAC/DR

b/ Action plan cable 1990-91

II. Other Donors

	<u>1946-85</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
IMF(SDRs)	203	0	97	0
IBRD/IDA	410	0	70	75
IDB	951	0	0	144
UN	56	3	2	0
EEC	0	0	0	0
DAC Bilateral	807 (78-85)	51	276	n.a.

III. Key Economic Indicators

	<u>1985</u>	<u>1986</u>	<u>1987 est.</u>	<u>%Ch</u>
Population	6,429,226	6,611,583	6,796,700	2.
Exchange rate (year end)	1,692,000	1,923,000	2.22	15.
GDP-real % change				
(1980 pesos)	-0.2	-2.9	+2.16	
GDP-real per capita % change	-3.0	-5.7	-0.6	
GDP-real per capita				
(US\$ current)	578	576	573	
GDP-nominal (US\$)	3,800	3,800	4,350	2.
Unemployment rate (%)	18.2	20.0	20.2	1
Consumer Price Index				
% increase (12 months)	8,170.5	66.0	10.7	

IV. Social Indicators

	<u>1980-84 Average</u>	<u>1985</u>
Population (millions)	6 (1983)	6.2
Primary School Enroll (% eligible)	86	86
Infant Mortality (per 1000 live births)	123	123
Family Planning (% married women 15-44)	26 (1983)	24

LAC/SAM:MBroaday:Revised 6/15/89:5629a

Peru

I. Purpose of A.I.D. Program:

- Support the maintenance of constitutional and democratic government, while strengthening and expanding private sector institutions;
- Bolster Peru's efforts to interdict and eradicate illegal coca and cocaine trade;
- Assist in improving administration of justice and respect for human rights;
- Promote rural development, reduce malnutrition and improve health conditions;
- Support a policy dialogue with the GOP to analyze economic problems and put in place policies that will allow sustained economic growth;
- Preserve biological diversity and tropical forests, particularly in the Amazonian region.

II. Accomplishments of GOP with A.I.D. Assistance:

- The narcotics awareness program has involved large numbers of community organizations in building a constituency in support of more aggressive Peruvian narcotics enforcement efforts;
- The Institute for Liberty and Democracy (ILD), a private sector think tank, has conducted innovative research on the informal sector which is leading to a number of programs to reduce government regulation;
- Improving the standard of living of the poor through child survival and family planning services as well as P.L. 480 Title II feeding programs. Infant mortality rates nationwide are about 86 per 1,000 live births and have been falling steadily. At the same time, the number of women of reproductive age using modern methods of contraception is estimated to be increasing by 1.3 percent per year. Increased levels of food imports have also increased food consumption, but data on the extent to which severe malnutrition has been lowered in children are lacking;
- Increasing private sector agricultural productivity. Despite the rapidly deteriorating macroeconomic environment, it appears that the agricultural sector grew by 4.4 percent, although there were some reductions in domestic foodstuff production.

-- Providing non-elite Peruvians with development training and exposure to American democratic institutions. The Ardean Peace Scholarship Program was successfully launched in FY 88 with 84 participants trained.

III. Highlights of Requested FY 90 Obligations:

-- The ESF program will continue to support and assist in: the transition from producing coca to cultivating legitimate crops; drug education and information, as well as strengthening the judicial system. ESF local currency will support local costs of a number of A.I.D. programs aimed at providing Peruvians with a safety net of social services.

-- The P.L. 480 program will support GOP efforts in implementing self-help measures to improve agricultural policies and programs. Local currency will support agriculture, health and nutrition projects and Title II commodities will help meet existing spot food shortages and alleviate malnutrition, a major concern given the deteriorating economic situation.

-- A.I.D.'s main DA program will maintain sectoral programs intending to improve the standard of living for poor Peruvians and to promote the long-term development of the country. In keeping with these objectives, funds have been requested to reestablish the research extension services, which fell apart under the military government; improve child survival by increasing immunization campaigns, expand access to family planning services among the rural poor; and training large number of Peruvians and exposing them to democratic values.

5639a

Peru

IV. Financial data:

(\$millions)	<u>FY 1989</u>	<u>FY 1990</u>	<u>FY 1991</u>
	<u>OYB</u>	<u>Estimate</u>	<u>Proposed</u>
DA	14.5 a/	14.2	14.2 b/
ESF	2.0	5.0	5.0 b/
PL 480, Title I	15.0 b/	16.0 b/	20.0 b/
PL 480, Title II	7.7	16.2 b/	17.7 b/
Section 416	0.0	0.0	0.0
Disaster Assistance	<u>0.0</u>	<u>0.0</u>	
Total	39.2	51.4	56.9

* Reobligation of \$12.1 of prior year funds

** Reobligation of prior year funds

a/ LAC/DR

b/ Action Plan 1990-91

V. Other donors:

<u>Other Donors</u>	<u>FYs 1946-85</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>1987</u>
IMF (SDR)	1371.3	0	0	0
IBRD	1677.4	31.0	13.5	0
IDB	1621.0	14.5	19.2	85.9
UN	67.9	11.3	10.7	N/A
EEC	N/A	20.8	102.5	N/A
DAC Bilateral	N/A	285.7	250.5	N/A

*Not Available

VI. Economic indicators:

	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Economic Indicators</u>	<u>Actual</u>	<u>Prelim.</u>	<u>Estimated</u>
Population (Millions)	20,209	20,734	21,273
Population growth (%)	2.6	2.6	2.6
GDP in current dollars	16,642	18,713	16,000
Per capita GDP, current dollars	823	902	752
GDP in local currency (% change)	8.5	6.9	-8.5
Consumer Price Index (% change)	62.9	114.5	1722.0
Unemployment (avg % for year)	8.2	8.5	12.0
Trade balance	-65	-463	-80
Foreign debt (year end)	14,477	15,441	16,600
Debt payment as % of merchandise exports	14.7	11.7	N/A

VII: Social indicators:

<u>Social Indicators</u>				
Primary School Enrollment(%)	114.0	117.0	122.0	122.0
Infant mortality (per 1,000)	98.0	92.7	90.5	88.2
Family planning (% of target group)	41.0	45.0	46.0	47.0

LAC/SAM:MMamlouk:6/14/89:5626a,

ECUADOR

I. Purpose of A.I.D. Program:

- Assist Ecuador to achieve economic stabilization over the short-run.
- Encourage sound policies and programs which will stimulate self-sustaining economic growth and greater productive employment opportunities.
- Promote the wider sharing of the benefits of growth.
- To accomplish this, A.I.D. is pursuing eight specific objectives:
 - o increase agricultural productivity
 - o preserve and manage natural resources
 - o strengthen private enterprise and promote exports
 - o increase access to voluntary family planning services
 - o improve health and child survival.
 - o improve housing, services and urban growth management
 - o improve educational opportunities
 - o promote narcotics awareness

II. Accomplishments of GOE with A.I.D. Assistance:

- Policy Dialogue: The new GOE is implementing a controlled devaluation and moving toward a unified rate with U.S. and other donor encouragement. The GOE has also liberalized interest rates and partially eliminated subsidies to permit a freer play of market forces. Based partially on A.I.D.-funded analyses, the GOE has eliminated wheat subsidies.
- Housing and home improvement loans have been made more affordable for lower-income families through the adoption of a graduated payment mechanism; and private sector production and financing of low-income housing has improved under the HG-007 program.
- Institutional improvements in the National Sanitary Works Institute have led to the construction of 400 rural potable water systems serving 250,000 people.
- The Ministry of Health's program of ORS treatment of diarrheal diseases now reaches 22% of children under 5 and is expanding.

- Agricultural sector institutions have been significantly strengthened. A Policy Analysis Unit in the Ministry of Agriculture and a private sector policy analysis foundation have been established; both private and public sector agricultural and research, extension and education institutions have been strengthened. These institutions provide the intellectual foundation and rationale for reducing consumer subsidies and stimulating private sector investment.
- Several private sector associations (particularly in Guayaquil) have developed the capacity to provide job training programs and to support the development of micro-enterprises.

III. Highlights of Requested FY 90 Obligations:

- A new project, Sustainable Uses for Fragile Lands will provide technical assistance and to develop institutions necessary to preserve and manage Ecuador's natural resources (FY 90, \$2,150,000; LOP, \$7,000,000).
- A new project to establish a Binational Foundation for Cooperation and Development will assist U.S. and Ecuadorian PVO's to finance grass roots development projects (FY 90, \$600,000; LOP, \$4,000,000).
- Additional funding for Agricultural Sector Reorientation and Agricultural Research, Extension and Education will continue to improve the efficiency of policies, institutions and technology transfer in the Agriculture Sector.
- A.I.D. will initiate an urban sector program emphasizing policy reform and improved local government capacity to manage urban growth. An initial \$25 million HG authority is requested to finance basic infrastructure and services.
- \$9 million in ESF will support continued economic reform efforts at the sectoral level. Local currency will complement our programs in export development, small enterprise development and rural water and sanitation activities.

ECUADOR

I. Financial Data
(\$millions)

	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990</u> <u>Estimate</u>	<u>FY 1991</u> <u>Proposed</u>
<u>A.I.D.</u>			
DA	15.8	15.5	16.5 a/
ESF	9.0	9.0	10.0 a/
PL 480, Title I	0.0	0.0	
PL 480, Title II	0.5	0.6	
Section 416	0.0	4.4 a/	
Disaster Assistance	<u>0.0</u>	<u>0.0</u>	
Total	25.3	29.5	<u>26.5</u>

a/ Action plan cable 1990-91

	<u>1946-85</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>II. Other Donors</u>				
IMF (SDR)	467.0	84.4	75.9	37.7
IBRD	795.0	8.0	253.5	159.0
IDB	1,441.0	279.0	217.8	283.6
UN	57.0	0.8	2.4	0.0
EEC	8.0*	1.0	N.A.	N.A.
DAC Bilateral	357.0*	79.0	N.A.	N.A.

* Net flows 1974-84

III. Key Economic Indicators
(Million of U.S. Dollars unless otherwise noted)

	1986	1987	1988 (est)
<u>Economic Indicators</u>			
Population (millions)	9.6	9.9	10.2
Population Growth (%)	2.8	2.8	2.8
GDP (billions of 1975 sucres)	169.3	160.5	173.3
% change	3.2	-5.2	8.0
GDP in current dollars	10959	9345	10188
Per capita GDP om dollars	1136	944	747
Consumer Price Index % change	27.3	32.5	85.7
Trade Balance	555	- 31	589
Foreign Dent (year-end)	8153	9393	9550
Debt service ratio (payments as % of exp.)	45.7	28.7	82
Reserve (year-end)	-75	-151	-176
Avg. Exchange Rate	145	194	454

<u>Social Indicators</u>	
Primary school enrollment (% age cohort)	120.6% (1982)
Infant mortality (per 1000)	66.0 (1987)
Family Planning (% of target group)	44.2% (1987)

ADVANCED DEVELOPING COUNTRY (ADC) PROGRAMS

The ADC programs are a response to former President Reagan's 1982 interest in developing a new kind of partnership between the United States and the more advanced developing countries.

The basic goal of the ADC program is to facilitate development efforts in ADC's consistent with key U.S. foreign policy objectives such as:

- familiarizing ADC leadership with democratic values,
- improving linkages between non-governmental institutions in the two countries,
- addressing foreign policy objectives of mutual concern such as the narcotics problem and strengthening democratic institutions,
- developing trade and investment relations between the two countries,
- and transferring U.S. technology.

Technical assistance and training have a relatively high developmental payoff in countries where bilateral assistance has been terminated due to high levels of income and institutional sophistication. ADC programs are being implemented in Mexico, Colombia, Brazil, Paraguay, Uruguay and Chile.

Typical activities include: disaster assistance planning, new family planning and health initiatives, development of private sector service organizations, approaches to privatization and narcotics awareness programs.

ADC programs are not just "downsized" versions of traditional bilateral programs:

- In ADC's, A.I.D. works basically with non-governmental institutions.
- ADC programs do not involve complex institution building efforts.
- ADC program funding is limited. Most activities include funding from the private sector, other donors or from institutions assisted.
- ADC programs often involve a wider range of activities than bilateral A.I.D. programs.
- Resource transfers are not part of the ADC programs.

Financing of ADC Activities:

The LAC Bureau has two primary sources of funding for the ADCs:

- The Inter-Regional Technology Transfer (ITT) project was established exclusively for the Latin American ADC's. Funding of about \$5 million a year finances testing of new development activities. Co-financing with private ADC institutions is required and we look for evidence that the program, if successful, can be carried on by the institutions themselves. We have helped finance such activities as promotion of microenterprises, development of small-farm cash crops, extending the activities of a fishing association into marketing promotion, and youth training modeled upon the U.S. junior achievement program.
- The LAC Training Initiatives II project specifically accommodates the training requirements for most ADCs. Training for Colombia is covered under the Andean Peace Scholarship project. The LAC II project targets participants for short- and long-term training and orientation in the United States. An Advanced Developing Country Training project will begin in FY 1989 to meet the ADC's specific needs.

ADC Representatives also draw upon central bureau programs for funding. Given the presence of an A.I.D. Representative, AID/W technical bureaus and offices are better able to develop their program activities in ADC's. Centrally funded activities include:

- Program in Science and Technology Cooperation (PSTC): This program, financed by A.I.D.'s Office of the Science Advisor seeks to stimulate new research on problems confronting developing countries by the better institutions in countries where we have assistance programs. Naturally, our ADC countries have many qualified institutions that can take advantage of this program. Grants have been given in areas as plant biotechnology, biological control, immunology, and chemistry applications to meet world food needs.
- Other Centrally Funded Programs: ADCs have taken advantage of specific central programs including the Trade and Development Program (TDP), Private Enterprise Support (PRE Bureau) and science and Technology programs (S&T Bureau).

ADC Program: Brazil

- The bilateral A.I.D. program was phased out in 1974 although A.I.D. continued to support Brazil's family planning efforts through central and regional programs.
- Any further assistance was threatened by the Glenn-Symington Amendments (Sections 669 and 670 of the FAA), which prohibit assistance to any country which does not agree to certain safeguards concerning nuclear technology. State has taken the position that A.I.D. should act as if these sections have applied to Brazil since 1983. Furthermore, since 1985, Brazil has fallen and remains under both 620(q) and Brooke-Alexander sanctions.
- In 1984 A.I.D. used Section 123(e) of the FAA to continue support for programs of private and voluntary organizations and cooperatives which were already being supported prior to the prohibition of assistance under Glenn-Symington and Brooke-Alexander.
- In 1985 Brazil was designated as an ADC, in line with President Reagan's commitment to establish a more mature development relationship with A.I.D. graduate countries. The A.I.D. Social Development Attache, who had been overseeing a large population program funded by the Bureau of Science and Technology, became the A.I.D. Representative.
- The centerpiece of the ADC program has been cooperation in science and technology. The program emphasizes expanding family planning services in underserved poor areas of the Northeast and the slums of Sao Paulo and Rio de Janeiro; reducing infant mortality through the provision of low-cost effective health services to peri-urban and rural women; conducting community education programs on AIDS; supporting policy dialogue on environmental issues including agroforestry and urban environment; and expanding participant training.
- Major accomplishments of the ADC program include:
 - o Achieving substantial progress in the expansion of family planning services as evidenced by a 1987 national demographic survey which revealed that 65.3 percent of Brazilian women were practicing contraception.
 - o Promoting an ongoing dialogue on tropical forest environmental issues with the public and private sectors through the Conservation Foundation.
 - o Developing a model with Project Hope for the northeast of Brazil of cost-effective appropriate technology for well/motherhood/child survival for rural villages in the Northeast of Brazil.

BrazilI. Financial Data
(\$ Thousands)

	<u>FY 89</u> <u>OYB</u>	<u>FY 90</u> <u>Estimate</u>	<u>FY 91</u> <u>Proposed</u>
<u>A.I.D.</u>			
DA - LAC Bureau Funded	2,010 _a /	2,150 _a /	2,150 _a /
DA - Centrally Funded	5,900	N/A	N/A
Total	7,910	2,150 _a /	2,150

a/ Action Plan 1990-91

II. Other Donors

<u>Other Donors</u>	<u>1946-85</u>	<u>1986</u>	<u>1987</u>
IMF(SDR)	5224	0	0
IBRD/IDA/IFC	12,611	1,727	1,387
IDB	5,326	323	366
UN	88	1.1	0
EEC	*	*	*
DAC Bilateral	*	*	*

III. Economic and Social Trends

<u>Economic Indicators</u>	<u>1980-84</u> <u>Average</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
GDP Growth(%)	1.8	8.3	8.2	2.9
Inflation Rate(%)	146	225	145.6	229.7
Domestic Interest Rates(%)	102	219	51	N/A
Government Shares of GDP(%)				
Fiscal Deficit(% of GDP)	-3.5	1.0	2.5	N/A
Trade Balance(\$ million)	3,700	12,400	8,356	
Export Growth Rate(%)	11	-5	-13	
Interest on Foreign Debt:				
-percent of exports	24	33	43	30
-percent of GDP	2.2	4.0	5.5	3.0

IV. Social Indicators:Social Indicators

Primary school enrollment(%)	93	104	104
Infant mortality (per 1,000)	87	87	60
Family planning (% of target group)	50	50	65.3

ADC Program: Paraguay

- A.I.D. began to phase out the bilateral program in 1981, with the expectation that it would terminate in 1984. However, before all activities were completed, Paraguay was designated as an ADC.
- The ADC program in Paraguay reflects that the country does not enjoy the state of institutional development of other ADC countries in the region. The goal of the program is to contribute to the institution building needs through: strengthening private sector Paraguayan training institutions; transferring technology in agricultural productivity and micro-enterprise employment generation; expanding participant training; and working in health and population, environment, women in development, and disaster preparedness.
- Accomplishments of the program include:
 - o Establishing the first graduate management training program in the country at the Catholic University;
 - o Assisting the Salesian Agricultural Institute improve its high school agricultural training and able to carry it out in a self-sufficient manner;
 - o Developing one of the most successful micro-enterprise projects in the LAC region through the Fundacion Paraguaya;
 - o Continuing technical assistance training and other support to promote the widespread adoption of oral rehydration;

On February 3, 1989 President Alfredo Stroessner, who had ruled Paraguay since 1954, was ousted in a military coup led by General Andres Rodriguez.

LAC/SAM:6/15/89:5626a

Paraguay

I. Financial Data:
(\$ Thousands)

	<u>FY 1989</u> <u>OYB</u>	<u>FY 1990 b</u> <u>Estimated</u>	<u>FY 1991 a</u> <u>Proposed</u>
<u>A.I.D.</u>			
DA - LAC Bureau funded	693.5 ^{b/}	1,355	1005
DA - Centrally funded	500 ^{b/}	750	N/A
Total	1193.5	2,105	1005

Source:

a. LAC/DR

b. Mission Action Plan

II. Other Donors:

Other Donors

	<u>1986</u>	<u>1987</u>
IMF	0	0
IBRD	0	0
IDB	0	12
UN	1	0
EC	N.A.	N.A.
DAC Bilateral	N.A.	N.A.

III. Economic and Social Trends

	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Economic Indicators</u>			
GDP growth (%)	0.1	4.7	5.5
Inflation rate (%)	24.1	32.0	25.0
Domestic interest rates (%)	8.0	18.0	22.0
Government share of GDP (%)	17.8	17.2	15.4
Trade balance (\$ millions)	-297.7	-205.6	-120.6
Export growth rate(%)	3.2	22.0	29.1
Interest on foreign debt:			
-- % of exports	n.a.	n.a.	n.a.
-- % of GDP	n.a.	n.a.	n.a.

IV. Social Indicators

Primary school enrollment (%)	101	101	101
Infant mortality (per 1,000)	58	45	45
Family planning (% of target group)	38	38	38

ADC Program: Uruguay

- The bilateral A.I.D. program was phased out in 1979.
- In August 1988, in response to the urging of the U.S. Ambassador and State, the LAC Bureau determined that it would continue activities in Uruguay through an ADC program.
- The major thrust of the ADC program will be to expand and support linkages between non-governmental institutions in the U.S. and Uruguay and to continue strengthening the Uruguayan private sector. Also, the revival of A.I.D. involvement in the Administration of Justice will be sought.
- Prior to 1988, Congress did earmark \$15 million in each of FY's 1986 and 1987 to provide tangible support for Uruguay's return to democracy. As a result of Gramm-Rudman reductions, this amount was reduced to a total of \$26.5 million for both fiscal years.
- A.I.D. provided \$25,522,000 of the total to the Government of Uruguay as a cash grant for balance of payments support. The GOU set aside an equivalent amount in local currency for economic development activities. A.I.D. provided the remainder (\$955,000) under a Technical Support Agreement to finance studies, technical assistance and short and long term training. In June 1986 an A.I.D. Representative was assigned to Uruguay to oversee the program.
- The purpose of the funding is to help reactivate the Uruguayan economy focusing on economic growth, increasing exports, and employment generation. Approximately 60% of the local currency funds have been programmed as the Uruguayan counterpart contribution to agricultural and science programs financed in conjunction with multilateral donors. Other local currency funds are assigned to support the reactivation of the private sector.
- During the past several weeks, the Inspector General's Office has been conducting an audit of A.I.D.'s cash transfer assistance to Uruguay. In discussions with IG personnel, they have questioned whether the reimbursement method for disbursing A.I.D. dollars from the separate account is adequate to "track" the use of the dollars. The reimbursement method is widely used in many LAC countries and other Bureaus.

Uruguay

I. Financial Data:
(\$ Thousands)

	<u>FY 1988 a/</u> OYB	<u>FY 1990</u> <u>Estimated</u>	<u>FY 1991 a/</u> <u>Proposed</u>
<u>A.I.D.</u>			
DA - LAC Bureau funded	45	N/A	700
DA - Centrally funded	N/A	N/A	N/A
Total	45	N/A	700

Source

a LAC/DR

Note: 1989 Figure not yet determined

II. Other Donors:

Other Donors

	<u>1946-85</u>	<u>1986</u>	<u>1987</u>
IMF	432.9	--	
IBRD	520.4	45.3	105.0
IDB	540.8	71.1	153.7
UN	24.9	3.3	3.0
EC	100.	26.7	N.A.
DAC Bilateral	N/A	N.A.	N.A.

III. Economic and Social Trends

	<u>1980-85</u> <u>Average</u>	<u>1986</u>	<u>1987</u>
<u>Economic Indicators</u>			
GDP growth (%)	- 1.5	6.6	4.9
Inflation rate (%)	47.4	70.6	57.3
Domestic interest rates (%)	61.13	61.7	60.8
Government share of GDP (%)	11.1	10.9	10.5
Trade balance (\$ millions)	8.3	4.9	4.1
Export growth rate(%)	1.3	27.4	9.3
Interest on foreign debt:			
-- % of exports	32.0	34.1	32.3
-- % of GDP	0.1	0.03	0.03.

IV. Social Indicators

Primary school enrollment (%)	108.2	108.5	110.4
Infant mortality (per 1,000)	31.5	27.7	24.4
Family planning (% of target group)			

ADC PROGRAM: MEXICO

The bilateral program was terminated by joint agreement in 1968. In 1977, the GOM invited donors, including A.I.D., to assist with a new family planning program. An ADC program was formally established in 1983.

The current program includes:

- Assistance to Mexico's family planning associations. Non-profit private sector channels have been developed as major disseminators of family planning information including integrating information into TV soap operas, programs to train pharmacists and doctors in providing counseling and information on family planning and other activities that promote acceptance of family planning. These programs, including contraceptive supplies, total \$9 million for FY 89 (S&T budget).
- Narcotics Awareness. Activities include a survey of drug use by Mexican youth combined with an aggressive grass roots drug awareness program in the city of Ciudad Juarez, which is managed by a Mexican family planning organization with close ties to the local community.
- Training LAC II financing supports training in the U.S. in a wide range of development-related disciplines.
- Institutional Linkages. Given the close proximity to the U.S., the relatively advanced state of Mexican institutions, and a host of cross border institutional contacts, AID/Mexico supports an exceptionally wide range of training and technical support activities. Activities include the Junior Achiever program, assistance in home gardens and dry land farming, microenterprise promotion, and training in business administration.
- Section 416 Food Aid. Provides grants of food commodities to U.S. and Mexican PVOs administering maternal-child health and disadvantaged persons' welfare programs. Beginning FY-88, grains (i.e. sorghum) were sold and counterpart currency was used to purchase U.S. foodstuffs for those programs.
- Narcotics Certification. The U.S. and Mexico are negotiating a narcotics treaty, which will define areas of cooperation and activities that each party will undertake to control drug production and trafficking. If this agreement can be completed before March 1, INM will be able to recommend certification under Section 481(h), which now requires that each country have an agreement with the United States outlining areas of cooperation for narcotics control.

LAC/SAM:6/15/89:5647a

Mexico

Financial Data
(\$millions)

	<u>FY 1989 a/ OYB</u>	<u>FY 1990 a/ Estimated</u>	<u>FY 1991 a/ Proposed</u>
<u>A.I.D.</u>			
DA			
S&T, Sci.Adv.	11.4	N.A.	N.A.
LAC Regional	2.172	2.172	2.172
Sect. 416	<u>33.0</u>	<u>N.A.</u>	<u>N.A.</u>
Total	41.9	2.172	2.172
CIMMYT (S&T DA)*	5.3		

* International status.

a/ Source FY 90-91 Action Plan

	<u>1946-85</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>Other Donors</u>				
IMF (SDRs)	3,584.5	295.8	741.0	600.0
IBRD	7,796.4	598.0	904.0	1,678.0
IDB	3,408.2	74.3	580.6	100.0
UN	74.9	2.5	2.1	0

Economic and Social Indicators

	<u>1980-84</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>Economic Indicators</u>				
GDP Growth (%)	0.1	2.7	-3.8	1.4
Inflation Rate-CPI(%)	46.7	57.7	86.2	131.8
Govt Expends/GDP (%)	NA	24.1	28.5	29.0
Fiscal Deficit/GDP(%)	10.1	-8.6	-14.8	-15.2
Trade Balance (\$mill)	8,300	9,169	5,398	9,372
Export Growth Rate(%)	4.5	-9.5	-24.5	28.0
Interest on Foreign Debt:				
-- % of exports(GNS)	NA	24.7	24.7	20.3
-- % of GDP	NA	4.0	4.7	4.5
* Before rescheduling				

Social Indicators

Population (millions)	82.0	(1987)
Population Growth Rate (%)	1.9	(1987)
Infant Mortality (per 1000 live births)	53.0	(1986)
Family Planning Use (% fertile age women)	42.0 %	(1986)

ADC PROGRAM: Chile

- A.I.D. initiated an Advanced Developing Country program in Chile in August 1988. The bilateral A.I.D. program was phased out in FY 1981.
- All projects are carried out through private and non-governmental organizations; no support is provided through the Chilean Government.
- The program concentrates on two critical concerns:
 - (a) Support of Chile's return to democracy. We are currently developing projects to support non-partisan civic education for the December, 1989 elections, training of judges and court staff through a private sector judges association, and the establishment of a legislative research center to support Chile's new Congress which will be seated in March 1990.
 - (b) Promoting the responsiveness of the private sector to help resolve social and environmental problems. We are currently developing projects in environmental awareness promotion, support to help micro-enterprises improve their management abilities, and development of vocational/technical education.
- Before the ADC program got under, A.I.D. had provided:
 - o Section 416 commodities primarily for school feeding,
 - o A \$5 million Housing Guarantee to private S&Ls,
 - o A \$1.3 million grant to the Chilean "Civitas Foundation" to promote voter registration,
 - o A \$1 million earmarked ESF grant to the National Endowment for Democracy (NED) to support democratic groups engaged in promoting free elections,
 - o and several research grants from the Bureau for Science and Technology and the Office of the Science Advisor.

ADC PROGRAM: COLOMBIA

The bilateral program was terminated by GOC-USG agreement in 1975. A.I.D. established an Advanced Developing Country program in Colombia in 1984.

The program concentrates on:

- (a) strengthening Colombia's ability to combat drug trafficking and abuse.
- (b) strengthening the private sector.

The current program includes:

- o Improvement of the administration of justice. A major training program is being carried out by Colombia in modernizing court administration and investigative technology, and improving research libraries.
- o Support to the Carvajal Foundation and the Corporation for Community Development to expand their programs in management training and provision of credit for microenterprises. During the past few years these institutions have reached 5,000 businesses. They anticipate reaching an additional 8,000 microenterprises.
- o Support to Partners of the Americas and Accion Solidaria (PVO'S) to carry out drug rehabilitation and anti-drug abuse programs. A.I.D. activities are closely coordinated with and supplement an INM-funded national narcotics awareness program.
- o Financing from the Andean Peace Scholarship program provides training in the U.S. and an introduction to U.S. customs and institutions.
- o Assistance to a private Colombian family planning institute, PROFAMILIA supports operations research, training and funding for program expansion.

International Narcotics Control Act. This act earmarks \$5 million in FY 1989 ESF funds to develop a program to protect judges, other government officials and members of the press from narco-terrorist attack and to support related Administration of Justice programs. The Mission is currently determining how these funds can best be used.

LAC/SAM:6/15/89:5646a

I. Financial Data
(\$Millions)

	<u>FY 1989</u> OYB	<u>FY 1990</u> Estimate	<u>FY 1991</u> Proposed
A.I.D.	.74 a/	2.25 b/	1.88 b/
DA	1.77 b/	0.0	1.5 b/
ESF	0.0	0.0	
PL 480, Title I	0.0	0.0	
PL 480, Title II	0.0	0.0	
Section 416	0.0	0.0	
HIG	<u>0.0</u>	<u>0.0</u>	
Total	1.91	2.25	<u>2.38</u>

Source: a/ LAC/DR
b/ 1990-91 Action Plan

1946-85 1986 1987

II. Other Donors

IMF (SDR)	1978	250 225
IBRD	1059	456 426
IDB	1907	257 362
UN	74	0.2 0
EEC		
DAC Bilateral		

III. Key Economic Indicators

<u>Economic Indicators</u>	<u>1986</u>	<u>1987</u>	<u>1988(e)</u>
Population (thousands) (*)	12,324	12,527	12,730
Population growth (%)	1.6	1.6	1.6
GDP in dollars (billions)	16.5	18.4	19.4
Per capita GDP, current \$s	1,340	1,465	1,525
GDP (CH\$ billion in 1977 Prices)	376.6	398	424
% change	5.7	5.7	6.5
Consumer Price Index (%)	17.4	21.5	12.0
Unemployment (*)	8.8	7.9	7.7
Trade balance (F.O.B.)	1,079	1,230	2,150
Foreign Debt	19,352	19,000	17,000
Debt payments as % of Merchandise exports	56.5	40.8	27.5

Social Indicators

Primary school enrollment
(% age cohort)
Infant mortality
(per 1000)
Family Planning
(% of target group)

LAC/SAM:MBrody:gmc:6095a

Narcotics Programs in Latin America
and the Caribbean

I. PURPOSE of A.I.D. PROGRAMS

A. Narcotics Awareness and Education Programs (NA)

--Develop understanding of narcotics production and trafficking as problems affecting producing and consuming countries by:

- 1) Establishing reliable data base on local drug use,
- 2) Sensitizing key decision makers to the problems caused by drugs,
- 3) Focusing public attention on consequences of local drug production and processing on health, corruption, violence, undermining of political and judicial systems.

--Build a constituency supporting enforcement and interdiction.

B. Area Development Programs (AD)

--Provide alternative income and employment for people previously involved in narcotics production.

--Provide a safety net to help transition to legal employment.

--Make host country enforcement and eradication programs politically acceptable by offering alternatives to former drug producers via research/extension services, credit, transport and marketing infrastructure, community development, and agribusiness opportunities.

--Program success is dependent on sustained enforcement to drive coca price down so producers must look for alternatives.

C. Administration of Justice (AOJ)

--Help improve the efficiency and integrity of judicial systems. While narcotics crimes are not a target of these programs, increased productivity, security and efficiency of the judicial system can have an important impact on the drug problem.

Colombia

Financial Data
(\$millions)

	FY 1988 <u>Actual</u>	FY 1989 <u>OYB</u>	FY 1990 <u>Estimated</u>	FY 1991 <u>Proposed</u>
<u>A.I.D.</u>				
DA				
S&T, Sci/Adv	3.9	3.7	N.A.	
LAC Regional	3.7	3.9	5.0 <u>a/</u>	4.8 <u>a/</u>
ESF	<u>0.0</u>	<u>5.0</u>	<u>1.0</u> <u>b/</u>	<u>1.0</u> <u>b/</u>
Total	7.6	12.6	6.0	5.8
CIAT (S&T DA)	4.8	4.8	N.A.	
Action plan 1990-91				
Action plan cable 1990-91				

<u>Other Donors</u>	<u>1946-85</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
IMF (SDR)	404.9	0.0	0.0	0.0
IBRD	4,824.0	707.5	700.3	180.3
IDB	2,782.1	478.1	115.8	173.6
UN	89.3	1.7	0.2	0.0
	<u>1986</u>	<u>1987 1/</u>	<u>1988 2/</u>	

Key Economic Indicators

Population (millions)	29.8	30.3	30.9
Population Growth (%)	1.8	1.8	1.8
Real GDP Growth	5.1	5.4	4.8
GDP Per Capita (1975=100)	3.2	3.5	3.0
Consumer Prices (average)	20.9	24.0	28.0
Real Wages Index (1980=100)	121.4	120.9	120.0
Public Deficit as % of GDP	0.2	-1.6	-2.8
Trade Balance	1,923	1,417	920
Foreign Debt	14,989	15,636	16,500
Debt Service/Exports of Goods and Services %	32.0	36.2	41.8

Social Indicators

Population (millions)	30.0	(1986)
Population Growth Rate	1.5 %	(1986)
Infant Mortality (per 1000 live births)	53	(1984)
Family Planning Use (% married women 15-44)	55 %	(1980)

II. COUNTRIES and TYPES of A.I.D. NARCOTICS RELATED PROGRAMS

--The following 10 countries in the LAC region are identified as major narcotics producing or trafficking countries. Mexico and Colombia are included in both categories. Each requires annual certification by the President before 100% of U.S. assistance can be provided. (Exception are narcotics awareness activities.) A.I.D. funds at least one type of narcotics related project in 7 of these countries. In two additional countries projects have recently been completed or terminated.

<u>Trafficking Countries</u>	<u>A.D.</u>	<u>N.A.</u>	<u>A.O.J</u>
Belize		x	x
Brazil a.)		x	
Colombia		x	x
Ecuador b.)		x	
Jamaica		x-comp.	x
Mexico		x	
Panama		x-susp.	
Paraguay			

Major Producing Countries

Bolivia-coca	x	x	x
Columbia-coca and marijuana		x	x
Peru-coca	x	x	x
Mexico-marijuana and poppy			x

- a.) Brazil is an emerging coca grower.
- b.) Ecuador is a minor coca grower.

Note: Haiti does not require certification. although trafficking is an increasing problem. A.I.D. has a small narcotics awareness program in Haiti.

III. COORDINATION WITH OTHER AGENCIES

--The Dept of State coordinates the anti-narcotic activities of a variety of U. S. agencies engaged in eradication, interdiction, enforcement, public diplomacy and development.

--A.I.D. works most closely with the Department of State's Bureau of International Narcotics Matters (INM) and USIA. INM and USIA also fund narcotics awareness activities. INM is responsible for funding eradication as well as other enforcement and interdiction activities.

--Effective and sustained enforcement and adequate security are prerequisites to the implementation of AID narcotics related area development projects. There is growing awareness that adequate economic assistance may be a prerequisite to eradication in countries where the economies are heavily dependent on narco dollars.

6077a

Summary Funding Data for Narcotics Programs
(000's)

Program	FY 88	FY89	FY90
A. <u>Narcotics Awareness</u>			
Belize	-	250	-
Bolivia	750	(a.)	200
Brazil	-	150	150
Colombia	300	320	250
Ecuador	660	640	862
Haiti	486	-	-
Jamaica	-	100	100
Peru	849	801	-
Mexico	<u>400</u>	<u>400</u>	<u>400</u>
Sub-total:	3445	2661	1962
B. <u>Area Development Projects</u>			
Bolivia	3850	4100	2130
Peru	<u>500</u>	<u>1300</u>	<u>2500</u>
Sub-total:	4350	5400	4630
Total:	7795	8061	6592
C. <u>FY 89 Narcotics Incentive Earmark</u>			
Bolivia:		25000	
Ecuador:		9000	
Jamaica:		25000	
Peru:		<u>2000</u>	(of which \$1300 for Upper Huallaga)
Total:		61000	
Grand Total:	7795	69811	6592

a.) Bolivia plans to add \$750 in local currency funds.

6016a

Peru-Upper Huallaga Area Development Project

1. Funding:

-This ten year project began in 1981, and has an approved life of project funding of \$27.9 million.

2. Project Purpose:

-Support Peruvian development and narcotics control objectives in the Upper Huallaga by strengthening agricultural support services to area farmers and expanding rural and community development activities.

-The project is intended to provide an alternative support system for Upper Huallaga Valley farmers who cease to grow coca.

3. Accomplishments:

Although there have been some accomplishments, most project activities have been suspended since February, 1989 because all U.S. support for interdiction and eradication operations was halted in the Valley for lack of security and adequate support infrastructure.

Highlights of major accomplishments are:

Production of improved seed and seedlings: 22,500 kg. of rice; 72,000 achiote seedlings; 75,000 yuca cuttings; 245,500 coffee seedlings; 26,400 cacao seedlings; 8 seed test plots for cardamon. The Tulumayo research station was attacked twice, partially destroyed once and looted and all records burned the second time.

9,787 extension visits to farmers

733 demonstration plots cultivated.

Training provided to thousands of youth ,women leader and farmers

1,957 short-term production loans disbursed for 8,400 has and 55 long term investment sub-loans totalling about \$2.7 million. 90% of funds are loaned or committed.

Farm production Services provided include: 2,146 farm plots inspected, 1,846 farmers received land use rights and 2,846 farmers received land titles.

998 Kms. of roads rehabilitated or maintained and 120 kms. of urban streets repaired and 14 bridges repaired.

19 potable water systems installed, 95 primary school classrooms built and 124 repaired; 11 medical posts rebuilt; irrigation canals built.

Unless the security situation in the Upper Huallage Valley is greatly improved, A.I.D. can not help Peru deve'op the entire agricultural potential of the Valley and show the farmers in the area that it is feasible and profitable to expand the cultivation of legitimate food and export crops.

LAC/SAM:cs:6/15/89:6093a

Bolivia - Chapare
Regional Development Project

1. Funding:

This project was initially authorized in FY 1983 and will terminate in 1991. The life of project funding total is \$26.5 million in A.I.D. resources, and \$34.7 million in Bolivian funds.

2. Project Purpose:

To modify and improve the agricultural and forestry systems of farmers in the Chapare and Associated High Valleys (AHV) sub-regions of the Department of Cochabamba to respond better to diverse, profitable marketing opportunities under sustained, environmentally compatible, medium-technology models.

3. Accomplishments to Date

LOP
Target 1/ Cumulative

a. Agricultural and Forestry Production

Research & Extension

- Professionals hired and trained	(ETSA)3/	5	5
- Para-professionals hired	(IBTA)2/	65	53
	(ETSA)	27	20
- Technological packages developed (Chapare)		18	18
- Model farms (UDP's)	(IBTA)	66	58
	(ETSA)	12	19
- Farmer field days	(IBTA)	20	26
	(ETSA)	12	6
- IBTA professionals in long term training		3	4
- Research/extension facilities upgraded	(IBTA)	3	2
	(ETSA)	2	1
- Para-professionals training	(IBTA)	22	20

- IBTA professionals short term training (courses)	17	16
- Ag. experiments at IBTA stations (trials)	86	154
- Genetic material distributed (hectares)		2,556
- Farmers Training (IBTA)	70	6

Agricultural Credit

- Production/marketing loans made (\$000s)	7,000	1,595
- PL-480 branch offices established in the Chapare	2	2

b. Marketing/Agroindustrial Development

Large-scale enterprises functioning	1	1
Small/medium-scale enterprises operating	10	2

c. Project Administration

GOB Project Office established and functioning as overall project coordination body	*	1
IBTA functioning as overall research and extension body serving the needs of Chapare farmers	*	1

d. Community Infrastructure

Infrastructure works completed	270	32
--------------------------------	-----	----

e. Rural Roads

Angostura-Arani (culverts)	35	27
Aiquile-Mizque (culverts)	60	44
Angostura-Tarata-Punata-Arani (kms)	45	45
Aiquile-Mizque (kms)	42	42
Arani-Mizque (kms)	100	24
Bridge designs	7	4

6091a

PROPOSED INTERNATIONAL AND REGIONAL ANTI-NARCOTIC STRATEGIES

A. REGIONAL

A.I.D., the Dept of State, the INM, and the NSC have become increasingly aware that a review of the current U.S. anti-narcotics policy and priorities in the Andean Region was required. A number of efforts to redefine the problem and interventions required have been initiated since the fall of 1988.

The impact of narcotics on the economics of the Andean countries is substantial. Its influence is even more profound on the livelihood of thousands of small farmers, low level processors and an even larger number of others whose income is indirectly dependent on the drug trade. We estimate that the drug trade generates the equivalent of between 10 and 16% of Bolivia's legitimate Gross Domestic Product (GDP). It is equal to approximately 70% of the country's legal merchandise exports. Some 18 to 23% of Bolivia's labor force, or between 315,000 and 390,000 workers, are estimated to be employed either directly or indirectly in narcotics production and trafficking. While the Peruvian economy is larger, narcotics earnings are nonetheless an important component of the country's balance of payments. Estimates of earnings generated by coca in Peru vary between \$300 and \$1000 million plus, annually. One indication of its importance to Peru's economy is the estimate that coca accounts for some 30% of Peru's foreign exchange earnings.

-The Andean Strategy

In October 1988, AID/STATE requested the Andean country teams to review overall U.S. interests and determine whether the current allocation of resources and the policy framework was likely to safeguard critical interests in view of the increased narcotics production and trafficking. The report concluded that changes were required with respect to debt, narcotics policy, assistance levels and trade and investment. State, A.I.D. and other agencies will consider the Andean Strategy after the Andean Action Plan has gone forward.

-The Andean Action Plan

The NSC requested that State coordinate an inter agency review of US interests in the Andean Region (after the Andean Strategy was initiated). The Plan recommends a revision of priorities. Highlights include the proposed consideration of a superfund of \$500 million for the Andean countries, and the processing of a 620(q) waiver for Peru. The plan has not been forwarded to the NSC. It is awaiting Sec. Baker's approval.

-The Gorman Report

In early 1989 , a team headed by former Southcom commander General Paul Gorman visited Peru, Bolivia and Columbia at the request of Drug Czar William Bennett. The purpose of the visit was to make recommendations related to cocaine growth and trafficking for inclusion in Bennett's Drug Strategy, which he must submit to Congress this fall. The April 1989 report recommends up to \$3.7 billion dollars in economic assistance to the region over a five year period..

-INM Concept Paper -"A Multinational Economic Assistance Initiative on Coca Control."

This paper was initiated by INM in early 1989. The final draft is to be available the middle of June. It is not known if INM will accept the recommendations of the paper's author. The major recommendations call for \$3 billion in economic assistance to three countries over the next 5 years from a number of bilateral and multilateral donors, and development of an expanded institutional framework for provision of narcotics related economic assistance

-INM Report to the NSC

The NSC has requested recommendations from INM regarding narcotics control in the Andes. A.I.D. has not been involved in the drafting of this report. Four of the 25 recommendations relate to development assistance. This draft report will be augmented by the findings from the recent visit to Mexico, Peru, Bolivia and Columbia by a ten person team with representatives from INM, ARA, DOD, NSC, DEA, CIA, ONDCP. The U.S. Ambassador to Peru has presented a paper to the team that identifies additional economic resources required for Peru over the next three years to reach coca eradication goals. This amount is approximately \$50 million per year over and above present A.I.D. assistance levels. It is understood that this report will be the basis for a proposed Andean Strategy to be presented to the Hill by July 10.

B. INTERNATIONAL

The Office of National Drug Control Policy(ONDCP) was created by the Anti-Drug Abuse Act of 1988. It has the responsibility to submit to Congress a National Drug Control Strategy by September 5. The NSC was appointed to coordinate and oversee the development of the international strategy for the ONDCP. INM was designated by NSC to chair the development of the international subgroup. Members included representatives from DEA, DOD, Dept. of Justice, Dept. of Treasury; Coast Guard,

State Dept, and A.I.D. INM developed an assessment of the international narcotics threat and of the current U.S. programs directed at countering it; an evaluation of U.S. counternarcotics programs and intra and interagency procedures and cooperation; and with the input and concurrence of the sub group members made recommendations relating to ways the U.S. can improve the success of its counter narcotics activities. LAC had an opportunity to review these recommendations and provide input. Four recommendations were forwarded to the NSC o/a June 7. Two of the recommendations applied to the role of the Dept. of Defense, one recommended that consideration should be given to convening a Drug Summit. The fourth recommendation relates to increased national support for narcotics control and reads:

"The U.S. Government should initiate discussions with potential industrialized donors (such as Development Assistance Committee of the Organization for Economic Cooperation and Development) to build support for the formation of a consultative group and the establishment of a multilateral fund to significantly reduce non-traditional coca cultivation and adopt other necessary counter-narcotics efforts over the next five years".

LAC/SAM:6/15/89:cs:6083a