

AGENCY FOR INTERNATIONAL DEVELOPMENT



Congressional Presentation
Fiscal Year 1988

Fiscal Year 1987 Supplemental Request

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FY 1987 U.S. ECONOMIC AND MILITARY ASSISTANCE - SUPPLEMENTAL REQUEST

	DA	ESF	PEACE CORPS	OTHER	FMS (CONC)	MAP	TOTAL
<hr/>							
BILATERAL ASSISTANCE							
AFRICA	0	50,000	--	0	0	6,000	56,000
ASIA/NEAR EAST	0	37,000	--	0	200,000	215,000	452,000
LATIN AMERICA & CAR	0	210,000	--	0	0	40,000	250,000
CENTRAL BUREAUS	[100,000]	0	760	0	0	0	760
Earmarks & Disaster Cont.	--	--	--	--	--	--	0
TOTAL ALLOCATED	0	297,000	760	0	200,000	261,000	758,760
(AFRICA FUND)	--	--	--	--	--	--	0
(REV LOAN FUND)	--	--	--	--	--	--	0
ASHA							
Disaster Assistance	100,000						100,000
Housing Guarantees	--						0
Housing Borrowing Auth	--						0
Operating Expenses	7,663						7,663
Operating Expenses-IG	321						321
For. Serv. Ret. & Dis.	--						0
TCIP	--						0
Deob/Reob	--						0
Misc. Appropriations	--						0
Misc. Trust Funds	--						0
Subtotal: AID	107,984	297,000	760				405,744
Trade & Development				--			0
Inter-American Foundation				--			0
Africa Dev. Foundation				114			114
Migration & Refugee Assist				--			0
Emergency Refugee Fund				--			0
Misc. Trust Funds - DOT				--			0
Overseas Priv. Invest. Corp.							
(limit on dir. loans)				--			0
(limit on guar. loans)				--			0
Adjustments				--			0
Total: Bilateral	107,984	297,000	760	114			405,858
MULTILATERAL ASSISTANCE							
MDB'S				292,847			292,847
I O & P				--			0
Adjustments				--			0
Total: Multilateral				292,847			292,847
TOTAL ECONOMIC ASSISTANCE	107,984	297,000	760	292,961			698,705
Anti-Terrorism Assistance					--	--	0
Peacekeeping Operations					--	--	0
Adjustments					--	--	0
TOTAL MILITARY ASSISTANCE					200,000	261,000	461,000
TOTAL ECONOMIC & MILITARY	107,984	297,000	760	292,961	200,000	261,000	1,159,705

FY 1987 U.S. ECONOMIC AND MILITARY ASSISTANCE - SUPPLEMENTAL REQUEST

	DA	ESF	PEACE CORPS	OTHER	FMS (CONC)	MAP	TOTAL
AFRICA							
AEPRP	--	--	--	--	--	--	0
Angola	--	--	--	--	--	--	0
Benin	--	--	--	--	--	--	0
Botswana	--	--	--	--	--	--	0
Burkina*	--	--	--	--	--	--	0
Burundi	--	--	--	--	--	--	0
Cameroon	--	--	--	--	--	--	0
Cape Verde*	--	--	--	--	--	--	0
CAR	--	--	--	--	--	--	0
Chad*	--	--	--	--	--	--	0
Comoros	--	--	--	--	--	--	0
Congo	--	--	--	--	--	--	0
Djibouti	--	--	--	--	--	--	0
Eq. Guinea	--	--	--	--	--	--	0
Ethiopia	--	--	--	--	--	--	0
Gabon	--	--	--	--	--	--	0
Gambia*	--	--	--	--	--	--	0
Ghana	--	--	--	--	--	--	0
Guinea	--	--	--	--	--	--	0
Guinea-Bissau	--	--	--	--	--	--	0
Ivory Coast	--	--	--	--	--	--	0
Kenya	--	--	--	--	--	3,000	3,000
Lesotho	--	--	--	--	--	--	0
Liberia	--	--	--	--	--	--	0
Madagascar	--	--	--	--	--	--	0
Malawi	--	--	--	--	--	--	0
Mali*	--	--	--	--	--	--	0
Mauritania*	--	--	--	--	--	--	0
Mauritius	--	--	--	--	--	--	0
Mozambique	--	--	--	--	--	--	0
Niger*	--	--	--	--	--	--	0
Nigeria	--	--	--	--	--	--	0
Rwanda	--	--	--	--	--	--	0
Sao Tome	--	--	--	--	--	--	0
Senegal*	--	--	--	--	--	--	0
Seychelles	--	--	--	--	--	--	0
Sierra Leone	--	--	--	--	--	--	0
Somalia	--	--	--	--	--	3,000	3,000
South Africa	--	14,000	--	--	--	--	14,000
Sudan	--	--	--	--	--	--	0
Swaziland	--	--	--	--	--	--	0
Tanzania	--	--	--	--	--	--	0
Togo	--	--	--	--	--	--	0
Uganda	--	--	--	--	--	--	0
Zaire	--	--	--	--	--	--	0
Zambia	--	--	--	--	--	--	0
Zimbabwe	--	--	--	--	--	--	0
Sahel Regional*	--	--	--	--	--	--	0
S Africa Regional	--	36,000	--	--	--	--	36,000
Africa Regional	--	--	--	--	--	--	0
Local Cost Support	--	--	--	--	--	--	0
Total	0	50,000	--	0	0	6,000	56,000
(Funct'l Acc't Total)	--	--	--	--	--	--	0
(Sahel Program *)	--	--	--	--	--	--	0

FY 1987 U.S. ECONOMIC AND MILITARY ASSISTANCE - SUPPLEMENTAL REQUEST

	DA	ESF	PEACE CORPS	OTHER	FMS (CONC)	MAP	TOTAL

ASIA/NEAR EAST							
Afghanistan	--	--	--	--	--	--	0
Algeria	--	--	--	--	--	--	0
Austria	--	--	--	--	--	--	0
Bangladesh	--	--	--	--	--	--	0
Bhutan	--	--	--	--	--	--	0
Burma	--	--	--	--	--	--	0
Cambodian Resistance	--	--	--	--	--	--	0
Cyprus	--	--	--	--	--	--	0
Egypt	--	--	--	--	--	--	0
Fiji	--	--	--	--	--	--	0
Finland	--	--	--	--	--	--	0
Gaza	--	--	--	--	--	--	0
Greece	--	--	--	--	--	--	0
Iceland	--	--	--	--	--	--	0
India	--	--	--	--	--	--	0
Indonesia	--	--	--	--	--	--	0
Ireland	--	--	--	--	--	--	0
Israel	--	--	--	--	--	--	0
Italy	--	--	--	--	--	--	0
Jordan	--	--	--	--	--	--	0
Kiribati	--	--	--	--	--	--	0
Korea	--	--	--	--	--	--	0
Lebanon	--	--	--	--	--	--	0
Luxembourg	--	--	--	--	--	--	0
Malaysia	--	--	--	--	--	--	0
Maldives	--	--	--	--	--	--	0
Micronesia	--	--	--	--	--	--	0
Morocco	--	10,000	--	--	--	10,000	20,000
Nepal	--	--	--	--	--	--	0
Oman	--	5,000	--	--	--	--	5,000
Pakistan	--	--	--	--	--	--	0
Papua NG	--	--	--	--	--	--	0
Philippines	--	--	--	--	--	50,000	50,000
Poland	--	--	--	--	--	30,000	30,000
Portugal	--	15,000	--	--	--	--	15,000
Singapore	--	--	--	--	--	--	0
Solomon Is.	--	--	--	--	--	--	0
Spain	--	7,000	--	--	200,000	--	207,000
Sri Lanka	--	--	--	--	--	--	0
Thailand	--	--	--	--	--	--	0
Tonga	--	--	--	--	--	--	0
Tunisia	--	--	--	--	--	--	0
Turkey	--	--	--	--	--	125,000	125,000
Tuvalu	--	--	--	--	--	--	0
West Bank	--	--	--	--	--	--	0
Western Samoa	--	--	--	--	--	--	0
Yemen	--	--	--	--	--	--	0
Yugoslavia	--	--	--	--	--	--	0
Asia/Near East Regional	--	--	--	--	--	--	0
Near East Regional	--	--	--	--	--	--	0
South Pacific	--	--	--	--	--	--	0
Local Cost Support	--	--	--	--	--	--	0
Total	0	37,000	--	0	200,000	215,000	452,000

FY 1987 U.S. ECONOMIC AND MILITARY ASSISTANCE - SUPPLEMENTAL REQUEST

	DA	ESF	PEACE CORPS	OTHER	FMS (CONC)	MAP	TOTAL

LATIN AMERICA & CARIBBEAN							
Antigua	--	--	--	--	--	--	0
Argentina	--	--	--	--	--	--	0
Bahamas	--	--	--	--	--	--	0
Barbados	--	--	--	--	--	--	0
*Belize	--	--	--	--	--	--	0
Bolivia	--	--	--	--	--	--	0
Brazil	--	--	--	--	--	--	0
Chile	--	--	--	--	--	--	0
Colombia	--	--	--	--	--	--	0
*Costa Rica	--	40,000	--	--	--	--	40,000
Dominica	--	--	--	--	--	--	0
Dominican Republic	--	--	--	--	--	--	0
Ecuador	--	--	--	--	--	--	0
*El Salvador	[100,000]	55,000	--	--	--	17,500	72,500
Grenada	--	--	--	--	--	--	0
*Guatemala	--	40,000	--	--	--	5,000	45,000
Guyana	--	--	--	--	--	--	0
Haiti	--	--	--	--	--	--	0
*Honduras	--	65,000	--	--	--	17,500	82,500
Jamaica	--	--	--	--	--	--	0
Mexico	--	--	--	--	--	--	0
Nicaragua	--	--	--	--	--	--	0
*Panama	--	--	--	--	--	--	0
Paraguay	--	--	--	--	--	--	0
Peru	--	--	--	--	--	--	0
St. Christ-Nevis	--	--	--	--	--	--	0
St. Kitts	--	--	--	--	--	--	0
St. Lucia	--	--	--	--	--	--	0
St. Vincent	--	--	--	--	--	--	0
Suriname	--	--	--	--	--	--	0
Trinidad & Tobago	--	--	--	--	--	--	0
Uruguay	--	--	--	--	--	--	0
Venezuela	--	--	--	--	--	--	0
Caribbean Regional	--	--	--	--	--	--	0
*Central American Reg	--	--	--	--	--	--	0
PACAMS	--	--	--	--	--	--	0
*ROCAP	--	--	--	--	--	--	0
LAC Regional	--	10,000	--	--	--	--	10,000
Local Cost Support	--	--	--	--	--	--	0
Central America	--	--	--	--	--	--	0
S. America & CAR	--	--	--	--	--	--	0
Total	[100,000]	210,000	--	0	0	40,000	250,000
(Central America) *	[100,000]	(200,000)	--	0	0	(40,000)	(240,000)

FY 1987 U.S. ECONOMIC AND MILITARY ASSISTANCE - SUPPLEMENTAL REQUEST

	DA	ESF	PEACE CORPS	OTHER	FMS (CONC)	MAP	TOTAL

CENTRAL BUREAUS							
S&T							
Agriculture	--	--	--	--	--	--	0
Education	--	--	--	--	--	--	0
Energy	--	--	--	--	--	--	0
Forestry & Envr Nat Res	--	--	--	--	--	--	0
Health	--	--	--	--	--	--	0
Intl Training	--	--	--	--	--	--	0
Nutrition	--	--	--	--	--	--	0
Population	--	--	--	--	--	--	0
Rur & Inst Dev	--	--	--	--	--	--	0
Small Activity	--	--	--	--	--	--	0
Research & Univ Relations	--	--	--	--	--	--	0
Program Office	--	--	--	--	--	--	0
Total S&T	0	0	0	0	0	0	0
FVA							
Biden Pell	--	--	--	--	--	--	0
Food for Peace	--	--	--	--	--	--	0
Private/Vol Coop	--	--	--	--	--	--	0
Program Mgt Support	--	--	--	--	--	--	0
Total FVA	0	0	0	0	0	0	0
PPC							
Economic Affairs	--	--	--	--	--	--	0
Evaluation	--	--	--	--	--	--	0
Pol Dev/Program Rev	--	--	--	--	--	--	0
Women in Dev	--	--	--	--	--	--	0
Peace Corps	--	--	--	--	--	--	0
UNFPA	--	--	--	--	--	--	0
CGIARs	--	--	--	--	--	--	0
Total PPC	0	0	0	0	0	0	0
PRE							
Housing & Urban Dev	--	--	--	--	--	--	0
Investment(Incl Rev Loans)	--	--	--	--	--	--	0
Program Review	--	--	--	--	--	--	0
Private Sector Coord	--	--	--	--	--	--	0
Project Development	--	--	--	--	--	--	0
Total PRE	0	0	0	0	0	0	0
OFDA							
Sci Adv (Incl Israel Prg)	--	--	--	--	--	--	0
Other	--	--	760	--	--	--	760
P.L.480:							
Reserve	--	--	--	--	--	--	0
P.L. 480 Stock Adj.	--	--	--	--	--	--	0
Ocean Freight	--	--	--	--	--	--	0
Initial Payment	--	--	--	--	--	--	0
Carry Out	--	--	--	--	--	--	0
Farmer to Farmer	--	--	--	--	--	--	0
TOTAL	0	0	760	0	0	0	760

FY 1987 Supplemental Request
Summary

The Administration is requesting a total of \$404,984,000 in supplemental appropriations for A.I.D. for FY 1987. The supplemental request consists of: \$297,000,000 for the Economic Support Fund, \$100,000,000 for Disaster Assistance and \$7,984,000 in Operating Expenses.

Economic Support Fund (ESF)

The \$297 million ESF request includes additional funding for the support of continued development of democratic institutions in Central America (\$200 million); narcotics-related economic assistance programs, expected to go to Bolivia (\$10 million); the Southern Africa initiative (\$50 million); and military access and base rights arrangements (\$37 million).

The Central America initiative (CAI) has fallen significantly behind the planned five-year funding target. The \$200 million in supplemental funds would permit the Agency to increase support for the economic stabilization and structural adjustment efforts of the four core Central American countries: Guatemala, El Salvador, Honduras and Costa Rica. Without this supplemental assistance, support will likely be weakened for elected leadership and democratic institutions.

The Andean countries are carrying out critical programs to eliminate the cultivation of illicit narcotics, to control trafficking and processing of drugs, and to improve the efficiency in the prosecution of narcotics traffickers. Supplemental funds are expected to be used for supporting narcotics control activities in Bolivia. If supplemental funding is not provided, Government efforts to curb coca production will be weakened.

Of the total \$50 million requested for the Southern Africa initiative, \$36 million represents initial funding for a multi-year program of special assistance promised by the President at the time Congress enacted the Comprehensive Anti-Apartheid Act of 1986. This proposal, recently submitted to the Congress, will provide critical support for regional economic development of SADCC countries, bolstering policy reform efforts as well as transportation, trade and investment links in the region. Without these supplemental funds, our commitment to the SADCC countries will be called into question, at a time when these countries have begun to take steps to put their own economies in order. An additional \$14 million will advance our foreign policy objectives in South Africa.

As a result of the low overall ESF funding level and the high degree of earmarking in this account, we were unable to meet our pledged commitment to the important base rights and military access countries of Spain, Portugal, Oman and Morocco. Base arrangements and military access agreements are critical to much of our own defense strategy and must be maintained. The supplemental funds will permit the United States to honor its commitments to assure access to these countries' bases and facilities.

Disaster

A.I.D. is requesting \$100 million in supplemental disaster assistance to assist El Salvador in addressing its long-term earthquake reconstruction needs. A massive job remains to restore public services and rebuild infrastructure critical to the economic and political well-being of the nation. Without the additional funds, the Government of El Salvador will be unable to undertake such massive rehabilitation and restoration. The people who need the assistance to reestablish themselves are mostly low-income families. These funds are needed to help these people become self-supporting again.

Operating Expenses (OE)

The supplemental request of \$7.984 million in OE will be used to cover the FY 1987 costs of the new Federal Employees' Retirement System and half the costs of the FY 1987 Federal employees' pay raise. The funds are to be divided between the regular operating expense account and the operating expenses of the Inspector General.

SUPPLEMENTAL ESF RESOURCES TO CONTINUE THE NATIONAL
BIPARTISAN PLAN FOR CENTRAL AMERICA

A.I.D. requests FY 1987 supplemental assistance of \$200 million in Economic Support Fund (ESF) for four Central American countries -- Costa Rica, El Salvador, Guatemala and Honduras.

Regional Overview

The Central American Initiative (CAI) proposed \$6.0 billion of U.S. economic assistance (exclusive of guarantees) for the five-year period 1985 to 1989. Appropriated funding levels are some \$530 million behind the CAI proposed level through FY 1986. In FY 1987, funding will fall another \$380 million behind. This shortfall, combined with the slow recovery of the world economy, lower-than-expected resource flows from other external sources, declining prices for Central America's major agricultural exports, and prolonged conflict in the region, is seriously delaying achievement of most of the goals laid out in the CAI. An additional \$200 million of ESF in FY 1987 would allow the United States to increase support for the economic stabilization, structural adjustment, greater equity, and democratization efforts of the core four Central American countries. It would also accelerate or expand key development programs in support of the CAI objectives.

The countries of Central America have begun to implement economic programs which can lead to sustained economic recovery if adequately supported by external assistance over the medium term. When combined with programs to spread the benefits of growth and to strengthen democratic processes and institutions, economic reforms can also strengthen political stability in Central America and afford greater protection to the vital security interests of the United States in the Region.

Proposed Uses of Supplemental Funds

The \$200 million in additional ESF funds would be used as follows:

-- Balance of Payments Assistance - \$160 Million:

We would increase balance of payments support for the economic adjustment programs in Guatemala, El Salvador, Honduras and Costa Rica by \$40 million each. In each of these countries, democratic governments are implementing politically unpopular reform programs and austerity measures which will eventually create the conditions needed to increase production, employment, and exports, but which have the immediate effect of reducing consumption, increasing domestic prices and creating some political turmoil. Costa Rica and the fledgling democracies of El Salvador, Honduras and Guatemala need U.S. support for their programs if they are to be fully and effectively implemented and the basis laid for future growth.

-- Project Assistance - \$40 Million:

-- El Salvador - \$15 Million.

An additional \$9 million would be provided to accelerate the restoration of vital public services damaged by guerrilla violence, e.g., bridges, transport, power, water and communications. Also, \$6 million would go to PVOs offering humanitarian assistance to displaced persons and to urban and rural poor.

-- Honduras - \$25 Million.

For increased funding of ongoing high impact projects in agriculture, export promotion, education, privatization, and economic policy planning.

Implications of Inadequate Funding

We believe the plan we are implementing is on the right track, even though external events have contributed to making the recovery slower than anticipated. Central American and Caribbean governments have made significant strides in implementing policy reforms, and they have taken risks in introducing unpopular but necessary measures. However, additional reforms are still needed, and governments will be reluctant or unable to adopt them unless they know that they can count on our financial support to cushion the initial effects of these reforms and make them more palatable to their citizens.

Further, without this supplemental support, the ability of the Central American leaders to provide improved economic opportunities and social services to their people will be further constrained. The result will likely be weakened support for elected leadership and democratic institutions. Our security interests require us to make sure that the economic recovery will be broad-based and long-lasting.

Guatemala

Balance-of-Payments Support-\$40 million

Upon taking office in 1986, Guatemala's new democratic government inherited five years of negative real per capita GDP growth coupled with a severe population growth rate, spiraling inflation, and an enormous short-term debt service burden. The new government moved quickly to reverse the ill-conceived policies which had led to the economic crisis and put in place an ambitious, comprehensive stabilization program ranging from simplification of the exchange system and lifting of price controls to improvements in revenue administration.

This extensive program has shown positive results in the form of a lower-than-planned budget deficit, decreasing inflation, and reduced capital flight. Nonetheless, Guatemala's real GDP growth rate only approached zero in 1986, and in per capita terms it declined for the sixth consecutive year. The economy must begin to grow in real terms if the new government is to demonstrate the capability of a democratically elected regime to address the economic crisis and manage the economy, while at the same time providing greater opportunities for the poor to participate in the economy. Even with AID's current balance-of-payments assistance of \$56 million in FY 1987, Guatemala's need for additional external assistance of about \$165 million will not be covered. Falling coffee prices and further deterioration in trade within the Central American Common market have worsened Guatemala's balance-of-payments position. Additional A.I.D. balance-of-payments assistance will ensure financing of imports for productive inputs necessary to help achieve Guatemala's target of a 2% real GDP growth rate in 1987.

Impact of Lack of Supplemental

Clearly, another year of no GDP growth and the resultant negative real per capita growth rate would put considerable pressure on Guatemala's government, economy, and social stability. Insufficient balance-of-payments support would also weaken the GOG's ability to proceed with additional economic reforms in 1987. The most important of these are the elimination of the temporary export tax, unification of the exchange rate, movement to positive real interest rates, and removal of the structural constraints on investment and export growth. Both the analysis done for the CAI and A.I.D.'s subsequent economic analysis have emphasized that the timely implementation of these reforms is critical to achieving the economic stabilization and growth objectives of the CAI.

EL SALVADOR

Balance-of-Payments Support - \$40 Million

Supplemental balance-of-payments assistance will help El Salvador get through a very difficult year in 1987. Coffee export revenues are expected to be more than \$60 million below 1986 levels, and no other export will make up for the shortfall. Debt service obligations for 1987 are high. A \$40 million supplemental should help the government meet its modest 2.5% GDP growth target for 1987 with no loss of reserves, provided earthquake reconstruction needs are fully funded by the United States and other donors.

Project Assistance - \$15 million

-- Restoration of Public Services (519-0279) - \$9 Million

Damage to El Salvador's infrastructure from communist insurgent sabotage exceeds \$1 billion. In the summer of 1986 more electric pylons were blown up than at any time in the protracted insurgency. The Salvadoran civilian agencies such as the national electric authority work round-the-clock to keep public utilities functioning and transportation links open, on a very limited budget and at great personal risk. An additional \$9 million will be used for the procurement of commodities and technical assistance for Salvadoran government agencies to carry out high-priority repair and renovation of telephone, electric and water systems as well as critical roads and bridges.

-- Private Voluntary Organizations (519-9999) - \$6 million

A.I.D. proposes to allocate an additional \$6 million in order to finance U.S. and local private and voluntary organization (PVO) programs which serve low-income families. One operational program grant (OPG) with Save the Children will allow poor urban families living in tenements to buy or lease the properties and to improve their condition. Two local PVOs, Fundacion Habitat and Fe y Trabajo, are also seeking A.I.D. assistance for low-income housing programs. Other OPGs with local PVOs which will be funded include an expansion of civilian amputee rehabilitation services, private sector health and population outreach, and initiatives to improve labor-management relations in the private sector.

Impact of Lack of ESF Supplemental

Balance of Payments: Without the supplemental of \$40 million, real growth without reserve loss would be reduced by 0.5 to 1.0 percentage points. At a time when El Salvador faces a mounting foreign debt and a drop in coffee revenues, the shortage of foreign exchange for critical, productive imports will be even more severe.

Project Assistance:

-- Restoration of Public Services (519-0279). Without an additional \$9 million, the Government of El Salvador's capacity to carry out repair and renovation of public services -- telephone, electricity, water, roads and bridges -- damaged by the insurgents will be reduced, and the national

economy, as well as the confidence of affected communities in their elected government, will suffer accordingly.

-- Private Voluntary Organizations (519-0999). Without an additional \$6 million, A.I.D. will not have the resources to fund several promising PVO activities, including prosthetic and rehabilitation services for civilian amputee victims of the war, low-income housing expansion, population outreach services, and a pilot project to improve labor-management relations in the private sector.

Honduras

Balance-of-Payments - \$40 million

An additional \$40 million for balance-of-payments support would have significant short- and long-term effects on Honduras' economic prospects. In the short term, the supplemental should enable real GDP growth to be maintained at around 2%-3%. In the absence of the supplemental, it is likely that real GDP growth will be close to zero. Over the longer term, the supplemental will enhance prospects for successful implementation of policy reforms essential to achieving sustainable economic growth and increased employment.

Project Assistance - \$25 million

- Agricultural Research Foundation (522-0249), \$4.5 million - The additional funds will provide support for joint government-private sector research concentrated on nontraditional exports.
- Irrigation Development (522-0268), \$6 million - These funds will finance additional irrigation systems critical to development of nontraditional agricultural exports.
- Export Development and Services (522-0207), \$1.55 million - These funds will help Honduras restructure its export promotion program to accelerate investment in and production of nontraditional exports.
- Primary Education Efficiency (522-0273), \$6.65 million - A.I.D. assistance under this project has helped to increase dramatically the availability of schooling and enrollment at the primary level. These supplemental funds will help finance improvements in the quality of primary education.
- Privatization of State-Owned Enterprises (522-0289), \$1.9 million - Additional funding will permit faster movement on divestiture of publicly owned or controlled enterprises.
- Policy Planning and Institutional Development (522-0325), \$4.4 million - These funds will support a new project designed to enhance Honduras' capability to analyze and address macroeconomic constraints.

Impact of Lack of Supplemental

Balance-of-Payments Support. As noted above, without the additional financing which this supplemental would provide, real growth is likely to be close to zero, a level which may undercut public support for the Government of Honduras (GOH) promising economic reform program and thereby reduce the government's ability to continue the important monetary and fiscal restraints which were introduced in FY 1986.

Project Support. Additional funding for the above-mentioned projects will permit a partial catch-up on the rate of development envisioned by the National Bipartisan Commission on Central America. Under the strict constraints of the GOH's necessary monetary and fiscal program, Honduran

public investment is severely limited. A.I.D.'s projects are key to stimulating private investment, improving the efficiency of private investment in productive activities, and increasing the access of the poor to primary education services.

Costa Rica

Balance-of-Payments Support - \$40 million

The Costa Rican government under the leadership of President Alberto Monge made significant progress between 1982 and 1986 in reversing the disastrous economic slide of 1980-81 and in laying the base for renewed growth. The administration of Oscar Arias which took office last May is committed to continuing that process, a process to which U.S. balance-of-payments aid is critical. While economic growth has been positive since 1983, the estimated per capita gross domestic product (GDP) in 1986 is still below that of a decade ago. Costa Rica continues to labor under a huge external debt, close to \$4 billion, which, coupled with a trade deficit of \$200 million, results in an annual external aid requirement of around \$300 million. The requested supplemental will increase ESF levels for Costa Rica to \$127.7 million which, with the expected inputs of the International Monetary Fund (IMF), the Inter-American Development Bank and the World Bank, will substantially close the gap and permit Costa Rica's recovery to continue.

Impact of Lack of Supplemental

A reduction in US financing would delay economic recovery. Imports facilitated by ESF resources go predominantly to the productive sector and have been critical to the development of nontraditional exports, which are now growing at the exceptional rate of 30% per annum. Lower aid levels in the case of Costa Rica clearly equate to reduce recovery of growth and employment, with corresponding impact on the poorer element, of Costa Rican society.

Supplemental ESF Assistance for Andean Narcotics Activities

Background

At considerable risk, Bolivia is exerting extraordinary efforts to eliminate the cultivation of illicit narcotics, to control trafficking and processing of drugs, and to proceed with prosecution of narcotics traffickers. Bolivia has designed a three-year plan calling for the elimination of production of illicit coca throughout the country. It plans to carry out an eradication program supported by stronger enforcement and interdiction operations that should reduce the price of coca and motivate farmers to look toward other, legal occupations.

Proposed Use of Funds

Supplemental funds in the amount of \$10 million are requested for a regional project supporting narcotics control activities. It is expected all the funds will be used in Bolivia to assist the transition into lawful economic activities of farmers who voluntarily eradicate coca crops. Funds may also be used to expand public awareness activities that build support for stronger action against narcotics producers and traffickers.

Implications of Not Funding the Supplemental

It is critical that the Bolivian Government have the resources needed to encourage each Bolivian family that voluntarily eradicates coca to move into alternative income-earning activities. Supplemental funding is needed to help the Bolivian Government reduce the expected strong resistance to voluntary eradication, which would make forced eradication even more difficult after the end of the first year.

SOUTH AFRICA (Disadvantaged South Africans)

Background: The President's September 1985 Executive Order on South Africa called for a substantial increase in U.S. assistance to legally disadvantaged South Africans. A two-year, \$45 million program was announced. In FY 1986, A.I.D. committed the first \$20 million and planned to provide the remaining \$25 million in FY 1987. However, the FY 1987 Continuing Resolution reduced un-earmarked ESF resources such that only \$11 million is available for the South Africa program. This amount is barely sufficient to meet legislatively mandated requirements, such as scholarship programs, human rights activities and labor training. The \$14 million in supplemental ESF funds are urgently required to meet our \$45 million commitment and to maintain and build upon important ongoing projects.

Use of Supplemental Funds: \$14 million requested is necessary for key programs in black business development, assistance to black trade unions and trade unionists, and the promotion and nurturing of democratic ideas and institutions, as well as scholarship support at the secondary and university level. Also included are funds for grassroots, community-based South African private voluntary organizations including those providing educational assistance and resources. Funds are also needed for the secondary school scholarship and teacher training programs called for in the Comprehensive Anti-Apartheid Act of 1986.

Impact of Not Receiving Supplemental Funds: Without the \$14 million requested:

- The Administration's announced \$45 million program to aid the victims of apartheid could not be fully implemented.
- The Comprehensive Anti-Apartheid Act's call for increased U.S. assistance to black South Africans could not be met.
- Important programs to aid black entrepreneurs and support community development activities could not be undertaken.

In sum, the current \$11 million South Africa program does not meet the legislative mandate to assist those striving in South Africa to end apartheid and prepare for a post-apartheid society. The United States would be seen as a backing away from its commitment to promote peaceful change in South Africa directly. Without the additional \$14 million requested, the assistance programs designed to give concrete demonstrations of the positive features of U.S. policy would be hobbled.

SOUTHERN AFRICA REGIONAL

Background: The Administration's proposed Initiative for Economic Progress in Southern Africa is a comprehensive, multi-year program designed to promote economic reform and development in the black-ruled states of the region. It was developed in response to the President's July 1986 directive to determine what was needed and what could be done to expand the trade, private investment and transport prospects of southern Africa's landlocked nations. The initiative also responds to Congressional intent contained in Section 505 of the Comprehensive Anti-Apartheid Act of 1986, which became law on October 2, 1986, and incorporated the language of the President's July directive. There is an urgent need for \$36 million in supplemental ESF funding for FY 1987 in order to implement this program effectively.

Use of Supplemental Funds: Helping to create regional political stability, economic prosperity and peace in Southern Africa has been longstanding U.S. policy. This initiative complements our ongoing economic and humanitarian assistance programs in the region, whose regional and bilateral components total from \$175 million to \$200 million per year. It also complements and is coordinated with significant other donor programs.

Southern Africa's political orientation, stability, and economic well-being are central to U.S. policy. America's interests in the region are best served by states that have pluralistic, representative governments, that are secure from external threats and that are supported by open and competitive economies. The alternative--political and economic uncertainty and increased militarization--provides opportunities for malevolent outsiders to exploit instability and expand their influence in the region.

The initiative spells out an alternative, positive vision for the region--based on the indispensable relevance of greater Western engagement in development and regional cooperation and not on sanctions and polarizing recriminations. Conditions in the region and our interests there argue for more rather than less Western involvement than before by signalling tangible support by the United States and her allies for the region's economic health.

The \$36 million supplemental request is the first stage of a multi-year program (in FY 1988 we are proposing \$57 million) which will support trade and investment and private sector oriented policy reform in selected countries, and priority regional transport projects. Specifically, the \$36 million in supplemental funds in FY 1987 are urgently needed to support

the continuing effort to improve the region's rail network (\$30 million) and initiate a new major focus on private sector trade and development (market and production data - \$6 million).

Impact of Not Receiving Supplemental Funds: In the short-run, lack of funds for this U.S. initiative will reduce our ability in southern African countries to:

- ensure that existing economic reform measures can be continued and sustained;
- provide more efficient, cost effective transport routes for vital imports and exports;
- reduce transport costs thereby making scarce foreign exchange available for other urgent needs;
- expand export markets; and
- help maintain employment and income levels during a period of economic crisis.

Lack of funds for this initiative would also hamper efforts to set the stage for longer-term growth and development through programs to:

- realign and build regional trade patterns;
- identify and exploit production and resource complementarities to develop local industries and promote exports;
- encourage and support new economic reform programs;
- aid the implementation of an equitable regional growth strategy to raise incomes and increase employment; and
- rehabilitate the regional transport system so that it is more efficient, reliable, well-managed and maintained, and of service to the majority of producers and consumers of the region.

FY 87 Supplemental Congressional Presentation

MOROCCO

Background: U.S. relations with Morocco have improved dramatically as a result of Israeli Prime Minister Peres' visit to Morocco and the abrogation of the Moroccan treaty with Libya. Morocco has also undertaken a major program of structural economic reform, and has negotiated an IMF Standby Agreement and a London Club rescheduling of commercial debt. Further rescheduling of official debt is expected at a Paris Club meeting scheduled for early March.

Use of Supplemental Funds: In FY 1986, \$10 million of ESF was cut from the Administration's request level for Morocco as a result of the low overall appropriated Economic Support Fund level earmarks and ensuing Gramm-Rudman reductions, although a portion of this cut was restored at the end of the year. For FY 1987, \$10 million in ESF has again been cut from the request due to reduced ESF levels.

Supplemental funds of \$10 million will be used to complete funding of the Private Sector Export Project which was deferred because of the FY 1986 shortfall and to incrementally fund a new Cereals Marketing Restructuring Project which will be designed to increase incentives for cereal producers. Both projects contribute to Morocco's economic reform.

The Moroccans rely on U.S. assistance both for economic growth and to stimulate other assistance through the mechanism of Consultative Group pledging. This additional assistance is requested in recognition of Morocco's economic requirements, the difficult steps it is taking to stabilize its economy and put it on the path of self-sustaining growth, and recent improvements in political relations with the U.S.

Impact of Not Receiving Supplemental Funds: Failure to provide these funds would undermine U.S. efforts to support the difficult economic reforms Morocco is now undertaking. The special security relationship which the U.S. has established with Morocco, strengthened by the recent courageous moves of King Hassan, could also be called into question.

FY 87 Supplemental Congressional Presentation

OMAN

Background: With increasing tensions in the Arabian Gulf and threats from the Iran-Iraq conflict, the U.S. and Sultanate of Oman signed an agreement in 1980 giving the U.S. military access to Omani facilities. This access provided increased security for Gulf oil states and increased U.S. presence in the strategic Straits of Hormuz. At the same time, the Omani-American Joint Commission was established through combined American and Omani funding, providing Oman with U.S. expertise and technology and demonstrating U.S. interest in Oman's socioeconomic development. The U.S. contribution to the Joint Commission's program was originally \$15 million per year. This level was supplemented by an additional \$5 million in FY 1985 and FY 1986 following an assessment of Oman's needs during Sultan Qaboos' state visit to Washington in 1983. U.S. economic assistance is a vital element in America's bilateral relationship with Oman.

In expectation of stable funding levels for Oman through 1990, the United States and Oman approved a five-year Water Resources Development Project, with an authorized A.I.D. level of \$75 million and an expected Omani contribution of \$201 million. This sector-wide project entails creating master plans for water resources development, engineering design, and construction of water delivery systems, and institution building and policy analysis for water conservation. Oman's water resources, mostly underground aquifers, are extremely limited (rain falls in only one year out of three). These aquifers are now being overpumped and threatened by salt water intrusion. Wastewater treatment facilities are also inadequate, and untreated sewage is being dumped into the sea.

Use of Supplemental funds: FY 1987 funds, including Supplemental funds of \$5 million, will provide the second tranche of A.I.D.'s contribution to this priority Water Resources Project and will be used for technical assistance, engineering design and planning analyses for the water sector. More important than the dollar amount and the technical contribution, this project provides A.I.D. and the Joint Commission access to Omani policy makers on subjects of recognized American expertise: water policy development and water systems engineering. The United States can transfer water sector technology through A.I.D.-funded contracts with American private sector firms. Similarly, A.I.D. assistance can help Oman create coherent public policies and a rational structure of public agencies that protect water resources.

Impact of not Receiving Supplemental Funds: Without (supplemental funding, A.I.D.'s and the Joint Commission's) access to the Omani policy-making and planning process is greatly reduced. It could also diminish the scope of American technical assistance for policy and planning at a time when foreign competition is increasingly aggressive in seeking business in Oman. Most important, failure to appropriate supplemental funds could be detrimental to a close bilateral relationship, with important implications for our Persian Gulf strategy.

FY 87 Supplemental Congressional Presentation

PORTUGAL

Background: At the time agreement was reached for U.S. use of base facilities in the Azores, the Administration promised its best efforts to provide an increasing level of U.S. assistance. The general understanding is that the economic component of this assistance package is \$80 million annually through the life of the base agreement. In FY 1986, this amount was cut by \$3.5 million (4.3 %) as part of the global Gramm-Rudman mandated reductions. The FY 1987 level of \$80 million has been reduced by \$15.3 million due to the shortfall of Economic Support Funds.

Use of Supplemental Funds: If appropriated, the \$15 million supplemental for Portugal will be provided as a cash transfer for Portuguese economic development. More specifically, it is our understanding that the Portuguese will use the funds to add to the endowment of the Luso-American Development Foundation, which is chartered inter alia to stimulate economic cooperation between our two countries and thereby enhance Portuguese development.

Impact of Not Receiving Supplemental Funds: Not receiving these additional funds may have a detrimental effect on U.S. relations with Portugal, will complicate future negotiations for the continued use of Lajes airbase in the Azores, and may affect the installation of a deep space tracking system in mainland Portugal.

FY 87 Supplemental Congressional Presentation

SPAIN

Background: The 1982 Agreement on Friendship, Defense and Cooperation between Spain and the United States provides for an annual level -- subject to Congressional appropriation -- of \$12 million in economic assistance for the operation of Joint Commissions for Education and Cultural Exchanges and for Scientific and Technological Cooperation. Pursuant to Gramm-Rudmann, the level was reduced by \$536,000 in FY 1986. In FY 1987, a \$7 million reduction from the \$12 million level will be required unless FY 1987 supplemental funding is appropriated.

SEE THE STATE DEPARTMENT'S CONGRESSIONAL PRESENTATION DOCUMENT FOR INFORMATION REGARDING USE OF THESE FUNDS.

EL SALVADOR

SUPPLEMENTAL INTERNATIONAL DISASTER ASSISTANCE FOR EARTHQUAKE RECONSTRUCTION

A.I.D. requests a \$100 million supplemental International Disaster Assistance appropriation to assist El Salvador in addressing its long-term earthquake reconstruction needs.

The October 10, 1986 earthquake which struck the City of San Salvador killed more than 1,000 people, injured an estimated 10,000 and left upwards of 150,000 homeless. Damage to public services, housing and infrastructure - schools, hospitals, government buildings - as well as to commercial establishments is estimated at more than \$1 billion. The poorest strata of the San Salvadoran population - the slum and tenement dwellers, low-income workers, and small and micro businessmen - were hardest hit. The earthquake devastation compounds the problems of a country already fighting a civil war, reeling from guerrilla sabotage to transportation links, electric, telephone and water systems, and struggling with economic problems.

The period since the October 10, 1986 earthquake has seen the government and people of El Salvador courageously resume their former lives. A joint Government of El Salvador (GOES) and A.I.D. Earthquake Recovery Program implementation structure is in place. The provision of basic necessities and resuscitation of economic activity in the recovery phase have been substantially aided by the \$50 million in disaster recovery and rehabilitation funds provided by the Congress. These funds have been totally obligated by Project Agreement with the GOES, and disbursements are being made according to normal A.I.D. project disbursement procedures.

Beyond the recovery phase, however, a massive longer-term task remains to restore public services on a permanent basis and to rebuild infrastructure critical to the economic and political well-being of the nation.

Proposed Use of Supplemental Funds

The \$100 million will be used for: (1) expansion of private sector credit lines for home repair and micro and small enterprises (\$20 million), (2) slum and squatter settlement upgrading (\$ 5 million), (3) increased low cost shelter solutions for low income families (\$5 million), (4) integration of private voluntary organizations into the reconstruction program, (\$5 million), (5) reconstruction of medical and educational facilities (\$10 million), (6) reconstruction of metropolitan municipal facilities, e.g., town halls, markets, water and sanitation systems, (\$15 million), (7) municipal streets and lighting (\$5 million), and (8) municipal and urban institutional strengthening (\$5 million).

In addition, the project will fund, in part, the construction of office space (\$30 million) to replace earthquake damaged facilities for government entities whose functions are vital to the continuation of the democratic process and the overall U.S. assistance program (e.g., the Supreme Court, courthouses, property and commercial registry, and the Ministries of

Planning, Education and Agriculture and the Central Reserve Bank) (\$30 million).

The project takes into account other external funding; the management and absorptive capacity of the Government of El Salvador (GOES); technical assistance requirements; and the need for flexibility. The overall life-of-project is expected to be three years.

Impact of Lack of Supplemental

In the absence of the \$100 million, the GOES will be unable to restore many public services and rebuild damaged infrastructure vital to public management, delivery of services and for the conduct of the government. The people who need assistance to reestablish themselves are mostly poor and low-income families. Without credit for housing and small and micro businesses, these people may never be self-supporting. Without adequate buildings and facilities, the ability of private and public sectors alike to carry out the earthquake reconstruction will be greatly impaired.

OPERATING EXPENSE SUPPLEMENTALS

In FY 1987 A.I.D. is requesting \$7,663,000 in supplemental appropriations for Operating Expenses.

The new Federal Employees' Retirement System (FERS) enacted by Congress requires that A.I.D.'s Operating Expense appropriation be used to cover Agency contributions to the system. For personnel under the old retirement system the Agency share is funded from the Foreign Service Retirement and Disability Fund appropriation for foreign service personnel and from the corresponding appropriation managed by the Office of Personnel Management for civil service personnel. A.I.D. is requesting a supplemental appropriation for Operating Expenses in the amount of \$5,488,000 to cover the FY 1987 costs of this new retirement system.

The Agency is also requesting a supplemental appropriation of \$2,175,000 to cover half of the cost of the January 1987 Federal employees pay raise.

The impact on the Agency if the above supplementals are not received will be severe. The funding level for FY 1987 before these supplementals is only \$1.5 million above the level provided for FY 1986. As a result of the many increases in mandatory costs facing the Agency, such as worldwide increases in office rents, higher Agency contributions for FICA and other salary related items, and increased costs of APO mail, action has already been taken to defer operating expense funded activities to FY 1988 wherever possible.

The Agency's workforce levels are currently at a dangerously low level because of hiring freezes required in past years to stay within funding availabilities. We have started correcting this problem through a hiring program, including plans to hire an additional 100 International Development Interns this year. Forced absorption of additional costs, such as those represented by these supplementals, would be possible only through cancelling actions designed to fill existing vacancies plus instituting a new hiring freeze to further reduce our direct hire workforce levels. Such reductions would lessen our ability to maintain adequate oversight of our development programs.







