

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)

Portugal: FY 1987 ESF Cash Transfer (150-K-613)

December 29, 1986

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 150-K-613	
		2. Country Portugal	
		3. Category Cash Transfer	
		4. Date	
5. To Charles W. Greenleaf, Jr. Assistant Administrator, ANE		6. OYB Change Number N/A	
7. From Peter Bloom Director, ANE/PD		8. OYB Increase N/A To be taken from: Economic Support Funds	
9. Approval Requested for Commitment of \$ 64,712,000		10. Appropriation Budget Plan Code 72-117/81037 QES7-87-37150-KG-31	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None	13. Estimated Delivery Period	14. Transaction Eligibility Date
15. Commodities Financed			

16. Permitted Source		17. Estimated Source	
U.S. only	N/A	U.S.	
Limited F.W.	N/A	Industrialized Countries	
Free World	N/A	Local	
Cash	\$64,712,000	Other	

18. Summary Description

This cash transfer is part of a continuing assistance program to Portugal whose political and economic stability are deemed of vital concern to the United States. U.S. assistance programs tangibly reflect this support and help provide necessary resources to assist Portugal in dealing with the problems of modernizing its economy.

It is recommended that you approve a cash transfer grant for an amount not to exceed \$64,712,000 to be obligated and disbursed in one tranche. It is our understanding that the grant will be used for economic and social development of the Azores, and to support activities of the Luso-American Development Foundation.

19. Clearances (cont.)

ANE/PD:RVenezia RV Date 12/2/86
 ANE/PD/MNE:FYoung _____ Date _____

19. Clearances		20. Action	
REG/DP	ANE/DP:BSidman	Date	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC	ANE/GC:AMattice	<u>AM</u> 12/8/86	
AA/PPC	PPC/PB:DAdams	<u>J. & J.</u> 12/4/86	Authorized Signature <u>[Signature]</u> Date <u>12/29/86</u>
M/EM	CChristensen	<u>[Signature]</u> 12/11/86	
DAA/ANE	RBell	<u>[Signature]</u> 12/5/86	Title <u>[Signature]</u>
GC	HFry	<u>[Signature]</u> 12/3/86	
ANE/MENA	MSterne	<u>[Signature]</u> 12/3/86	

E.14

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20508

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, ANE

FROM: ANE/PD, Peter Bloom

SUBJECT: Portugal FY 1987 ESF Cash Transfer

PROBLEM: Your authorization is required to obligate the FY 1987 ESF Cash Transfer to Portugal for \$64.712 million.

BACKGROUND: In December 1983, U.S. Secretary of State and the Portuguese Foreign Minister signed diplomatic notes which extended the U.S. right to use the Lajes Base in the Azores from February 1984 to February 1991. Concurrent with certain security understandings, the U.S. Government made a best efforts pledge to assist the economic development and well-being of Portugal, and to cooperate with Portugal in such other ways as may be mutually beneficial, subject to the availability of funds and other requirements of United States laws. To that end, the U.S. agreed to grant non-military assistance totalling \$40 million during FY 1984 and \$80 million during FY 1985 using ESF funds. Assistance after FY 1985 is to be provided on a best efforts basis which the State Department maintains to be at an annual level of \$80 million.

DISCUSSION: The purpose of the AID cash grant to Portugal for FY 1987 is to continue assistance to support general economic and social development of Portugal. U.S. policy concerns remain unchanged, including support to Portugal for meeting its NATO commitments and through continued U.S. access to facilities in the Azores and on the mainland.

Stability within Portugal, both political and economic, is also a vital concern. The cash grant provides resources needed for stabilization and for Portugal's participation in the European Common Market. The economy has improved through increased exports, decreased imports, slowed inflation and unemployment, and reduced short-term debt. Certain exogenous factors (weakened dollar, cheaper oil) have also helped improve the economic situation. Politically the country is stable at present, after a decade of considerable change. The current conservative government has maintained its austerity program and still retains broad popular support.

The FY 1987 funds will be granted to the Government of Portugal in a single payment, using the approach employed for the \$36 million cash transfer executed last August. Although

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agreements will not be signed covering specific use, side letters were exchanged on November 24 specifying how the funds will be allocated. Specifically, the letters identify support of activities of the Luso-American Development Foundation and for economic and social development of the Azores, and specific amounts for each.

The FY 1987 level is less than the \$80 million earmarked in the FY 1987 authorization bill. This is because Section 552 of the Continuing Resolution requires a reduction factor be applied to earmarks contained in the authorizing legislation. Also, \$100,000 will be used to fund Agency O.E. expenses as permitted under the CR.

Congressional Notification of the cash transfer was effected by A.I.D.'s FY 1987 Congressional presentation. Disbursement will take place prior to December 31, 1986.

RECOMMENDATION: That you sign the attached PAAD facesheet, thereby approving a \$64.712 million cash transfer to Portugal for FY 1987. Also, it is recommended that you authorize the attached cable denoting approval and delegation of authority to the U.S. Ambassador to Portugal, or his designee, to execute a grant of \$64.712 million.

Approved: *[Signature]*

Disapproved: _____

DATE: Dec 29, 1986

Attachments

1. Portugal FY 1987 ESF Cash Transfer PAAD
2. Authorization Cable

Clearance:

ANE/PD:FYoung	Draft
ANE/MENA/EUR:MSterne	Draft
ANE/DP:BSidman	Draft
GC:HFry	Draft
GC/ANE:AMattice	Draft
M/FM/C:CWChristensen	Draft
M/FM/PAFD:ESOWens	Draft
DAA/ANE:RBell	Draft
ANE/DP:EKrowitz	Draft
PPC/PB:DAdams	Draft
ANE/PD:RVenezia	Draft

ANE/PD:THarris:ff:12/6/86:Ext. 79065:Doc 4440d

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PORTUGAL CASH TRANSFER
(150-K-613)

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I Summary and Recommendation

The purpose of the AID cash grant to Portugal for FY 1987 is to continue to assist with general economic and social development of the nation.

U.S. policy concerns remain unchanged, including support to Portugal for meeting its NATO commitments and through continued U.S. access to facilities in the Azores and on the mainland.

Stability within Portugal, both political and economic, is also a vital concern. The cash grant provides Portugal with resources needed to support stability and to support Portugal's participation in the European Common Market. Portugal has improved its economy through increased exports, reduced imports, slowed inflation and unemployment and reduced external debt. Exogenous factors have also helped improve the economic situation. Politically, the country is quite stable at present, after an initial decade of considerable change. The current government retains broad popular support despite a continued austerity program.

In fulfillment of the U.S. obligations under the 1983 Base Rights Agreement, it is recommended that approval be granted for an FY 1987 cash transfer of \$64.712 million. Funds will be granted to the Government of Portugal in a single payment. The grant will be used for the Luso-American Development Foundation and for economic and social development of the Azores.

II Political Situation

In the years following the revolution of 1974, Portugal's economy and politics changed drastically. An elective, open political system was adopted, many large enterprises were nationalized, and the standard of living for most of the population improved in the short run. However, the economic policies eventually produced deterioration in the economy, with lower production and higher inflation and unemployment. In 1983 a conservative government presented an emergency economic stabilization program. Measures have included reduction of subsidies, devaluations, increased interest rates, reduced public enterprise ownership, lower budget deficits, and reductions of public employees.

Democratic institutions and systems are now firmly established in Portugal and the current conservative government has widespread popularity amongst the electorate. In spite of the austerity program now being carried out, the government appears stable and firmly in control.

The U.S. strongly supports the Government of Portugal and wishes to maintain the ties with an old and important ally. It is the intention to continue provision of assistance, both economic and military, for the foreseeable future.

III Economic Situation

The economic performance of Portugal, for the early part of 1986 (the latest figures currently available), showed a significant pattern of gradual recovery which began in early 1985. Improvements have been helped by a weaker dollar, lower oil and commodity prices, and declining interest rates. The gross domestic product has risen by over 3% and real growth is expected to continue to improve. The balance of payments position is greatly improved, showing surpluses every month. The current account shows a \$200 million surplus in the first five months of 1986, an 82% improvement over a year ago.

Other highlights in the economy include:

- foreign investments in Portugal have increased by 9%,
- monetary growth has declined,
- foreign short-term debt has decreased,
- inflation has been 13.4% over the last twelve months (through August, 1986), and
- unemployment has stayed unchanged at about 10%.

Overall, there are sufficient signs of improvement for guarded optimism, although continued growth in the money supply and budget deficits do cast a shadow on an otherwise bright outlook. The need for structural economic reforms, particularly in banking, agriculture and parastatal operations, is still present and recent gains could be easily lost in a less favorable environment of external factors.

IV Proposed U.S. Assistance

It is proposed that a cash grant be made to the Government of Portugal for the amount of \$64.712 million. The cash grant would be for undesignated purposes, although an exchange of letters between the Ministry of Finance and the U.S. Embassy in Lisbon specify the Government of Portugal (Annex D) will utilize the funds for the Luso-American Development Foundation and for development in the Azores.

The Luso-American Development Foundation (LADAF) was started in 1985 to support Portugal's economic and social development by promoting scientific, technical, cultural, educational, trade, and entrepreneurial cooperation between Portugal and the U.S. The following areas are the focus of program concentration: private sector modernization, efficiency in public administration and regional development, science and technology transfer, improvement in the quality of education, and certain cultural initiatives. An executive board selects activities to be carried out according to policies of the three-member board consisting of the U.S. Ambassador to Portugal and two members appointed by the GOP Prime Minister.

The Azores is the least developed area of Portugal. The GOP has continued to support economic and social development of the Azores and maintains a wide variety of developmental programs.

The U.S. assistance would be provided, contingent on funds availability, in a single grant cash transfer. Any funds above the approved OYB, through supplemental legislation or reprogramming, will be authorized through an amendment to this PAAD.

V Implementation and Administration

As a direct cash transfer, without conditionality or designated uses attached to the proposal (except for prohibiting funds from being used for military purposes), both implementation and administration will be the responsibility of the Government of Portugal through the Ministry of Finance.

Because the cash transfer will occur before December 31, 1987, it will not be necessary for the funds to be deposited in a special dollar-denominated account as required by the Fiscal Year 1987 Continuing Resolution.

, a.

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 01 LISBON 11700 241709Z

2156 071416 A100573

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ACTION AID-00

UNQUOTE

ACTION OFFICE FM-02

INFO ANDP-03 ANME-03 RELO-01 TELE-01 /010 A2 1224

ANNEX A

INFO LOG-00 EUR-00 NEA-07 /007 W

SHAKESPEARE

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O 241705Z NOV 86

FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 4373

AMEMBASSY RABAT

UNCLAS LISBON 11700

AIDAC

RABAT FOR RLA

E.O. 12356: N/A

SUBJECT: FY 1987 ESF CASH TRANSFER

1. THE FOLLOWING IS AN UNOFFICIAL TRANSLATION OF A NOVEMBER 21, 1986 LETTER FROM THE MINISTER OF FINANCE TO THE U.S. AMBASSADOR:

QUOTE:

IN THE SCOPE OF THE COOPERATION PROGRAM BETWEEN THE GOVERNMENTS OF THE USA AND PORTUGAL, A DONATION OF DOLLARS 30 MILLION TO PORTUGAL WAS PLANNED FOR THE FISCAL YEAR OF 1987.

THEREFORE, I REQUEST YOUR EXCELLENCY THAT THE NECESSARY ACTIONS BE TAKEN FOR THE ABOVE AMOUNT, OR THE MAXIMUM AMOUNT POSSIBLE UNDER THE CURRENT CIRCUMSTANCES, TO BE MADE AVAILABLE TO THE MINISTRY OF FINANCE.

THE MINISTRY OF FINANCE WOULD HAVE THE HIGHEST INTEREST THAT THIS TRANSFER BE EFFECTED BEFORE THE END OF THE CALENDAR YEAR OF 1986, BEARING INTO CONSIDERATION THE FINANCING NEEDS OF THE ECONOMIC AND SOCIAL DEVELOPMENT PROGRAM OF THE COUNTRY. I TAKE THIS OPPORTUNITY TO PRESENT MY BEST REGARDS. THE MINISTER OF FINANCE

UNQUOTE

2. THE AMBASSADOR RESPONDED ON NOVEMBER 24, 1986 AS FOLLOWS:

UNQUOTE

REFERENCE IS MADE TO YOUR LETTER OF NOVEMBER 21, 1986 REGARDING THE ECONOMIC COOPERATION PROGRAM BETWEEN THE GOVERNMENTS OF PORTUGAL AND THE UNITED STATES OF AMERICA. THE EMBASSY UNDERSTANDS THAT THE GOVERNMENT OF PORTUGAL INTENDS TO USE DOLLARS 30 MILLION OF THE FUNDS MADE AVAILABLE FROM THE 1987 US FISCAL YEAR FOR ECONOMIC AND SOCIAL DEVELOPMENT IN THE AZORES AND THE BALANCE FOR THE LUSO-AMERICAN DEVELOPMENT FOUNDATION.

THE EMBASSY ALSO UNDERSTANDS THAT THESE FUNDS WILL BE MADE AVAILABLE FOR THE ABOVE PURPOSES AS SOON AS POSSIBLE FOLLOWING WRITTEN NOTIFICATION TO THE GOVERNMENT OF PORTUGAL BY THE EMBASSY THAT THE FUNDS HAVE BEEN DEPOSITED IN THE BANK ACCOUNT TO BE INDICATED BY THE GOVERNMENT OF PORTUGAL.

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Annex B

PORTUGAL - FY 1987 CASH TRANSFER

STATUTORY CHECKLIST

- I. COUNTRY CHECKLIST
- II. NON-PROJECT ASSISTANCE CHECKLIST

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(1) - COUNTRY CHECKLIST

B-1

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1985 Continuing Resolution Section 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the U.S. unlawfully?

It has not been so determined.

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

No.

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

Portugal is not known to be in violation of this section.

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?
- Portugal is not known to be in violation of this section.
5. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? (If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver.
- No to all three questions:
6. FAA Sec. 620(j) Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?
- Portugal is not known to be in violation of this section.
7. FAA Sec 620(l). Has the country failed to enter into an agreement with OPIC?
- There is an Investment Guarantee Agreement between the U.S. and Portugal.
8. FAA Sec. 620(o), Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?
- Portugal is not known to have taken such action.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q), FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of
- No.

any A.I.D. loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)
- Yes, as reported in the Annual Report on implementation of FAA Section 620(s).
11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
- No.
12. FY Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
- To the best of our knowledge, Portugal is not in arrears in its U.N. obligations.
13. FAA Sec, 620A; FY 1985 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act

of international terrorism, or (b) otherwise supports international terrorism? Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism?

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) We have no knowledge that Portugal has delivered or received such items or detonated such a device.
17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology We have no knowledge that Portugal has attempted such exports.

which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) No.
19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion? Not Applicable.
20. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No.
- B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY
1. Development Assistance Country Criteria
- FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? Not Applicable.

1. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No; it has not been determined that Portugal is engaged in a consistent pattern of gross violations of internationally recognized human rights.

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. FY 1985 Continuing Resolution Sec. 525: FAA Sec. 634A

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project assistance.

Committees have been notified in accordance with normal Agency procedures.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required within Portugal.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No.

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and strengthen free labor unions.

Funds will help finance Portugal's imports and generally assist the economy. Funds that the Government of Portugal makes available to the Luso-American Development Foundation will specifically foster the enumerated efforts.

5. FAA Sec. 601 (b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). To the extent that trade patterns between Portugal and the U.S. are expected to grow and expand, we foresee this program as having a positive effect.
6. FAA Sec. 612(b), Sec. 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized in lieu of dollars. Not Applicable.
7. FAA Sec. 612(d). Does the United States own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Not Applicable.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? Not Applicable.
10. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? Not Applicable.
- B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE
1. Nonproject Criteria for Economic Support Fund Assistance

(a) FAA Sec. 531(a). Will this assistance promote economic or political stability?

It will promote economic stability by providing vital foreign exchange required for Portugal's development and stability

To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes; the program reflects the policy direction of Section 102 to the extent possible.

(b) FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No.

(c) FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

Not Applicable.

(d) ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

Not Applicable.

(e) ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

Not Applicable.

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA:

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

(f) ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

No.

(g) FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

No Applicable.

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Annex C

DRAFT GRANT AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE REPUBLIC OF PORTUGAL

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM C-1

PAGE 01 OF 02 LISBON 11711 00 OF 02 241951Z 3006 071513 AID0695
ACTION AID-09

LISBON 11711 00 OF 02 241951Z 3006 071513 AID0695

INFO RED-01 LH-00 /001 A6 LH25

INFO FPA-02 GCAH-02 GC-01 GCCM-02 ANME-03 RELO-01 /011 A4 GB24

INFO LOG-00 COPY-01 EUR-00 CIAE-00 EB-03 DODE-00 NEA-07
L-03 /019 W
-----124270 241953Z /43 41 38

P 241713Z NOV 66
FM AMEMBASSY LISBON
TO AMEMBASSY RABAT PRIORITY
INFO SECSTATE WASHDC PRIORITY 4375

UNCLAS LISBON 11711

AIDAC

RABAT FOR RLA, AID/M FOR ANE/PD AND ANE/MENA

E.O. 12356: N/A

SUBJECT: FY 1987 ESF CASH TRANSFER

REF.: RABAT 07479

REQUEST RLA APPROVAL FOLLOWING TEXT OF PROPOSED GRANT AGREEMENT FOR FY 1987 CASH TRANSFER.

TEXT FOLLOWS FY 1986 SECOND TRANCHE GRANT AGREEMENT APPROVED BY RLA REFTEL WITH EXCEPTION OF DATE (TO BE INSERTED), DOLLAR AMOUNT AND PROJECT NUMBER.

QUOTE

- A.I.D. PROJECT NUMBER (150-K-613)
- GRANT AGREEMENT
- BETWEEN
- THE UNITED STATES OF AMERICA
- AND
- THE REPUBLIC OF PORTUGAL

AGREEMENT, DATED , 1986 BETWEEN THE REPUBLIC OF PORTUGAL ("PORTUGAL" OR "GRANTEE") AND THE UNITED STATES OF AMERICA, ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D."), TOGETHER REFERRED TO AS THE "PARTIES".

WHEREAS, REPRESENTATIVES OF THE GOVERNMENTS OF THE UNITED STATES AND PORTUGAL EXECUTED AN EXCHANGE OF NOTES, DATED DECEMBER 13, 1983, AND,

WHEREAS, THE GOVERNMENT OF THE UNITED STATES, ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT, IS DESIROUS OF SUPPORTING THE GOVERNMENT OF PORTUGAL'S EFFORTS FOR ECONOMIC AND SOCIAL DEVELOPMENT.

NOW, THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:

- ARTICLE I
- THE GRANT

A.I.D., PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1951, AS AMENDED, AGREES TO GRANT TO PORTUGAL UNDER THE TERMS OF THIS AGREEMENT AN AMOUNT NOT TO EXCEED (AMOUNT TO BE INSERTED) (THE "GRANT").

- ARTICLE II
- CONDITION PRECEDENT TO DISBURSEMENT

SECTION 2.1. DISBURSEMENT

PRIOR TO DISBURSEMENT UNDER THE GRANT, PORTUGAL WILL, EXCEPT AS THE PARTIES MAY OTHERWISE AGREE IN WRITING, FURNISH TO A.I.D. IN FORM AND SUBSTANCE SATISFACTORY TO A.I.D. A STATEMENT OF THE NAME OF THE PERSON HOLDING OR ACTING IN THE OFFICE OF THE "GRANTEE" SPECIFIED IN SECTION 5.2. AND OF ANY ADDITIONAL REPRESENTATIVES, TOGETHER WITH A SPECIMEN SIGNATURE OF EACH PERSON SPECIFIED IN SUCH STATEMENT.

SECTION 2.2. NOTIFICATION

WHEN A.I.D. HAS DETERMINED THAT THE CONDITION PRECEDENT SPECIFIED IN SECTION 2.1. HAS BEEN MET, IT WILL PROMPTLY NOTIFY PORTUGAL.

SECTION 2.3. TERMINAL DATE FOR CONDITION PRECEDENT IF THE CONDITION SPECIFIED IN SECTION 2.1. HAS NOT BEEN MET WITHIN NINETY (90) DAYS FROM THE DATE OF THIS AGREEMENT, OR SUCH LATER DATE AS A.I.D. MAY AGREE IN WRITING, A.I.D. AT ITS OPTION MAY TERMINATE THIS AGREEMENT BY WRITTEN NOTICE TO PORTUGAL.

- ARTICLE III
- DISBURSEMENTS

SECTION 3.1. DEPOSIT OF DISBURSEMENTS

AFTER SATISFACTION OF THE CONDITION PRECEDENT, AT THE WRITTEN REQUEST OF PORTUGAL, A.I.D. WILL DEPOSIT THE GRANT IN A BANK OR BANKS IN THE UNITED STATES DESIGNATED IN WRITING BY PORTUGAL.

SECTION 3.2. DATE OF DISBURSEMENT

DISBURSEMENT BY A.I.D. WILL BE DEEMED TO OCCUR ON THE DATE(S) THE GRANT IS DEPOSITED BY A.I.D. IN THE BANK OR BANKS DESIGNATED PURSUANT TO SECTION 3.1.

SECTION 3.3. TERMINAL DATE FOR REQUESTING DISBURSEMENT

EXCEPT AS A.I.D. MAY OTHERWISE AGREE IN WRITING, THE TERMINAL DATE FOR REQUESTING DISBURSEMENT OF THE GRANT SHALL BE SIX MONTHS FROM THE DATE OF THIS AGREEMENT.

- ARTICLE IV
- USE OF FUNDS

SECTION 4.1. PORTUGAL AGREES THAT THE GRANT WILL BE USED FOR ECONOMIC AND SOCIAL DEVELOPMENT PURPOSES AND WILL NOT BE USED FOR FINANCING MILITARY REQUIREMENTS OF ANY KIND INCLUDING THE PROCUREMENT OF COMMODITIES OR SERVICES FOR MILITARY PURPOSES.

- ARTICLE V
- MISCELLANEOUS

SECTION 5.1. COMMUNICATIONS

ANY NOTICE, REQUEST, DOCUMENTS, OR OTHER COMMUNICATION SUBMITTED BY EITHER PARTY TO THE OTHER UNDER THIS AGREEMENT WILL BE IN WRITING OR BY TELEGRAM OR CABLE, AND WILL BE DEEMED ONLY GIVEN OR SENT WHEN DELIVERED TO SUCH PARTY AT THE FOLLOWING ADDRESS:

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UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

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PAGE 02 OF 02 LISBON 11711 00 OF 02 241951Z 3006 071513 A100696

TO PORTUGAL:

MINISTRY OF FINANCE

AVENIDA INFANTE D. HENRIQUE

1100 LISBON, PORTUGAL

TO A. I. D.:

A. I. D. REPRESENTATIVE
UNITED STATES EMBASSY
AV. DAS FORÇAS ARMADAS
1507 LISBON CODEX, PORTUGAL

ALL SUCH COMMUNICATIONS WILL BE IN ENGLISH, UNLESS THE PARTIES OTHERWISE AGREE IN WRITING. OTHER ADDRESSES MAY BE SUBSTITUTED FOR THE ABOVE UPON THE GIVING OF NOTICE.

SECTION 5.2. REPRESENTATIVES

FOR ALL PURPOSES RELEVANT TO THIS AGREEMENT, PORTUGAL WILL BE REPRESENTED BY THE INDIVIDUAL HOLDING OR ACTING IN THE OFFICE OF MINISTER OF FINANCE AND A. I. D. WILL BE REPRESENTED BY THE A. I. D. REPRESENTATIVE, EACH OF WHOM, BY WRITTEN NOTICE, MAY DESIGNATE ADDITIONAL REPRESENTATIVES. THE NAMES OF THE REPRESENTATIVES OF PORTUGAL, WITH SPECIMEN SIGNATURES, WILL BE PROVIDED TO A. I. D., WHICH MAY ACCEPT AS DULY AUTHORIZED AN INSTRUMENT SIGNED BY SUCH REPRESENTATIVES IN IMPLEMENTATION OF THIS AGREEMENT, UNTIL RECEIPT OF WRITTEN NOTICE OF REVOCATION OF THEIR AUTHORITY.

IN WITNESS WHEREOF, THE REPUBLIC OF PORTUGAL AND THE UNITED STATES OF AMERICA, EACH ACTING THROUGH ITS DULY AUTHORIZED REPRESENTATIVES, HAVE CAUSED THIS AGREEMENT TO BE SIGNED IN THEIR NAMES AND DELIVERED AS OF THE DAY AND YEAR FIRST ABOVE WRITTEN.

UNQUOTE.
SHAKESPEARE

UNCLASSIFIED

25-

ANNEX D

EXECUTED SIDE LETTERS

BETWEEN

MINISTRY OF FINANCE

GOVERNMENT OF PORTUGAL

AND

UNITED STATES EMBASSY, LISBON

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UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 01 LISBON 11700 241700Z
ACTION AID-00

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LISBON 11700 241700Z

2156 071416 AID0573

INDICATED BY THE GOVERNMENT OF PORTUGAL.

INFO RED-01 LH-00 /001 A6 LN25

UNQUOTE

ACTION OFFICE FM-02

INFO ANDP-03 ANME-03 RELO-01 TELE-01 /010 A2 1224

INFO LOG-00 EUR-00 NEA-07 /007 W

SHAKESPEARE

-----116016 241710Z /30

O 241705Z NOV 86
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 4373
AMEMBASSY RABAT

UNCLAS LISBON 11700

AIDAC

RABAT FOR RLA

E.O. 12356: N/A

SUBJECT: FY 1987 ESF CASH TRANSFER

1. THE FOLLOWING IS AN UNOFFICIAL TRANSLATION OF A
NOVEMBER 21, 1986 LETTER FROM THE MINISTER OF FINANCE
TO THE U.S. AMBASSADOR:

QUOTE:

IN THE SCOPE OF THE COOPERATION PROGRAM BETWEEN THE
GOVERNMENTS OF THE USA AND PORTUGAL, A DONATION OF
DOLLARS 80 MILLION TO PORTUGAL WAS PLANNED FOR THE
FISCAL YEAR OF 1987.

THEREFORE, I REQUEST YOUR EXCELLENCY THAT THE
NECESSARY ACTIONS BE TAKEN FOR THE ABOVE AMOUNT, OR
THE MAXIMUM AMOUNT POSSIBLE UNDER THE CURRENT
CIRCUMSTANCES, TO BE MADE AVAILABLE TO THE MINISTRY
OF FINANCE.

THE MINISTRY OF FINANCE WOULD HAVE THE HIGHEST
INTEREST THAT THIS TRANSFER BE EFFECTED BEFORE THE
END OF THE CALENDAR YEAR OF 1986, BEARING INTO
CONSIDERATION THE FINANCING NEEDS OF THE ECONOMIC AND
SOCIAL DEVELOPMENT PROGRAM OF THE COUNTRY.
I TAKE THIS OPPORTUNITY TO PRESENT MY BEST REGARDS.
THE MINISTER OF FINANCE

UNQUOTE

2. THE AMBASSADOR RESPONDED ON NOVEMBER 24, 1986 AS
FOLLOWS:

UNQUOTE

REFERENCE IS MADE TO YOUR LETTER OF NOVEMBER 21, 1986,
REGARDING THE ECONOMIC COOPERATION PROGRAM BETWEEN
THE GOVERNMENTS OF PORTUGAL AND THE UNITED STATES OF
AMERICA. THE EMBASSY UNDERSTANDS THAT THE GOVERNMENT
OF PORTUGAL INTENDS TO USE DOLLARS 40 MILLION OF THE
FUNDS MADE AVAILABLE FROM THE 1987 US FISCAL YEAR FOR
ECONOMIC AND SOCIAL DEVELOPMENT IN THE AZORES AND THE
BALANCE FOR THE LUSO-AMERICAN DEVELOPMENT FOUNDATION.

THE EMBASSY ALSO UNDERSTANDS THAT THESE FUNDS WILL BE
MADE AVAILABLE FOR THE ABOVE PURPOSES AS SOON AS
POSSIBLE FOLLOWING WRITTEN NOTIFICATION TO THE
GOVERNMENT OF PORTUGAL BY THE EMBASSY THAT THE FUNDS
HAVE BEEN DEPOSITED IN THE BANK ACCOUNT TO BE

UNCLASSIFIED

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