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ASSISTANT
ADMINISTRATOR

MEMORANDUM FOR AMBASSADOR WOODS

FROM: AID/AA/PPC, Richard E. Bissell *REB*

SUBJECT: Attached Briefing Book

I have revised and updated your red briefing book on the 25 most pressing issues for your confirmation hearing. For most of them, the changes are relatively minor, basically incorporating the results of the 1987 legislative process to date. Item #5 was revised to reflect more accurately the current public debate over the issue; we may want to discuss it at more length. Also, two items (#23 and #24) were replaced. Simply discard the other briefing book, and use this one for your guide.

Core Questions

1. UNFPA/Population Council/China
2. Bangladesh Family Planning
3. Informed Choice
4. Contraceptive Methods
5. Mexico City Policy On Abortion
6. Use Of Child Survival Funds For Population
7. South and Southern Africa Programs
8. Development Fund For Africa
9. Liberia Economic and Financial Management Partnership
10. Middle East Program Issues
11. A.I.D. Assistance to the Philippines
12. Central America Issues
13. Mission Management Deficiencies In Ecuador
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15. Environment
16. Private And Voluntary Organizations (PVOs)
17. Efforts to Amend the Foreign Assistance Act
18. ESF Cash Transfer Accountability And Policy Reform
19. Private Enterprise Initiative
20. Local Currency Lending/PL-480 Sections 106-108
21. AIDS
22. Trade Issues
23. Current Situation in Panama
24. Salary Supplements to Host Government Employees
25. Lobbying Congress For Foreign Aid Appropriations

UNFPA

Background: In 1985, A.I.D. withheld part of the U.S. contribution to the UNFPA because of UNFPA support for the population program in the People's Republic of China. The same year, the Kemp/Inouye amendment was passed prohibiting A.I.D. from funding any organization which "supports or participates in the management of a program of abortion or involuntary sterilization." The Administrator made a determination that UNFPA was ineligible for funding under Kemp/Inouye. This determination was subsequently upheld in the U.S. courts.

So far there is no evidence of significant change in either the UNFPA or the Chinese population program. Accordingly, on August 13, the Acting Administrator redirected the \$25 million in the FY 1987 budget to other family planning activities in developing countries.

The Senate Foreign Relations Committee approved the proposed Evans amendment, which prohibits funding any organization which directly participates in coercive abortion or involuntary sterilization. If this amendment replaced Kemp/Inouye (i.e. if the appropriations act does not include Kemp/Inouye), it would clear the way for A.I.D. to resume funding for UNFPA because UNFPA does not directly support such activities.

The Kemp/Inouye amendment would apply to any organization working in China, if it is found to support or participate in the management of a program of a coercive abortion or involuntary sterilization there.

A.I.D. has reviewed activities of all population grantees working in China. Staff concluded that the most problematic activities are a management information system and operations research conducted by The Population Council. The Administrator has been requested to determine, however, that these activities do not amount to support or participation in the management of a program of coercive abortion or involuntary sterilization. In any case, the Council is withdrawing from these two activities for technical reasons.

Question: What is your position on providing public funds to organizations that support or participate in the management of programs of coerced abortion or involuntary sterilization? Specifically, would A.I.D. under your leadership renew grant assistance to UNFPA? If so, under what conditions?

Answer: Under current law, A.I.D. will be able to fund UNFPA only if there have been significant changes in either the UNFPA program in China or in the Chinese population program that would permit us to conclude that UNFPA does not "support or participate in the management of a program of coercive abortion or involuntary sterilization."

Question: Of the 45 grantees that receive "centrally funded: population program funds in FY 1987 do any of these or their affiliates have any involvement in the population control program in China? If so, which ones and what is their involvement?

Answer: Only two of the population grantees have significant activities in China. The administrator has been requested to determine that their activities do not support or participate in the management of a program of coercive abortion or involuntary sterilization.

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UNFPA

Question: What is your position on providing public funds to organizations that support or participate in the management of programs of coerced abortion or involuntary sterilization? Specifically, would A.I.D. under your leadership renew grant assistance to UNFPA? If so, under what conditions?

Answer: First of all, I personally share and fully support the President's position in opposition to abortion. Secondly, the Congress has also made it clear that no foreign assistance funds can be used in any way to support any form of abortion or involuntary sterilization. It is my understanding that under current law, A.I.D. could only fund UNFPA if there were to be significant changes in either the UNFPA program in China or in the Chinese population program itself that would permit A.I.D. to conclude that UNFPA does not "support or participate in the management of a program of coercive abortion or involuntary sterilization."

Question: Of the 45 grantees that receive "centrally funded" population program funds in FY 1987 do any of these or their affiliates have any involvement in the population control program in China? If so, which ones and what is their involvement?

Answer: I would have to answer that question specifically for the record. However, my understanding is that only one or two of A.I.D.'s population grantees have any programs in China. I expect that A.I.D. is already doing this, but I will certainly want to determine that they do not support or participate in the management of a program of coercive abortion or involuntary sterilization.

Bangladesh: Family Planning

Background: A.I.D. is prohibited from paying any financial incentive to any person to accept sterilization. In Bangladesh (also Nepal and Pakistan) A.I.D. has supported reimbursement costs for travel and lost wages for women and men who are sterilized.

The payments have been controversial and A.I.D. is currently undertaking studies of alternative ways for ensuring access to sterilization services.

The new Bangladesh Family Planning Project (1987-92), includes studies of alternatives to these payments. Although the previous project will continue to fund payments for up to two years, any payments under the new project will depend on results of the studies, and must be authorized by A.I.D./Washington.

Unlike other methods of contraception, sterilization involves additional costs since it is a surgical procedure, e.g., travel to a facility where the operation can be performed under sanitary conditions, food for the acceptor while at the facility, and compensation for lost work during a reasonable period of convalescence. These payments make voluntary sterilization services available to men and women who otherwise would find the cost of services a serious impediment to their freely choosing this method of contraception. A.I.D.'s objective in paying these costs is to make sterilization services available on an equal basis as other methods which do not involve additional costs. They are not intended nor do they constitute incentives .

A.I.D. supports several types of payments in Bangladesh: reimbursements to clients for travel, food and the equivalent of lost wages; reimbursements to physicians for services performed; and reimbursements to "helpers" (often family planning workers) for food and transportation while accompanying a client to the clinic.

A.I.D. has carefully monitored and reviewed the sterilization program in Bangladesh, and our investigations show that women and men in Bangladesh are not being sterilized against their knowledge or desires. Surveys and in-depth interviews reveal that women sought the operation after much thought and deliberation, and they were happy with their decision.

Voluntary sterilization is a very important option for couples who have achieved their desired family size, and is the most common method of contraception in the United States.

Question: Many members of Congress and others believe that A.I.D. employs financial incentives in its family planning activities, with Bangladesh as the most egregious example. Are you aware of the situation, do you condone it, and what assurances are you prepared to give that such practices will cease?

Answer: I am aware that A.I.D. provides payments to clients and providers of voluntary sterilization in Bangladesh and other countries. These payments are not intended as incentives. Rather they are reimbursements for legitimate extra expenses involved in travel to and from sterilization clinics, and recovery from surgery. They make it possible for poor couples to have access to safe and effective sterilization services. We are currently investigating alternatives to payments which will ensure the same access to services.

Bangladesh: Family Planning

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Answer: I understand the law with regard to prohibiting the use of financial incentives to induce people to have abortions or undergo sterilization procedures and I agree with it. I will certainly look into the Bangladesh case and make changes if I determine they are necessary to bring the program into conformity with the law. I will be happy to report back to you on my findings.

Informed Choice

Background: Current A.I.D. policy requires that all family planning services contractors and grantees either offer a range of methods and information about those methods, or provide referrals to organizations offering other methods. This is the "informed choice or referral policy" (sometimes inaccurately called "informed consent".)

In 1985, for a period of a few months, A.I.D. made an exception to the informed choice policy for certain organizations offering only natural family planning.

A.I.D. was strongly criticized in the press and in Congress, for making this exception. Several months later, the referral/informed choice policy was reinstated by the DeConcini amendment which was incorporated in the 1986 and 1987 Continuing Resolutions. It will not apply during FY 1988 unless Congress incorporates it in another appropriation or in the foreign assistance authorization. Proposed legislation has been introduced this year by Congresswoman Nancy Johnson that would make the informed choice policy permanent in the Foreign Assistance Act and disallow any exception for natural family planning-only grantees.

The most vocal advocates for suspension of informed choice are Mercedes Wilson who heads Family of the Americas Foundation, and colleague Christine de Vollmer. They are strong NFP-only advocates and will not agree to refer couples to other methods of contraception. Mrs. Wilson has received \$1.7 million in A.I.D. funds. Because Mrs. Wilson would not accept the referral policy, the grant was limited to development of training materials, and provision of U.S. based training.

A 1981 amendment to the Foreign Assistance Act mandates that A.I.D. must include NFP as a method of contraception in its programs. Since 1981, A.I.D. support for natural family planning has increased to about \$6.6 million a year, or 2.7% of the population account. We believe such an increase makes sense because NFP is the only method of family planning acceptable to many people in developing countries and A.I.D. now considers NFP an established part of its population program.

Question: What are your views on legislation that requires family planning grantees to counsel client on different types of family planning methods, i.e. the so called "informed choice" issue?

Answer: I agree that organizations offering family planning services should either offer a range of methods and information about those methods, or they should provide referrals to organizations that offer other methods. This is current law and A.I.D. policy.

Informed Choice

Question: What are your views on legislation that requires family planning grantees to counsel client on different types of family planning methods, i.e. the so called "informed choice" issue?

Answer: The current law and A.I.D. policy on Informed Consent seem sound to me, but I'd be happy to hear other viewpoints and will keep the issue under review. If it appears that the facts require a reconsideration of this policy, I would expect to discuss it with this committee in the context of A.I.D.'s annual authorization legislation.

Contraceptive Methods

Background: A.I.D. policy encourages a range of family planning methods so that couples may choose a method appropriate to their circumstances. A.I.D. supports programs offering a range of safe and effective contraceptive services including oral pills, condoms, foam, IUDs, voluntary sterilization and natural family planning. We support research on more effective methods of family planning including contraceptive implants (NORPLANT) which is in field trials.

Senator Helms has questioned the appropriateness of providing IUDs overseas when they are no longer marketed in the United States. Actually the decision to withdraw IUDs from the U.S. market was based on financial considerations: the high costs of litigation in the absence of affordable liability insurance. IUDs provided by A.I.D. are approved by the FDA for use in the United States. A.I.D.'s position to provide IUDs was supported by an Expert Scientific Group convened December 1986 by the World Health Organization (WHO) which concluded that "IUDs are safe, effective and reliable."

The Agency's general policy has been to provide only products which have been approved for use by the U.S. Food and Drug Administration. However, we do support research and field trials on some new contraceptive methods which have not yet been approved by the FDA for use here. Field trials are carried out in the United States and in foreign countries according to procedures and safeguards of Federal Guidelines on Human Subjects.

The injectable contraceptive Depo-Provera is currently approved by the FDA for use in treating certain malignancies of the reproductive system: however the FDA turned down a request to approve the product for contraceptive purposes in the U.S. A.I.D. has never provided Depo-Provera in its programs.

Question: Would you support sending IUDs to developing countries when they are no longer marketed in the U.S.?

Answer: The IUDs purchased by A.I.D. for family planning programs in developing countries are approved by the FDA for use in the United States. Few IUDs are actually marketed in the U.S. because of the high cost of liability insurance.

Question: The Agency has a longstanding policy not to provide developing countries with drugs or medical devices not approved for use in the U.S. Because of this policy the U.S. does not make Depo-Provera available overseas. Can you assure us that you have no intention of changing this policy?

Answer: We have no intention of providing Depo-provera unless and until it becomes FDA approved.

Contraceptive Methods

Question: Would you support sending IUDs to developing countries when they are no longer marketed in the U.S.?

Answer: The IUDs purchased by A.I.D. for family planning programs in developing countries are approved by the FDA for use in the United States. I think that FDA approval is the minimal standard A.I.D. should follow in purchasing family planning commodities. If there are reasons why such commodities are not marketed in the U.S. even though approved by the FDA, I would expect that A.I.D. would carefully examine those reasons to make sure commodities it purchases are completely safe..

Question: The Agency has a longstanding policy not to provide developing countries with drugs or medical devices not approved for use in the U.S. Because of this policy the U.S. does not make Depo-Provera available overseas. Can you assure us that you have no intention of changing this policy?

Answer: I support that. I understand that A.I.D. has no intention of providing Depo-provera unless and until it becomes FDA approved.

Mexico City Policy on Abortion

Background:

Administration policy is to provide support for voluntary family planning and firm opposition to abortion as a method of family planning. We have not funded abortion activities since 1973 when it was prohibited by Congress. After the Administration's policy was announced at the Mexico City International Conference on Population in 1984, A.I.D. took further steps to divorce our family planning assistance from abortion. The Agency stopped contributions to foreign nongovernmental organizations which perform or advocate abortion with funds from any source. Under this policy we terminated our grant assistance to International Planned Parenthood Federation (IPPF), a London based nongovernmental organization, some of whose affiliates fund abortion activities with their own funds. For legal reasons, this restriction is not applied to U.S. organizations.

The policy is applied differently to sovereign states. If foreign governments include abortion in their programs, A.I.D. will place its funds in segregated accounts to ensure that no A.I.D. funds will be used to support abortion activities.

With respect to U.S. nongovernmental organizations, A.I.D. requires that such organizations agree not to use A.I.D. funds to support foreign nongovernmental organizations which support or advocate abortion by signing the "abortion clauses" as part of new grant agreements. (The clauses apply to grants to support institutions, but have not been applied in the same way to contracts which procure specific services.)

A.I.D. has been successful in implementing the policy and continues to work effectively with a number of U.S. private organizations who have accepted the grant provisions.

Planned Parenthood Federation of America has sued A.I.D. rather than accept the policy. A five year \$60 million dollar grant to PPFA's international division Family Planning International Assistance is up for renewal this year. Planned Parenthood has launched a media campaign in major newspapers and billboards in bus and metro stops accusing A.I.D. of withdrawing support to family planning and depriving women of reproductive rights.

The policy has not yet been applied in A.I.D. contracts, and PPFA will continue to compete for contracts. We are reviewing this aspect of the policy.

Question: Planned Parenthood is suing your predecessor on the Agency's implementation of the Mexico City policy. Do you support the policy statement issued in Mexico City in 1984 that provides, among other things, that the United States will no longer contribute to foreign non-governmental organizations which perform or actively promote abortion as a method of family planning in other nations? If so, please explain why you believe the USG policy should be different for private organizations overseas than for those in the U.S.

Answer: This Administration has pursued a two pronged policy: strong support for voluntary family planning and firm opposition to abortion as a method of family planning. I support implementation of that policy to the full extent permitted under the Constitution and laws of the United States.

Question: Under what conditions would you resume funding to International Planned Parenthood Federation (IPPF)?

Answer: We could resume our contribution to IPPF, if that organization would agree to stop assisting foreign organizations which engage in abortion activities.

Mexico City Policy on Abortion

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Answer: Senator, the question of how A.I.D. applies the so-called "Mexico City" policy is the subject of litigation in the Federal Courts. I don't want to try to second guess how the Courts will decide this case, and in some respects it would be inappropriate for me to comment. However, I do believe we should be able to support voluntary family planning overseas and at the same time not provide financial support to any foreign grantee that uses its own funds for abortion. If we can do that, I think we should. I'm not a lawyer, and I don't think I should try to answer why that policy isn't applicable to U.S. grantees. But A.I.D. has determined, with the support of the Justice Department I might add, that this policy of treating foreign grantees and U.S. grantees differently is legal. I support that position.

Question: Under what conditions would you resume funding to IPPF?

Answer: I assume funding could be resumed to IPPF only if that organization agreed to stop assisting foreign organizations which engage in abortion activities.

Use of Child Survival Funds for Population

Background: If the authorization bill goes to the Senate floor we expect Senator Helms to offer an amendment that would prohibit Child Survival Funds from being used in family planning or population activities.

When the Child Survival Fund (a separate line item in the budget) was established by Congress in FY 1985, language authorizing the Fund included "child spacing" as one of the key interventions that could be supported. This language was introduced by HFAC staff.

There is some, although not complete, overlap on the Hill between supporters of the Child Survival Fund and supporters of family planning activities. Most of the population advocates would support child survival, but not all of the child survival advocates are supportive of family planning, e.g. Representative Christopher Smith and Senator Helms.

A.I.D. has maintained that the health of mothers and children is an important objective of our population program. A.I.D. also has stressed the critical contribution that birth spacing makes to the survival of children and to the health of their mothers.

There is evidence of substantial reductions in infant and child mortality if births are better spaced, if there are fewer pregnancies and if women bear children before the end of their childbearing years. It is estimated that in developing countries a child born within two years of a sibling's birth is twice as likely to die as a child born after an interval of more than two years. An older child also has a greater chance of dying if a sibling is born within two years after that child's birth.

Birth spacing is included in the Agency's child survival strategy as one of the four key interventions upon which we will focus. Because we have a separate population account, most birth spacing activities are funded from that account. However, some child survival funds are spent on birth spacing and health survey activities because they are such an integral part of child survival.

Child Survival Fund support of birth spacing activities is estimated at about \$1 to \$2 million per year. This includes service delivery activities by PVOs and partial support for the Demographic and Health Surveys Project to collect data to evaluate the impact of child survival projects.

Question: I understand that funds authorized for the Child Survival Fund have been used to augment population programs. Can you justify this practice?

Answer: Statutory authority for the Child Survival Fund expressly cites "child spacing" as one of the primary interventions that can be supported. It also is included as one of the four key interventions in the Agency's child survival strategy. Birth spacing makes a significant contribution to the survival of children and to the health of their mothers. Most funding for birth spacing activities comes from the population account. However, a small amount of child survival funding has supported birth spacing and health surveys when these are important to the achievement of the Agency's child survival goals or when they are a part of the child survival service delivery programs provided by PVOs.

Use of Child Survival Funds for Population

Question: I understand that funds authorized for the Child Survival Fund have been used to augment population programs. Can you justify this practice?

Answer: I have been informed that the statutory authority for the Child Survival Fund expressly cites "child spacing" as one of the programs that should be included in activities funded under this account. It also is included as one of the four key parts of the Agency's child survival strategy. A reasonable interval between births makes a significant contribution to the survival of children and to the health of their mothers. Most funding for birth spacing activities comes from the population account. However, a small amount of child survival funding has supported birth spacing and health surveys when these are important to the achievement of the Agency's child survival goals or when they are a part of the child survival service delivery programs provided by PVOs.

South and Southern Africa Programs

Background: The Comprehensive Anti-Apartheid Act of 1986 required A.I.D. to develop a comprehensive strategy for assistance to disadvantaged South Africans. A.I.D. also proposed a five-year initiative to promote economic reform and development in southern Africa.

Our relationships with South Africa and the majority-ruled states of southern Africa are influenced by strategic and political considerations, humanitarian interests, and human rights concerns. In South Africa, the major goal of our program is to promote non-violent political change and prepare for a democratic post-apartheid society. U.S. objectives in southern Africa, by contrast, center on achieving peaceful resolution of the region's political and security problems by encouraging the development of pluralistic, representative governments supported by open, competitive economies. The strategy to achieve this is through bilateral programs to assist economic policy reform and development in the agriculture, health, education/human resources, and private sector areas. In cooperation with the Southern African Development Coordination Conference (SADCC), the Southern Africa Regional program focuses on upgrading transportation facilities and on agricultural development. Budget stringencies have kept funding for these programs below the President's targets.

Mozambique is a special case. Although ostensibly a Marxist state, since 1984 Mozambique has been following a pragmatic course regarding its development strategy and its relationships with its neighbors. That year, Mozambique joined the IMF and IBRD and signed the Nkomati accord with South Africa, in which both parties agreed not to support armed insurgents operating against the other country. Our program includes humanitarian emergency food aid relief--by far the larger component of the program--and ESF-funded economic assistance to help rehabilitate the country's private sector.

The FY 1987 Supplemental prohibits the use of Supplemental funds for Mozambique (except emergency assistance) or for SADCC countries which advocate "necklacing" against South African blacks, do not provide assurances that it has taken action against individuals who have practiced necklacing, or knowingly allow such individuals to operate in its territory.

Question: Would you define Mozambique as a Marxist country?

Answer: Yes, I would. The political orientation of the government is still officially Marxist even though its economic orientation is much more pragmatic.

Question: Is A.I.D. transgressing U.S. law in its extension of economic and humanitarian assistance to Mozambique?

Answer: No. I believe, as do the President and the Secretary of State, that our assistance to Mozambique is vital to U.S. interests and will continue to promote Mozambique's movement away from Soviet influence.

- The country has adopted a more non-aligned foreign policy, having refused to vote with the Soviets in the U.N. on Afghanistan and having signed the Nkomati accords with South Africa.
- Mozambique, recognizing the failure of its previous Soviet-style economic development strategy, is liberalizing its economy and putting it on a more pragmatic footing, with the assistance of the World Bank and Western donors. Its economic reforms focus on liberalizing prices and markets in support of private development.
- U.S. assistance is an integral part of Western donor support for economic policy reform in the country and for non-alignment in Mozambique's foreign relations.
- In accordance with the International Security and Development Cooperation Act of 1985, non-emergency assistance to Mozambique is used for assistance to the private sector and channeled to non-governmental entities there.
- Emergency assistance is also provided in accordance with applicable legislation, which does not restrict our ability to provide such assistance to Mozambique.
- In accordance with the FY 1987 Supplemental, no Supplemental funds will be used in Mozambique except for disaster relief and rehabilitation assistance.

In light of the above, I am sure you will agree that the Administration is not breaking U.S. law in providing assistance to Mozambique.

Question: Why is A.I.D. increasing its presence in this Marxist country?

Answer: The A.I.D. presence is being upgraded in Mozambique by appointing an A.I.D. Representative rather than having the agency programs operate as a section of our embassy there. I believe that such an important program--about \$85 million in FY 1987--requires senior management talent.

I believe that managing a large program of food aid and assistance to rehabilitate the private sector and continuation of our policy reform negotiations with Mozambique require that the senior A.I.D. officer have the status of A.I.D. Representative. Such a status facilitates relations with the Government of Mozambique and also with the many multilateral and bilateral missions resident in country.

Question: What is your position on providing assistance through RENAMO?

Answer: I am in full agreement with the Administration's position that relief aid in conflict areas should be provided through non-political international organizations. One such organization, the International Committee of the Red Cross, has been working quietly to provide aid in Mozambique's conflict zones. Because the Red Cross is acceptable to both sides, it is now expanding its operations in the central provinces, where the conflict has been most intense.

I believe that we should continue to use the ICRC before considering other options. We have already pledged \$500,000 to the ICRC effort and will continue to support its program.

Question: What is your position on providing U.S. economic assistance to countries that purchase or receive grant military assistance from Soviet Bloc countries?

Answer: Many nations receive military assistance from Soviet Bloc countries. The receipt of such assistance is, of course, taken into account in determining country aid levels. In and of itself, however, receipt of Bloc military assistance is not cause for precluding, curtailing or suspending U.S. economic assistance to that country.

Mozambique receives military assistance from Britain, Portugal as well as many of our other European allies. My hope is that continued U.S. assistance to Mozambique will result in greater development of the private sector and movement away from Marxist ideology.

Question: How would you react to cutting back on our regional program with the Southern Africa Development Coordination Conference (SADCC) and using the funds for the South Pacific region?

Answer: I support the Administration's requested levels for the Southern Africa Regional Program and for the South Pacific program. The Southern Africa program should receive funds in accordance with the Southern Africa Initiative recently announced by the White House, and I would therefore oppose cutting this program. Of course, the eventual levels for the Southern Africa and South Pacific programs will depend on general budget availabilities.

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South and Southern Africa Programs

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Question: Is A.I.D. transgressing U.S. law in its extension of economic and humanitarian assistance to Mozambique?

Answer: No. I believe, as do the President and the Secretary of State, that limited forms of assistance to Mozambique can serve U.S. interests by encouraging Mozambique's movement away from Soviet influence.

- Mozambique, recognizing the failure of its previous Soviet-style economic development strategy, is liberalizing its economy and putting it on a more pragmatic footing. Its economic reforms focus on liberalizing prices and markets in support of private development.
- Emergency disaster relief for starving people affected by the drought and civil disorder is provided under a specific congressional authority. To the extent non-emergency assistance is provided, that is also done pursuant to congressional authority, and my understanding is that it is only used for assistance to and through the private sector.

Question: Why is A.I.D. increasing its presence in this Marxist country?

Answer: To the extent it is, I suspect it reflects the problems surrounding the food aid program -- about \$85 million in FY 1987 -- and assistance to rehabilitate the private sector and continuation of our policy reform negotiations with Mozambique requires these changes to strengthen the mission.

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zones. Because the Red Cross is acceptable to both sides, it is now expanding its operations in the central provinces, where the conflict has been most intense.

I believe that we should continue to use the ICRC before considering other options. It is my understanding that A.I.D. already pledged \$500,000 to the ICRC effort and will continue to support its program.

Question: What is your position on providing U.S. economic assistance to countries that purchase or receive grant military assistance from Soviet Bloc countries?

Answer: I think that is something that we should legitimately take into account before providing assistance. I assume it is one of the items that is already considered on a routine basis, and I would certainly expect to continue to do so in determining individual country aid levels. I have no intention of using A.I.D. funds to subsidize military assistance from the Soviet Bloc.

Question: Do you think it is reasonable to insist that any African country, particularly those which give safe haven to the African National Congress (ANC), renounce the practice of "necklacing" as a condition of receiving U.S. assistance?

Answer: The Administration has categorically and repeatedly condemned the practice of "necklacing" and the use of all violence in southern Africa, whatever its source or target.

I am aware of the language placed in the FY1987 supplemental with regard to southern African assistance. While I am concerned about conditioning our assistance formally on issues not directly related to development, I found the language to be a sensible statement about the kinds of governments we would want to deal with in the region.

Development Fund for Africa

Background: A.I.D. has proposed a special Development Fund for Africa, to be funded in FY 1988 with \$500 million of Development Assistance resources. The proposal resulted from extensive inter-agency deliberations leading to the President's initiative to end hunger in Africa by the year 2000. The Fund also responds to recognition by African leaders at last year's U.N. General Assembly Special Session on Africa of the need for a concerted, cooperative development effort keying on economic policy reform. An ESF level of \$100 million was also proposed for Africa, separate from the Fund, for activities which are justified primarily on political or security grounds. Fund resources will be reserved for use in Africa and not be subject to the normal inter-bureau transfer process. The A.I.D. proposal allows funds to be available until expended.

In addition to eliminating the traditional functional accounts, the Fund will incorporate activities previously provided from the Sahel Development Program or the ESF program. A.I.D. will continue programs in agriculture, child survival, population, education and employment generation. However, policy-conditioned assistance--such as that provided since FY 1985 under the African Economic Policy Reform Program--will be increased. Projections of "shadow" functional account distributions (attached) have been prepared to show how the FY 1988 program for Africa would have been requested in the absence of the Fund proposal.

The House version, proposed by Congressman Howard Wolpe (D, Michigan) and passed by the HFAC at \$475 million for FYs 1988 and 1989, de-emphasizes the long-term importance of policy reform and emphasizes participation of the poor and of private voluntary and non-governmental organizations in designing development strategies and in implementing development activities. It also establishes three program earmarks, each equal to 10 percent of appropriated levels, for maintaining or restoring the natural resource base, for health, and for voluntary family planning. It would prohibit the use of Development Fund for Africa monies to pay official foreign debt. Finally, the House version calls for a system of extensive consultations with Congress and wide-ranging reports on how A.I.D. is implementing the authorizing legislation, including organizational changes.

The Senate version, proposed by Senator Paul Simon (D, Illinois), is based on the House bill. However, it does not specify as much PVO/NGO involvement or indicate "appropriate" program interventions. It better recognizes the importance of policy reform. It establishes an overall 30 percent earmark for the natural resource base, health and voluntary family planning as a whole, with three non-binding 10 percent targets. The House Appropriations Committee (HAC) has approved a \$450 Million FY 1988 level for Development Assistance for Sub-Saharan Africa plus an additional \$50 million in DA funds for Southern Africa. The HAC version omits the earmarks and most other features of the House and Senate authorization bills.

Question: Do you support the proposed Development Fund for Africa and, if so, why should its resources be available on a no-year basis and without the traditional functional accounts?

Answer: I believe that the Development Fund for Africa contains many features that would be attractive to me as A.I.D. Administrator.

Sub-Saharan Africa presents a unique development situation. African infrastructure is generally weak, trained manpower and fiscal resources are very limited, and governments, in many cases, have only a tenuous ability to govern. In this environment, it is often difficult to maintain steady development progress. To the extent that economic and political democracy ultimately go hand in hand, political stability requires a modicum of hope for economic progress. We now have an opportunity to capitalize on Africa's recent successes in policy reform and improvements in agricultural production, in health, and in population planning efforts. We can build on a positive mood for economic change that pervades most of the continent. I believe that the Fund will enable us to move forward and support the continuation of positive development progress in Africa.

I am enthusiastic about this important initiative. I am pleased that many Congressional leaders, on both sides of the aisle, share this view. I would like to work with you in considering how this Fund will operate, confident that we share the goal of helping Africa's peoples initiate and sustain the economic growth and development that will allow them to attain food self-reliance and equitable development progress.

0510H

FY 1988 REQUEST
REVISED FUNCTIONAL ACCOUNTS WITH AFRICA SHADOW

	FY 1988 ALL BUREAUS	FY 1988 AFRICA SHADOW	FY 1988 REQUEST W/ SAHEL	FY 1988 AFRICA SHADOW	FY 1988 REQUEST W/ SAHEL
ARDN	471.0	151.1	622.1	195.9	666.9
POP	207.5	24.0	231.5	25.5	233.0
HE	120.1	23.6	143.7	31.1	151.2
CS	61.0	7.4	68.4	7.4	68.4
EHR	123.7	59.5	183.2	63.6	187.3
SDA	162.7	163.9	326.6	176.5 *	339.2
FDAP TOTAL	1,146.0	429.5	1,575.5	500.0	1,646.0
SAHEL	--	70.5	70.5	[70.5]	[70.5]
AFRICA FUND	500.0	--	[500.0]	--	[500.0]
DA TOTAL	1,646.0	[500.0]	1,646.0	[500.0]	1,646.0
ESF	3,600.0	100.0	3,600.0	100.0	3,600.0
(of which Africa)	[100.0]	[100.0]	[100.0]	[100.0]	[100.0]
TOTAL	5,246.0	[600.0]	5,246.0	[600.0]	5,246.0

* Of this amount, \$131.5 million was previously funded under ESF, including \$73 million for Southern Africa Regional Program and \$45 million for the African Economic Policy Reform Program (AEPRP). The remaining \$32.4 million is for Private Sector, PVO, and similiar more traditional Section 106 activities.

RPA #8: AFSHAD

Development Fund for Africa

Question: Do you support the proposed Development Fund for Africa and, if so, why should its resources be available on a no-year basis and without the traditional functional accounts?

Answer: I believe that the Development Fund for Africa contains many features that would be attractive to me as A.I.D. Administrator.

Sub-Saharan Africa presents a unique development situation. African infrastructure is generally weak, trained manpower and fiscal resources are very limited, and governments, in many cases, have only a tenuous ability to govern. In this environment, it is often difficult to maintain steady development progress. To the extent that economic and political democracy ultimately go hand in hand, political stability requires a modicum of hope for economic progress. We now have an opportunity to capitalize on Africa's recent successes in policy reform and improvements in agricultural production, in health, and in population planning efforts. We can build on a positive mood for economic change that pervades most of the continent. I believe that the Fund will enable us to move forward and support the continuation of positive development progress in Africa.

I am enthusiastic about this important initiative. The proposed Fund would remove many of the constraints that currently govern all of A.I.D.'s assistance programs, i.e. earmarks, functional account restrictions, and time-limited funds availability. It is an effort to provide more effective aid that will assure growth, enabling people in these countries to provide for themselves and obtain services they need.

I am pleased that many Congressional leaders, on both sides of the aisle, share this view. I would like to work with you in considering how this Fund will operate, confident that we share the goal of helping Africa's peoples initiate and sustain the economic growth and development that will allow them to attain food self-reliance and equitable development progress. I see the Fund as a "test case" to get assistance more efficiently and effectively to where it matters. It is a test case to streamline the way A.I.D. is organized. If it works, the concept can then be applied to other regions of the world where the Agency is working.

The House Foreign Affairs Committee marked up the request and substituted earmarks for three sectors and added a substantial number of micro-management requirements. And the House Appropriations Committee has adopted many of the essential aspects of the Fund in the FY88 appropriation. The Senate Foreign Relations Committee version, while a significant

improvement over the House committee bill, still contains micro-management provisions. Amidst these various versions of the Africa Fund, I hope that the original purposes of the initiative are not lost sight of, and that we can work together to create the kind of flexible development programs that work for Africa's benefit.

I believe we should look at the FAA with an eye toward streamlining its requirements on the provision of Development Assistance. To this end, the Congress and the Administration may want to review the experience of the Africa Fund to see whether it is feasible (and whether a consensus can be developed) to expand this initiative to other regions.

Liberia Economic and Financial Management Partnership

Background: A.I.D. Administrator McPherson led an A.I.D.-State economic mission to Liberia in February at the request of Secretary Shultz to continue discussions begun during a brief visit by the Secretary in January. Major results of the mission include:

- Agreement by Government of Liberia (GOL) officials to carry out a series of five reform measures to halt economic decline.
- Agreement to place 17 U.S.-funded expatriate Operational Experts (OPEX) in key financial positions within the GOL to assist in setting up mechanisms and assuring compliance with agreed reform measures. They are to have co-signing and co-approving authority in a broad range of revenue and expenditure areas.

The two-year Economic Stabilization and Support project, under which the OPEX will be provided, has been approved at a total U.S. cost of \$18.4 million. The GOL will provide a \$1 million "in kind" contribution. The Project agreement is being negotiated with the GOL and may be signed shortly. Contract negotiations are underway with four firms, one of which will provide and support the Operational Experts. Frank Kimball, recently retired A.I.D. Mission Director in Egypt, will head the team under a separate personal services contract.

If reforms are not forthcoming, the A.I.D. assistance program will be a much smaller one in the future and will focus primarily on providing limited technical and food assistance.

Question: In an era of shrinking budgets, how can A.I.D. justify a \$40 million program in Liberia? Years of massive U.S. assistance have failed to stem Liberia's slide into corruption, human rights abuses and economic failure. Why is A.I.D. now prepared to assume such a high profile and high political risk in publicly and directly identifying itself with the management of an economy that has been a mess for years, and over which the U.S. will still not control all the factors that need to be brought into line to avert continuing failure?

Answer: The rationale for having a major assistance program in Liberia has remained constant for a number of years: (a) there are strong historical, cultural and political ties

between us that date back to Liberia's founding by freed American slaves early in the 19th Century; (b) there are important U.S. Government installations in Liberia (VOA transmitter, diplomatic telecommunications facility and LORAN station) and the U.S. has access rights to airport and port facilities; (c) Liberia is also home for approximately \$450 million in U.S. private investment; and (d) the GOL is pro-West and is generally supportive of U.S. positions in international fora.

A.I.D. is prepared to assume a high profile and high risk because it appears that the Liberians at last understand the seriousness of their situation, are ready to make major economic reforms, and very much want the U.S. Government to help them do so. Like many others, I believe this could be the "last chance" for Liberia to take the actions necessary to stabilize its economy. The mechanism of having Operational Experts in key positions was agreed to in the February discussions because both governments believe that extraordinary measures are required in order to have a significant, immediate impact on financial control and reform.

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Answer: It is my understanding that the rationale for having a major assistance program in Liberia has remained constant for a number of years:

- strong historical, cultural and political ties between us that date back to Liberia's founding by freed American slaves early in the 19th Century;

- important U.S. Government installations in Liberia (VOA transmitter, diplomatic telecommunications facility and LORAN station) and the U.S. has access rights to airport and port facilities;

- Liberia is also home for approximately \$450 million in U.S. private investment;

- the GOL is pro-West and is generally supportive of U.S. positions in international fora.

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Middle East Program Issues

Background: The Agency's programs in the Middle East serve a broad range of political, security and economic concerns and have generally benefitted from Congressional interest. Principal among these are foreign policy aspects of assistance to Israel and Egypt, that flow from the Camp David Accords. A.I.D. also has programs in Turkey, Jordan, Yemen, Oman, Morocco, Spain, Portugal and Tunisia that are designed to compensate recipients for security access and/or promote country-specific stability and economic growth.

The A.I.D. program in Cyprus is affected by Congressional pressure to set annual levels beyond that considered appropriate by the Administration. (Congress usually specifies \$15 million per year and pushes scholarships and bicomunal activities, even though there are fewer productive opportunities for such. (U.S. assistance has accomplished little in the way of socio-economic integration of the Greek and Turkish Cypriots since 1974.)

Israel's need for high levels of assistance in the future will depend on its willingness to make necessary economic adjustments, i.e., eliminate disincentives to productive investment and internal barriers to higher labor productivity. It must also continue reductions in the percentage of resources consumed by the public sector, particularly for noninvestment purposes.

Jordan is trying to expand the private sector and diversify its economy to lessen its dependency on worker remittances and Gulf States' assistance. It is also trying to develop mechanisms for inncreasing assistance to Palestinians and Arabs in the West Bank and Gaza to enhance Middle East peace prospects. However, positions taken by Israel on scarce land and water resources present increasing difficulty for near term progress in these two regions.

The Egypt program has been frustrating in that nearly \$11 billion have been provided by A.I.D. since 1976, but the country still remains on the brink of economic collapse. Sound investments have been made by A.I.D. in essential economic infrastructure, relieving problems and setting the stage for progress. However, increases in population, changes in expenditure priorities, and inappropriate GOE policies have prevented significant improvement in Egypt's economy.

Political will to effect meaningful reforms (financial integrity, deregulation, elimination of subsidies, privatization,) and successfully operate and maintain essential infrastructure is a major stumbling block.

At the urging of donors, GOE efforts have been directed towards macroeconomic reforms. An agreement has been reached with the IMF on a number of areas, including currency adjustments and deficit controls. Correcting GOE management problems and pricing defects are also high priorities. While these actions look promising, such measures have political content and will negatively impact on Egyptians in the short run. This may generate a backlash and cause the GOE to delay implementation or avoid subsequent reforms. Traditional "muddling through" by the GOE, financed by external assistance and debt rescheduling, may not be adequate to keep the Egyptian system viable.

Question: How are you going to handle the Egyptian program?

Answer: I am convinced we need to push for a greater role in the Egyptian private sector and less government regulation. I will continue A.I.D.'s focus on raising agricultural productivity and making the sector responsive to market forces. Pursuing the efficient operation and maintenance of public infrastructure is also necessary for the economy to advance. Social programs in education, health, and family planning are likewise sensible ingredients in the overall recovery scenario.

I believe the combination of sound economic policies, financial stability, and physical implementation is essential to a real and sustained Egyptian recovery. In these regards, I understand the A.I.D. Mission has a large portfolio of development projects that may not all be moving ahead as rapidly as intended. Notwithstanding, these development projects help focus GOE attention on management and infrastructive constraints and build GOE institutional capacities. Because of concerns in this area, I will be consulting with A.I.D. staff to see how best to manage both the physical and financial elements of our program. To the extent consistent with U.S. and Egyptian interests, I will push for disbursement methods which will optimize reform movements and A.I.D.'s contributions to the recovery.

Question: The Government of Egypt has been expressing its concern for increased levels of cash transfers as part of the A.I.D. assistance package. What are your views on this subject?

Answer: I appreciate Egypt's need for balance of payments support, especially since traditional foreign currency earners like petroleum exports and tourism has been weak. Elements of the economic adjustment program, such as reducing traditional tax revenues, also put a financial strain on the Government. To minimize competitive borrowing to cover GOE budgetary shortfalls, the Government needs external sources of funds. Egypt is also interested in more cash in the short run because infrastructure investments can tie up resources for extended periods before start up.

Notwithstanding these conditions, I believe a balance can be found between providing cash resources to meet immediate GOE budget needs and the near term payoffs of investing A.I.D. funds in productive GOE development projects.

Congress has given us the flexibility to raise FY 87 cash levels, providing the GOE undertakes comprehensive economic reforms. I endorse this approach and will seek meaningful policy changes by the GOE. I am also aware of concerns about currency accountability and will be consulting with my staff on ways to get the best results from this assistance mode.

A.I.D. Assistance to the Philippines

Background: U.S. assistance to the Philippines has been a combination of base-rights compensation and development assistance to help the Government deal with a variety of socio-economic problems. Funding has covered all forms of assistance from cash transfers and budget support to project-specific development interventions. Current program objectives include increased productivity, liberalization of the economy, expanded rural employment, diversification of agriculture, and traditional infrastructure and human resource investments in health and education. Family planning has not been a GOP priority to date.

Until recently, the new Aquino government had been preoccupied with political consolidation, rescheduling of external debt, drafting a new constitution, and conducting congressional elections. GOP attention was focused on short term budget

support issues. Establishing a balance between general budget needs and resuming development investments only began in earnest within the past few months. With the GOP's articulation of its midterm plan, the Government and donor community are finally able to focus on longer term sectoral issues and implementation needs. The challenges for A.I.D. is to strike a balance between actions which will help get the economy moving ahead and actions which will restore infrastructive management and institutional efficiency.

Question: What do you see as the nature of A.I.D.'s program in the Philippines? Is there a role for cash transfers?

Answer: A.I.D.'s assistance to the new Aquino government helped it bridge early balance of payments problems and provided resources to the GOP budget to get the economy moving again. Now that political and administrative consolidation is taking place, A.I.D. assistance is helping fund the GOP's economic reform agenda and infrastructure investments. Because A.I.D.'s focus is on increasing rural employment and incomes, I see a sizable portion of assistance financing rural infrastructure and productivity-increasing activities. Efforts to liberalize imports and exports and remove barriers to private enterprise are also high on the list of priorities.

The Philippine economy, while in a positive mode, is still very much in transition. Therefore I cannot speculate as to how large a role cash transfers should play in our portfolio. I am sensitive to the need for local currency and accept that the demand for foreign exchange will probably outstrip the supply until exports pick up a bit. (An A.I.D. cash transfer could be an effective mechanism for dealing with both of these conditions.) The GOP has, however, also received supportive responses from other donors, so our assistance can probably be directed, in part, towards project-specific and institutional interventions that are A.I.D.'s organizational specialty.

Question: What is your position on agrarian reform in the Philippines? Do you support a \$50 million Congressional "earmark" for this activity as appears in the House version of the FY 88 authorization bill?

Answer: I understand that the GOP has inquired as to A.I.D.'s intentions regarding funding part of the \$500 million, first phase of the Government's agrarian reform proposal. The basic problem with responding to such an inquiry to date - and commenting on a possible U.S. Congressional earmark - is that there still isn't an official "plan" for carrying out the "reform".

This is a very complex and politically sensitive issue in the Philippines, with obvious sources of opposition. The Aquino Administration is developing the package; but has turned over to their congressional body for final negotiations and approval. Until the proposal is further refined, A.I.D. can't say much about how best to participate. I believe the most useful role for A.I.D. would be to concentrate on overcoming general barriers to increased agricultural productivity and marketing, so all rural people will benefit.

Because of reported problems with defective land titles and improper "acquisition" though, I am not inclined to use A.I.D. funds to finance land compensation payments. Also, Congressional "earmarks" for A.I.D. involvement could be counterproductive to U.S. interests if a feasible plan doesn't emerge from the GOP process. I therefore recommend against the activity-specific earmark.

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Middle East Program Issues

Question: How are you going to handle the Egyptian program?

Answer: I am convinced we need to push for a greater role in the Egyptian private sector and less government regulation. I believe the combination of sound economic policies, financial stability, and physical implementation is essential to a real and sustained Egyptian recovery. I will push harder to get results from our very large investment, and I will push aggressively to make it effective.

Question: The Government of Egypt has been expressing its concern for increased levels of cash transfers as part of the A.I.D. assistance package. What are your views on this subject?

Answer: Cash transfers make sense if they are tied to policy reforms. I will consistently evaluate them in that light.

A.I.D. Assistance to the Philippines

Question: What do you see as the nature of A.I.D.'s program in the Philippines? Is there a role for cash transfers?

Answer: I see this program as an essential support to a new emergent democracy. Cash transfers can play a role as a good short term investment in long-term policy reform.

Question: What is your position on agrarian reform in the Philippines? Do you support a \$50 million Congressional "earmark" for this activity as appears in the House FY 88 authorization and appropriations bills?

Answer: First of all, I don't support earmarks for any kind of A.I.D. programs. Secondly, land reform has to be approached with the greatest of caution. I am not inclined to use A.I.D. funds to finance land compensation payments.

Central America Issues

A. The Central American Initiative

Background: By the summer of 1983, when the National Bipartisan Commission on Central America (Kissinger Commission) began its work, it was clear that U.S. interests in the region were in serious jeopardy. Both El Salvador and Guatemala were seriously threatened by leftist insurgents, right wing terrorism and human rights violations. The judicial systems of most of the countries, abused and discredited, were virtually inoperative. Nicaragua, receiving heavy inputs of Eastern bloc advisors and military aid, was actively supporting the FMLN in Salvador. Regional per capita income had dropped 12% during 1980-82 (20% in El Salvador) while capital flight from the region topped \$1.5 billion. The region's external debt stood at \$10 billion and foreign exchange reserves were depleted. Over one-half million persons were in either displaced or refugee status. Finally only Honduras and Costa Rica had democratically elected governments while newly independent Belize had an elected prime minister chosen while still under British rule.

President Reagan's plan to implement the findings of the Kissinger Commission, the Central American Initiative (CAI), was sent to the Congress in January 1984. It called for \$6.4 billion in aid and \$2 billion in guarantees over five years, roughly \$1.2 billion p.a., plus an initial obligation of \$400 million in FY 1984 to achieve the following four goals:

- strengthen democratic institutions and processes;
- arrest economic decline and promote economic stabilization;
- lay the basis for sustained economic growth; and
- increase equity and spread the benefits of economic growth.

The Initiative has enjoyed a high degree of bi-partisan support in the three years it has been in operation. Funding, however, has lagged -- the shortfall at the end of this year will be \$760 million assuming passage of the FY 1987 Supplemental. During last year's Congressional debate on continuing aid to the contras some supporters on the Hill included language in the Continuing Resolution which required the Administration to report on its plan for fully funding the recommendations of the NBCCA. The report was submitted to Congress in March as part of the Administration's effort to resurrect the \$300 million

Central America Supplemental. There has been virtually no reaction to the report not because it is flawed but because Congressional interest in Central America is so heavily focused on the Iran-contra investigation. Without Congressional action the CAI will end in FY 1990.

Where do we stand?

- popularly elected governments are in place in all of the four countries of the region except Panama;
- economic stabilization has been achieved in all the countries save El Salvador where a combination of continued insurgency and poor economic policy threatens deterioration;
- economic policy reforms and institutional reforms are underway but have not moved as rapidly as we had hoped. Significant progress on non-traditional exports has been seen in Costa Rica and Honduras;
- programs designed to ensure that new growth results in greater equity are with few exceptions on-target, but we will not meet our goals within the original CAI time-frame.

Question: The Administration recently submitted to Congress a Full Funding Report which calls for a stretch-out of the CAI to 1992. It also requests an additional \$500 million. Why do you think this is warranted?

Answer: It is warranted because the original objectives of the CAI have not yet been met. We have made tremendous progress. The economic decline has been arrested and, in most cases, reversed. We have democratically elected governments in place except in Panama. The policy framework needed for sustained growth is slowly coming into being and is beginning to pay off in Costa Rica and Honduras. Export of non-traditional crops and manufactures are accelerating. We are making significant inroads on infant mortality, increasing access to education and expanding the coverage of voluntary family planning. We are particularly gratified by the progress being made in programs aimed at improving the court system, the functioning of legislative bodies and bolstering the electoral process. Finally more than 3400 Central Americans have been brought to the U.S. for professional and skills training and to see how we practice democracy in our everyday lives.

On the downside I must point out, as did the Full Funding Report, that we are not as far along as the Kissinger Commission had hoped when they wrote their report four years ago;

--an adverse security climate still exists,

--world demand for Central America's products remains below 1980 levels. Last year's coffee boomlet has faded while sugar, cotton and beef prices remain low.

--capital flows, both private and public, are falling short of the NBCCA's hopes. We had hoped to see more substantial financing from the World Bank, the IMF, the private banks, the EEC countries. Our own budgetary constraints will cause a \$760 million shortfall by the end of FY 1987.

--governments have not moved as fast nor as far as we wanted to make needed economic policy and institutional changes. They have been reticent to risk short term austerity measures for the fear that popular discomfiture could be exploited by political extremists of the left or the right.

--lastly, I think we just underestimated how long it was going to take to make the changes that are needed. Foreign investment is not returning as rapidly as projected. Non-traditional exports still represent a relatively small percentage of the total exports.

B. Salvadoran Land Reform

The Salvadoran civilian-military junta in power in 1980 seized upon land reform as a critical countermeasure to the insurgents' drive for massive popular support in the countryside. A.I.D., under some pressure from State, American labor and a number of members of Congress decided to help with financing for technical assistance and agricultural inputs. A.I.D.-generated local currencies financed land titling and compensation of former landowners. U.S. Congressional opponents led by Senator Helms saw the reform, particularly the Phase I production cooperatives, as an attack on private ownership and private enterprise. They remain opposed to the direct role of the Duarte Administration in operating these land reform cooperatives in a manner more akin to collectives, with a strong state management presence, than true coops, a concern we share.

Question: Why has A.I.D. supported land reform in El Salvador? Hasn't it greatly reduced agricultural output?

Answer: The Salvadorans began the land reform program in 1980 to deny the leftist guerrillas a key argument with the rural population. The program yielded early political success quickly putting the guerrillas on the defensive. They began attacking the coops to discourage the campesinos from collaborating with the government. The reform has in fact provided access to the land for some 55,000 small producers who had been either landless or land-poor and is estimated to be benefitting over 525,000 rural Salvadorans.

The record on agricultural productivity has been mixed. On the once large estates covered by Phase I of the reform, there has been a decline in production because the cooperatives which operate them are run very much like state farms, with heavy state involvement. Phase III, the "land-to-the-tiller" program, which has small plots individually owned and operated, is showing production increases. We would like to see all of the coop farms become marketing or service coops, owned and managed by the membership.

Phase II, which covers the farms under 500 hectares, has yet to begin. Because this phase of the effort has long been expected, much of the land has been sold off or subdivided by its previous owners, and consequently only a limited amount remains available for redistribution. Until and unless significant progress is made on the ownership and management issues described above, we do not intend to expand our involvement in the reform.

C. Allegations of Use of Economic Aid as Leverage

Congressional concern has been expressed that members of the Administration have used economic assistance to directly influence both Honduras and Costa Rica to support the democratic resistance. In Honduras the allegation was that A.I.D. was pressured to forego conditionality in order to speed disbursements to the GOH at a critical point in the contra supply effort. GAO auditors were unable to substantiate the charge. In the case of Costa Rica it is alleged that we threatened to hold up disbursements if the Arias Administration revealed the operation of the clandestine airstrip. Arias has personally denied that any such pressure was brought to bear. There have been no allegations that A.I.D. per se has been directly involved in either of these cases.

Question: Mr. Woods there have been allegations that U.S. economic aid has been used as threat in Costa Rica and as a reward in Honduras. I would like your views on the subject.

Answer: While I don't believe it would be proper for me to comment in detail on allegations that took place sometime ago, I understand the GAO looked into the Honduras case and found no evidence of A.I.D. bending to political pressure to release funds prematurely. In the case of Costa Rica, President Arias has denied the contact alluded to in the Tower Commission Report ever occurred.

A.I.D. is directly responsible for the U.S. government's development assistance effort. Responsibility for the Economic Supporting Assistance program which is more directly linked to U.S. security interests is shared with State. They set the overall allocations in consultation with Congress and it is up to A.I.D. to take the lead in developing the economic conditions, if any, which we want attached to such aid. There is a lot of room for give and take in the process. I think A.I.D. has to be diligent in making the development argument throughout the process. I know that my predecessor has done so and I will continue that policy.

Central America Issues

Question: The Administration recently submitted to Congress a Full Funding Report which calls for a stretch-out of the CAI to 1992. It also requests an additional \$500 million. Why do you think this increase is warranted?

Answer: My understanding is that it is warranted because the original objectives of the CAI have not yet been met. The economic decline has been arrested and, in most cases, reversed. Significant inroads are being made, for example, on infant mortality and in increasing access to education. I think we just underestimated how long it was going to take to make the changes that are needed.

Salvadoran Land Reform

Question: Why has A.I.D. supported land reform in El Salvador? Hasn't it greatly reduced agricultural output?

Answer: Land reform can be of significant value if related to enhanced productivity and growth. Given the problems that have arisen in El Salvador, I intend to look very closely at this program before we get further involved.

Allegations of Use of Economic Aid as Leverage

Question: Mr. Woods, there have been allegations that U.S. economic aid has been used as a threat in Costa Rica and as a reward in Honduras. I would like your views on the subject.

Answer: I have heard those allegations and it is something I expect to look into. There are, of course, many reasons why the United States provides certain types and levels of assistance. They include a mixture of humanitarian, economic, political and security objectives. There is nothing wrong with that, provided the right balance is struck. That is a question that can only be examined in light of the facts of each particular case.

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Wheeler
LAC/D
8/5/87

MISSION MANAGEMENT DEFICIENCIES IN ECUADOR

Background

Over the past several years the USAID Mission in Ecuador carried out a series of practices that were contrary to A.I.D. policies and regulations. With the appointment of a new USAID Director in August 1986, we became aware of the nature and severity of the problems, particularly in the areas of financial management and accounting. The major problems were:

- salary supplements paid in secret to Ecuadorean Government employees;
- a possible violation of the Anti-Deficiency Act;
- a complete breakdown in Mission Controller operations, including:
 - o failure to maintain proper accounts;
 - o misposting of expenditures and obligations;
 - o inadequate control over advances;
 - o improper use of PD&S funds.
 - o failure to withhold income taxes from Personal Service Contractors;

Extensive publicity regarding the payment of salary supplements appeared in the Ecuadorean media during April and May and opposition Ecuadorean congressmen have used this issue to criticize the Febres Cordero administration for corruption. We have provided an interim report on the problem to members of both the Senate and House Appropriations Committees, who have expressed significant concern about the problem.

The Embassy opposes providing any public comment on this issue, fearing that any official statement could harm our relations with Ecuador. The IG also has cautioned that since the matter has been referred to Justice for possible criminal investigation, we should not comment publicly, at least not without prior clearance from Justice.

Question: What has the LAC Bureau done to correct this situation?

Answer: We have taken the following personnel actions with respect to USAID/Ecuador:

- replaced the USAID Director, Deputy Director, Controller, and Loan Officer;
- completely renovated the Controller operation;
- terminated and/or transferred eight Mission local employees;

To strengthen financial management the Mission has:

- converted the project accounting system to an accepted A.I.D. accounting and reporting system;
- established a program for analyzing all projects to correct mispostings;
- ensured payroll deductions of federal taxes from PSCs;
- initiated collection for bills dating back to 1979.

Question: What management improvements have been taken to ensure that this problem does not occur elsewhere?

Answer: The LAC Bureau has carried out the following measures:

- Directed the Bureau Controller to give priority attention to ensuring that Missions take immediate corrective action to address financial management problems identified during the Agency's Internal Vulnerability Assessment process and reviews conducted by the Agency Controller, the IG and the GAO.
- The Bureau Controller will schedule periodic on-site reviews to verify compliance by Missions with the intent of the Federal Manager's Integrity Act.
- Transmitted to IAC Mission Directors the Agency's criteria and guidelines limiting the payment of salary supplements, and requested each Director to personally ensure that they are followed.
- Begun recruitment for an Associate Assistant Administrator for Management to provide stronger emphasis on management within the Bureau and better liaison with central A.I.D. management. This position was filled on an interim basis.

In addition, the Agency has taken the following measures:

- Issued criteria defining the circumstances in which salary supplements may be financed;
- The Agency Controller has formed teams of senior controller personnel to review the integrity of each Mission Controller operation and compliance with A.I.D. and Federal financial management regulations, at least once every 3 years;
- The Management Bureau has established a procedure for review of Mission management operations by the Deputy Assistant Administrator for Management to ensure compliance with Agency regulations and to examine any problems that may have surfaced in the areas of financial and management operations.

LAC/SAM:Craig Buck 6/15/1987, revised 8/4/1987:3829a

Clearance: LAC/DP:RQueener (draft)
DAA/LAC:MButler (draft)
AA/LAC:DInk (draft)
AA/PPC:WWeinstein

Mission Management Deficiencies in Ecuador

Question: What should the Agency do about these management deficiency issues?

Answer: Two things must clearly happen. The problems identified in Ecuador need to be remedied as expeditiously as possible, with whatever resources are required to accomplish that. But even more, we shall have to re-examine our controls and audit functions to see that such a departure from Agency procedures cannot happen again.

Narcotics: Certification

Background: Under the Anti-Drug Abuse Act of 1986, the President must certify that specified narcotics producing and trafficking countries are "fully cooperating" in meeting the drug problem. Prior to certification, A.I.D. may make available to each country no more than 50 percent of the country assistance levels specified for that fiscal year. Decertification requires the cut off of the remaining 50 percent of aid. Waivers can be granted for countries which are not certified but have important national security interests to the United States. Certification is contained in the International Narcotics Control Strategy Report (INCSR).

The 1987 INCSR Report to Congress, submitted March 1, certified nineteen countries (Bahamas, Belize, Bolivia, Brazil, Burma, Colombia, Ecuador, Hong Kong, India, Jamaica, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Panama, Paraguay, Peru, and Thailand). Three (Afghanistan, Iran and Syria) were not certified, and two (Laos and Lebanon) were granted waivers. Congress had thirty days to disapprove the President's certification for any country, but did not do so. A nonbinding resolution decertifying Panama was adopted by the Senate, however, after the deadline.

Congress remains concerned about the certification process. Substantial opposition exists for Panama, Mexico and the Bahamas and perhaps other Latin American Countries. Next year's Report will be carefully scrutinized by Congress.

Question: Did A.I.D. participate in the drafting of this year's INCSR Report to Congress?

Answer: A.I.D. fully participated in the drafting of this important document. We believe it successfully presents the data and judgments Congress requested.

Question: Should the certification language be changed?

Answer: Congress has given us an important tool by charging us with drafting this document. It tells governments around the world that the U.S. means business. We support the continuation of this Report. We do, however, hope Congress does not tighten the language to such an extent that it prohibits countries from complying.

Narcotics: Certification

Question: How do you view the narcotics problem in relation to A.I.D.'s program?

Answer: I take it very seriously. I expect to work closely with the Department of State and in consultation with this Committee and the Congress in assuring that any certifications or reports required regarding the role of A.I.D.-recipient countries in reducing narcotics trafficking are promptly and accurately prepared.

Environment

Background: A.I.D. has been under increasing pressure from Congress and leading U.S. environmental groups (NRDC, EDF, Sierra Club, WWF, the Environmental Policy Institute etc.) to expand its environmental staff and the level of support for activities to protect and conserve natural resources in developing countries. Legislation was passed in 1983, 1986 and 1987 to expand A.I.D.'s activities especially with regard to the conservation of biological diversity* and the preservation of tropical forests and to review environmental aspects of projects funded by the large multilateral development banks (MDBs).

Funds for environmental and natural resource activities come from both Development Assistance accounts as well as from Economic Support Funds. ESF used to finance water and sewer projects in the Near East region accounts for a large portion of Agency environment/natural resource obligations. However, Congress and environmental groups are most interested in non-ESF funded projects and programs and consequently have been attempting to influence AID activities funded through the development assistance accounts. For better or worse, they often find this task difficult because A.I.D.'s environmental efforts are not funded through a single special account and, more importantly, much of the Agency's environmental activities are found as components of other projects. This fact reflects the Agency's efforts to integrate concern for the environment into all of its development activities. Direct influence on these activities is possible, however, even if difficult. The earmark for biological diversity provides a salient example, and this trend is likely to continue.

The Agency's environmental/natural resource staff has declined in recent years just as pressure has risen to expand A.I.D.'s efforts to arrest environmental degradation, to respond to new legislative initiatives, and to implement adequately the Agency's environmental procedures. A.I.D. will be under increasingly intense lobbying pressure to increase its environmental staff, especially following the World Bank's reorganization and dramatic increase in environmental positions.

* Biological diversity (or biodiversity) refers to the variety and variability among living organisms and the ecological complexes in which they occur. The term encompasses different ecosystems, species, genes, and their relative abundance.
(OTA 1987)

Question: This Committee earmarked \$10 million for biological diversity projects for FY 1988. The HFAC earmarked \$4.5 million for the program. Do you think this money can be used effectively?

Answer: Although it may be possible for A.I.D. to use \$5 to \$10 million for biological diversity activities, I do not believe that the proposed earmark is the most effective way to encourage truly sustainable efforts to assure the long-term conservation of biological diversity. The FY 1987 earmark providing \$2.5 million for "new activities" designed to conserve biological diversity, allowed the Agency to provide support for a number of relatively small projects and to leverage funds from host countries and NGOs. These are good projects, but I am concerned that this approach may not be the most effective way to institutionalize and preserve diversity in the long run. It would be more effective to integrate biodiversity considerations into all our activities (which we are striving to do) and to work with a few selected countries to develop a comprehensive, integrated approach to natural resource management incorporating biological diversity conservation projects as one component of a strategy for assuring the long term sustainability of its natural resources. This is now being done in a few countries such as Thailand and the Philippines and can/will be expanded.

Question: What has been the level of A.I.D. assistance for environmental activities?

Answer: Obligations for environment/forestry and natural resources for FY85 through FY88 are:

(\$000)*

	<u>FY1985</u>	<u>FY1986</u>	<u>FY1987</u>	<u>FY1988</u>
ESF	257,114	148,157	176,355	215,340
DA	<u>141,694</u>	<u>107,256</u>	<u>108,547</u>	<u>98,625</u>
TOTAL	398,808	255,413	284,902	313,965

*These figures include components of projects where environmental concerns are integrated into other development activities.

Environment

Question: Do you think money for biological diversity programs can be used effectively?

Answer: Yes. But, it would be more effective to integrate environmental considerations into all our activities (which A.I.D is striving to do) and to work with a few selected countries to develop a comprehensive, integrated approach to natural resource management incorporating biological diversity conservation projects as one component of a strategy for assuring the long term sustainability of its natural resources. This is now being done in a few countries such as Thailand and the Philippines and can/will be expanded.

Private and Voluntary Organizations (PVOs)

Background: Since the New Directions Foreign Assistance Legislation in 1973, Congressional actions have fostered the expanding role of PVOs in the development process. In 1981, A.I.D. was required to channel a minimum of 12 percent, and a target of 16%, of A.I.D.'s Development Assistance (DA) program through PVOs, including cooperatives. The earmark minimum was raised to 13.5 percent for each of fiscal years 1986 through 1989. The minimum is raised to 15 percent beginning in FY 1988 in bills marked up by the House Foreign Affairs Committee and the SFRC.

Senators Biden, Pell, Evans and Simon have been particularly supportive of PVOs. Counterbalancing them are Senator Helms (SFRC), Congressman Lewis (House Appropriations Committee-HAC) and Senator Kasten (Senate Appropriations Committee) who are concerned that increased A.I.D. funding for PVOs is creating an unhealthy dependency which is undermining the private and independent nature of PVOs. This concern led in 1981 to the HFAC's amendment referred to as the PVO privateness test which required that PVOs receive at least 20 percent of their cash funding (i.e., not including in-kind contributions) for international activities from non-U.S. Government sources. The HAC subsequently proposed a revised 20 percent formula, the Lewis Amendment, which A.I.D. has been implementing since January 1, 1986. Senator Helms favors increasing the level to 50 percent. The Agency position is that the 20 percent cash test is an adequate measure of PVO privateness given the complexity of measuring PVO dependency and private resources.

One complicating aspect of the PVO situation is that while PVO lobbyists wield considerable influence with the Congress, they may reflect important differences in philosophy. The "Advocacy PVOs", for example, Bread for the World and Lutheran World Relief, focus on issues such as making PVOs less dependent on the U.S. Government and increasing development assistance by cutting security assistance. The "Operating PVOs", those which run development programs overseas, such as CARE, Save the Children and Catholic Relief Services, focus more on ensuring that there are sufficient funds for their overseas operations.

Question: Are you committed to using PVOs?

Answer: Yes. A.I.D.'s 1982 policy paper on PVOs says, "A.I.D. views PVOs as its development partners, both as intermediaries for A.I.D. programs and as independent development agencies in their own right." I endorse this policy and intend to continue the valuable partnership in development between the Agency and the PVO community.

A.I.D. support for PVO-administered development programs increased from \$39 million in FY 1973, less than 4 percent of DA, to a level of \$450 million in FY 1986, almost 25 percent. The current projected FY 1988 level is about 17 percent (\$290 million) or about the same as the FY 1987 level.

Question: Because A.I.D. is such a large bureaucracy and faces so many political constraints, would it be efficient for A.I.D. to provide a higher percentage of its foreign assistance through private voluntary organizations (PVOs) such as CARE and Catholic Relief Services, which have grass-roots, people-to-people programs around the world?

Answer: I value those areas where A.I.D. and PVO interests overlap and where A.I.D. and PVOs can and do work together. In this vein I will seek to strengthen the PVO role in overseas development. However, it is important to recognize that the interests and responsibilities of our respective agencies are not and should not be identical, and A.I.D. should have flexibility to use its judgment regarding the programming of its limited resources for maximum development impact.

Question: At what point do you consider a private and voluntary organization to really be private? For example, if a PVO receives less than 50 percent of its funding from non-governmental sources should it be considered a PVO?

Answer: A.I.D.'s current 20 percent private resource requirement measures the amount of cash from non-U.S. Government sources expended by the PVO for its international activities. This does not count the considerable in-kind donations of volunteer time and goods which PVOs receive. To test in-kind resources would create an undue financial reporting hardship on PVOs and would be cumbersome and expensive for A.I.D. to administer.

Also, among those PVOs which rely most heavily on federal support are the population and family planning groups, the credit unions, cooperative development organizations and the AFL-CIO Labor Institutes. These organizations function basically as A.I.D. intermediaries, implementing international programs at A.I.D.'s request.

Private and Voluntary Organizations (PVOs)

Question: Are you committed to using PVOs?

Answer: Yes. I think PVOs represent the best aspects of the American sense of generosity and commitment. PVOs also have access and experience in many countries that A.I.D. can and does effectively utilize. I value those areas where A.I.D. and PVO interests overlap and where A.I.D. and PVOs can and do work together. In this vein I will seek to strengthen the PVO role in overseas development. However, it is important to recognize that the interests and responsibilities of our respective agencies are not and should not be identical, and A.I.D. should have flexibility to use its judgment regarding the programming of its limited resources for maximum development impact.

Question: At what point do you consider a private and voluntary organization to really be private? For example, if a PVO receives less than 50 percent of its funding from non-governmental sources should it be considered a PVO?

Answer: I understand your concerns and I will look into this. I'm sure that the PVOs themselves are the first to say that their private character depends on substantial non-federal funding.

Efforts to Amend the Foreign Assistance Act

Background: Chapter 1 of part I of the Foreign Assistance Act (FAA) authorizes A.I.D.'s Development Assistance programs. In 1973, Congress made substantial modifications to the FAA and established the present structure of five functional accounts -- agriculture, population, health, education, and selected development activities. Since that time two additional DA accounts have been added -- the Sahel and the Child Survival Fund.

The proliferation of accounts is not the only change that has been made to the FAA. As Congress (particularly committee and personal staffs) has assumed an increasingly greater oversight role over the foreign assistance program, the FAA has been amended to (1) expand the list of "priority" concerns that the program should address (e.g., biological diversity), (2) increase the number of conditions and limitations on the provision of assistance (e.g., certifications regarding narcotics), and (3) increase micro-management of the program (e.g., detailed statutory requirements regarding forestry and endangered species).

The FY 1987 Continuing Resolution included an amendment offered by Senator Kassebaum which required A.I.D. to submit its recommendations for revisions of the FAA. In response to this amendment, and a separate inter-agency task force dealing with economic problems in Africa, the Administration's foreign assistance bill for FY 1988 proposed a significant departure from current law. The bill proposed the establishment of a separate Development Fund for Africa, combining authorization for all development activities for Africa into a single account.

The House Foreign Affairs Committee bill, while authorizing a single amount for development programs for Africa, earmarks 10 percent of those funds for each of the health, family planning, and natural resource management sectors. In addition, the bill contains significant examples of congressional micro-management of the program. The Senate Foreign Relations Committee bill earmarks a total of 30 percent for those sectors and urges that the earmarked amount be divided evenly among them.

Interestingly, Senator Kassebaum, in an attempt to reduce congressional management of the program, offered an amendment during markup to authorize the proportional reduction of earmarks if the account being earmarked was reduced in the appropriations process. The amendment was defeated 13-4.

Question: Should the Foreign Assistance Act be rewritten?

Answer: The Foreign Assistance Act has grown considerably over the past decade. There has been an increase in the number of development accounts, restrictions on the uses of funds, reporting requirements, and examples of congressional micro-management. At the same time, A.I.D. personnel levels have been falling and our program levels have been more or less constant. I will be asked to address an increasing number of priority concerns with fewer people and with no increase in program availabilities.

I strongly support the "growth with equity" policy thrust of the FAA. While I may differ with Congress over the precise means to achieve that objective, I consider the overall policy emphasis of the FAA as still valid. However, I believe that the FAA, and biennial foreign assistance legislation, often overburden A.I.D., to the extent that we become more concerned with compliance with a myriad of management requirements and not as much as we should with the effectiveness of the program in meeting its objectives.

A.I.D.'s FY 1988 legislation proposed Development Fund for Africa was an attempt to rationalize assistance programs for Africa. The House Foreign Affairs Committee marked up the request and substituted earmarks for three sectors and added a substantial number of micro-management requirements. The Senate Foreign Relations Committee version, while a significant improvement over the House committee bill, still contains micro-management provisions. I believe we should look at the FAA with an eye toward streamlining its requirements on the provision of Development Assistance. To this end, once legislation is enacted and we begin to implement the program in Africa, the Congress and the Administration may want to review the experience of the Africa Fund to see whether it is feasible (and whether a consensus can be developed) to expand this initiative to other regions. However, I am not convinced at present, based upon the Africa experience, that we would end up with legislation that is less restrictive and without extensive micro-management of our bilateral and program.

Efforts to Amend the Foreign Assistance Act

Question: Should the Foreign Assistance Act be rewritten?

Answer: The Foreign Assistance Act has grown considerably over the past decade. Half or more of this book's 1700+ pages, including the index, [hold up the Current Legislation brown book] touches on A.I.D. There has been an increase in the number of development accounts, restrictions on the uses of funds, reporting requirements, and examples of congressional micro-management. At the same time, A.I.D. personnel levels have been falling and our program levels have been more or less constant. I will be asked to address an increasing number of priority concerns with fewer people and with no increase in program availabilities.

While I may differ with Congress over the precise means to achieve that objective, I consider the overall policy emphasis of the FAA as still valid. However, I believe that the FAA, and biennial foreign assistance legislation, often overburden A.I.D., to the extent that we become more concerned with compliance with a myriad of management requirements and not as much as we should with the effectiveness of the program in meeting its objectives.

A.I.D.'s FY 1988 legislation proposed Development Fund for Africa was an attempt to rationalize assistance programs for Africa. The proposed Fund would remove many of the constraints that currently govern all of A.I.D.'s assistance programs, i.e. earmarks, functional account restrictions, and time-limited funds availability. It is an effort to provide more effective aid that will assure growth, enabling people in these countries to provide for themselves and obtain services they need. The Fund will enable A.I.D. to move forward to support the continuation of positive development progress in Africa.

A.I.D programs exist to be successful and go out of business. We can point with pride to countries where this has happened. To the countries of Western Europe, Japan, Korea, Taiwan and Singapore as examples of nations that have benefitted from U.S. economic assistance, and to several in Latin America. We all look forward to the day when African countries currently receiving U.S. aid "graduate" from our assistance programs; when they join the ranks of others who previously relied on our help, and are now strong members of the international economic community from which the U.S. directly or indirectly benefits.

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ESF Cash Transfer Accountability and Policy Reform

Background: Economic Support Fund (ESF) assistance is intended to address economic problems in countries of particular security and political interest to the U.S. This support may be provided through cash transfers (65% of the FY 1987 ESF Program) or commodity import programs, or, in some cases, may be applied to support discrete project activities targeted at improving the living standards of the poor.

Since 1979, the persistent economic crisis in the developing world has led to greater use of Cash Transfers (CTs) for two reasons: (1) balance of payments support is crucial when a nation's foreign exchange resources are insufficient to provide imports to keep the capital stock operating at full capacity; (2) financial assistance is a key feature in supporting a host government's attempt to correct inappropriate macroeconomic policies. Cash Transfers are a flexible instrument in dealing with the current international economic situation.

Where there is no overt political or security objective, conditionality and a local currency program are often important features of a Cash Transfer. Through conditionality, the U.S. attempts to effect short-term economic stabilization and/or reforms in economic policy. The local currency equivalent of the Cash Transfer disbursements is programmed by the A.I.D. missions and the host government for a variety of developmental purposes.

Congressman Hamilton has recently criticized Cash Transfers as ineffective undirected assistance with little developmental impact and with little accountability over the use of the dollars. Congressman Torricelli's criticism is that U.S. non-project assistance, unlike that of many bilateral donors, is not always tied to the exports of U.S. goods and services, and thus does not benefit the U.S. economy.

At Congressman Hamilton's behest, the GAO has begun a study of the effectiveness and impact of the ESF Cash Transfer program (estimated completion date is January 1988). Hamilton has also requested that A.I.D. examine the accountability of the dollars, the effectiveness of conditionality attached to CT programs, and the developmental impact of CT programs. PPC has initiated a study that will address these issues.

Question: Please explain how assistance in the form of cash payments supports policy reforms. If these reforms are so good, why don't these countries do them without our assistance? Or is this just a way of spending money without having to monitor and account for its use?

Answer: I believe that structural change in a developing economy is an important prerequisite for economic development, and policy reform is essential to this process. But structural change, depending on its severity and timing, can result in shocks to the economy. For example, a reform of the exchange rate regime will inevitably entail costs to the economy in the short run. In such cases, the government can and should take steps to dampen such disturbances. A cash transfer program, or a fast disbursing structural adjustment loan in the case of the World Bank, can make available to the recipient country the hard currency resources required for this task.

Question: If the United States provides cash assistance (rather than project support) to a foreign country, should the cash be used to procure U.S. goods and services? Why should U.S. foreign assistance dollars be used to purchase goods from the Japanese, Germans, and other competitors of the United States in world markets?

Answer: There is some justification for requiring cash transfer recipients to spend the money on U.S. goods and services. But there is a much stronger rationale for adopting a development view of financial resource transfers and allowing the recipient countries to spend the money in ways that contribute most to stabilization, structural adjustment and economic growth. Depending upon the particular circumstances, this might involve debt service payments or purchases of vital commodities such as oil. In most instances, however, cash transfers are used in part to buy goods and services from the United States. This is enforced by the requirement that the recipient country demonstrate that it has imported from the United States, within a specified time frame, an amount of goods and services equal to the value of the cash transfer.

Question: Accountability for foreign assistance has received increased attention following events in the Philippines, Haiti, and Liberia. What improvements would you like to see in A.I.D.'s accountability of its funds, particularly ESF?

Answer: A.I.D. has already instituted a variety of measures and procedures to insure accountability of its funds such as: comprehensive and detailed written agreements between the U.S. and recipient countries, vulnerability assessments, internal control reviews, and written procedures and definitions for allowable expenditures. For the future, we are implementing the existing statute which requires that ESF CT of \$5 million or more be placed in separate accounts that will not allow those resources to become commingled with the other hard currency resources of the recipient country. Furthermore, the utilization of the dollars from the special accounts will be tracked according to allowable uses.

ESF Cash Transfer Accountability and Policy Reform

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Answer: I believe that structural change in a developing economy is an important prerequisite for economic development and policy reform is essential to this process. But structural change, depending on its severity and timing, can result in shocks to the economy. For example, a reform of the exchange rate regime will inevitably entail costs to the economy in the short run. In such cases, the government can and should take steps to dampen such disturbances. A cash transfer program, or a fast disbursing structural adjustment loan in the case of the World Bank, can make available to the recipient country the hard currency resources required for this task.

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Answer: As I understand it, there is some justification for requiring cash transfer recipients to spend the money on U.S. goods and services. But there is a much stronger rationale for adopting a development view of financial resources transfers and allowing the recipient countries to spend the money in ways that contribute most to stabilization, structural adjustment and economic growth. Depending upon the particular circumstances, this might involve debt service payments or purchases of vital commodities such as oil. In most instances, however, cash transfers are used in part to buy goods and services from the United States. This is enforced by the requirement that the recipient country demonstrate that it has imported from the United States, within a specified time frame, an amount of goods and services equal to the value of the cash transfer.

Question: Accountability for foreign assistance has received increased attention following events in the Philippines, Haiti, and Liberia. What improvements would you like to see in A.I.D.'s accountability of its funds, particularly ESF?

Answer: This program needs the most intensive management and I am greatly concerned about the potential for diversion. I plan to pay particular attention to this.

Private Enterprise Initiative

Background:

The Private Sector Initiative, launched in 1981, has three major components: policy reform for private enterprise development, promotion of LDC private enterprise, and utilization of the private sector (LDC and U.S.) as a channel for the delivery of aid. A.I.D. has found that reliance on the private sector is the most effective channel for LDC economies to gain access to the world markets and marketing systems, innovative technologies, and managerial and financial resources needed for sustained economic growth.

A.I.D.'s private sector projects generally fall into the following categories: credit (through IFIs), enterprise direct investments (by PRE), policy dialogue and analysis, privatization, technology transfer, investment promotion, financial markets development, and entrepreneurial and management training.

Question: What do you plan to do to make the private enterprise initiative work?

Answer: A.I.D. has demonstrated its commitment to the belief that a vigorous private sector is key to development by redirecting many of its resources, programs, and personnel toward market-oriented, private sector activities. I intend to take the the following actions to improve the Agency's performance under the private enterprise initiative:

- A.I.D. will continue to target more assistance to and through private entities rather than governments.
- Greater efforts will be made to (1) increase the use of local currency for lending to LDC private enterprises and (2) implement the PL 480 (Food Aid) sections 106-108 local currency lending program.
- Stronger ties will be made between project assistance and policy reform efforts.
- A.I.D. is developing new policy approaches that place greater reliance on free markets, such as in credit and financial markets development.
- A.I.D. will continue to place increased emphasis on training in marketing and entrepreneurial skills, and involving the U.S. private sector in LDCs as one way

to transfer these critical skills.

- A.I.D. will continue to pursue steps to increase the private sector skills of its staff.
- A.I.D. will continue to work with the MDBs to increase their private enterprise development efforts.

Question: How do the PRE Bureau and the Private Sector Coordinator (OPSC) interrelate?

Answer: Plans are being made for PRE to absorb OPSC and for PRE to undertake a greater outreach effort to U.S. bureaus.

Question: How do divestiture projects fit into the context of progress with the larger [private sector] initiative?

Answer: Divestiture is the form of privatization that requires a government to fully divest itself of any of its assets. In addition to complete divestiture (which is the preferred approach), A.I.D. recognizes three other forms of privatization: partial divestiture; contracting out of service delivery; and partial privatization. Although privatization has always been part of A.I.D.'s private enterprise initiative, the privatization initiative was given impetus at A.I.D.'s International Conference on Privatization in 1986. The emphasis is a natural development of A.I.D.'s strong policy preference for private rather than public enterprise.

Question: What percentage of all A.I.D. funds flow to developing countries through their governments, through PVOs, through the for-profit private sector in these countries, through academic institutions, etc.?

Answer: The Keene, Monk study of FY 1985 expenditure data reported by Missions including all DA and ESF found that 48.6% of A.I.D funds benefited the private sector. A.I.D.'s private and public assistance may be divided as:

Assistance directly to and through private sector entities	4.4%
Assistance through a government entity that has as its goal direct assistance to private enterprises	18.6%
Assistance to PVOs and non-profit entities	8.8%
Assistance to influence policy change to benefit the private sector	16.8%
Other, including public sector	51.4%
TOTAL	<u>100.0%</u>

A.I.D. is currently funding a follow-on effort to the 1985 study to refine and field test the methodology used in the earlier research with an eye towards developing a new methodology and data base for 1986 expenditures. The contractor, KMA and Associates will be going to Jordan in late August to continue data collection phase of project, and then will design a draft reporting form.

Question: What percentage of the projects A.I.D. funds to stimulate the growth of the private sector in developing countries is funded by the revolving fund, through other PRE resources, through other Washington bureaus (central and regional) or through Missions?

Answer: Most of A.I.D.'s private enterprise funding is through Missions. Funding for private enterprise activities is derived primarily from the SDA and ARDN accounts. It is estimated that DA obligations for private enterprise in FY 1986 were:

AFR	\$ 19,174,000	12.7%
ANE	12,801,000	8.5%
LAC	85,514,000	56.8%
PRE (Revolving Fund)	23,560,000	15.7%
PRE (Other resources)		
S&T	9,407,000	6.3%
TOTAL	<u>\$150,456,000</u>	<u>100.0%</u>

Question: How are private sector projects distributed across sectors of the economy, i.e. agriculture, industry, services -- and within services and subsectors such as health? How are they distributed across the geographic regions in which A.I.D. works?

Answer: The private enterprise initiative has been split primarily between agriculture and agribusiness activities, and business development activities (including export and investment promotion, small and microenterprise assistance, management training, and use of IFIs for on-lending). These latter activities are not generally sector-specific. There are very few A.I.D. private enterprise activities in other traditional areas of A.I.D. activity, such as health and population (which generally rely upon PVOs).

The geographic distribution of Mission private sector projects activity (for FY 1987) is:

AFR	16.0%
ANE	11.0%
LAC	73.0%

The geographic distribution of Revolving Fund projects is:

	<u>FY 1986 (\$000 and %)</u>		<u>Total Revolving Fund(\$000 and %)</u> (as of Sept. 30, 1986)	
AFR	2,000	14%	3,250	7%
ANE	8,900	62%	28,600	64%
LAC	3,500	24%	11,850	26%
Worldwide	--	--	1,200	3%
TOTAL	14,400	100%	44,900	100%

Question: What fraction of all private sector projects involves privatization, i.e. moving something--a business or a service--out of government? What portion of the privatization effort deals with the divestiture of state-owned enterprises?

Answer: There is no breakdown available for the percentage of privatization funds directed towards immediate divestiture as opposed to other privatization activities nor has A.I.D. yet broken out funds expended on privatization from all private sector activities. We may be able to perform the requested calculations after we have received and analyzed the ABSs due in July 1987.

Question: The privatization paper in Book II states that Missions are required by PD-14 to be involved in an average of two privatizations per year. With respect to this statement: Has this become a ceiling and not a floor?

Answer: The number varies from Mission to Mission. Some Missions may not meet the target while others will exceed the goal. Jamaica and Honduras, for example, are expected to exceed the goal.

Question: Has A.I.D. set an overall target for the Missions for the total number of private sector initiative activities it undertakes per year? What per cent of that total effort is the two privatization activities A.I.D. requires?

Answer: A.I.D. has not set overall private sector targets for Missions.

Question: Has A.I.D. established targets for the percentage of funds it expects Missions to program through the private sector, rather than through government?

Answer: To my knowledge A.I.D. has not established targets nor am I convinced that targets will achieve any faster rate of growth in private sector programming than is now being accomplished.

Question: Are A.I.D.'s donor coordination efforts with the IBRD, etc., focused just on privatization or are they more broadly aimed at stimulating the private sector?

Answer: A.I.D.'s donor coordination efforts with the Bank and other MFIs are not focused just on privatization. Working with Treasury, we have been urging the MDBs to focus more attention on means to stimulate the private sector in borrowing countries. Specifically, we have pressed to (1) have many individual projects focus more on the private sector, (2) secure the creation of several specialized entities to support the private sector (e.g., Inter-American Investment Corporation), (3) have the MDBs adapt more supportive policies, and (4) have the World Bank undertake a comprehensive study of how it can do more in this area.

Private Enterprise Initiative

Question: What do you plan to do to make the private enterprise initiative work?

Answer: I am strongly committed to make it work. I particularly believe that you have to get the policies right. Without the right fundamentals in place, economic growth and development cannot occur.

But I also believe that a particular effort has to be made in an assistance program, such as that administered by A.I.D., that is traditionally government-to-government. All of the models for economic assistance by governments work predominantly through host governments. And so the efforts that are being made by A.I.D. to directly assist the private sectors in developing countries are innovative, and have to be evaluated in that light. I want to see A.I.D. be more innovative in this area, and expect to push them to do so. I hope to be able, during my tenure if confirmed, to report back to you that major breakthroughs have been made, and that we do now know how to assist the private sector in becoming the center of economic growth in developing countries.

Local Currency Lending
PL-480 Sections 106/108

Background: Under regular Title I concessional loan programs, loans are repaid in dollars and the sales of imported PL-480 commodities in the recipient country generate local currency. Normally these currencies are considered "owned" by the recipient country. In some cases their use is jointly programmed by the recipient country and the USAID Mission.

The Food Security Act of 1985 amended PL 480 Title I to add Sections 106 and 108 local currency lending programs. Senator Helms initiated the amendment.

- Section 106 adds private sector development purposes as an eligible use for "country-owned" generated local currency in Title I agreements.
- Section 108 authorizes repayment of Title I loans in local currency which become U.S.-owned and is to be used for private sector development.

Section 108 programs are administered in the field by A.I.D. with the ultimate decisions made by an In-country Policy Group (IPG) composed of members of the U.S. Country Team. Section 108 programs are implemented through a two step process: the U.S.-owned local currency is loaned to an Intermediary Financial Institution (IFI); the IFI, in turn, takes the credit risk and makes subloans to private sector organizations according to criteria set by the legislation.

Section 108 contains a global target of 25% for all local currency lending programs (106 and 108) as well as a 10% minimum for Section 108 programs, i.e., not less than 10% of the total Title I program value annually.

PVOs and Cooperatives are eligible to be IFIs and can be given grants for start-up costs. These grants are for administrative expenses only and do not cover capitalization of the loan fund. Also these PVOs and Cooperatives must pay market rates for the money they borrow.

Question: What has your Agency done to implement the private sector lending provisions added last year to PL-480?

Answer: After passage of the legislation, A.I.D. issued guidance to the field and discussed the program with various Mission personnel at conferences both in the field and in Washington. As a result, A.I.D. is attempting to meet the 10% minimum for programs under Section 108 in FY 1987, and the global 25% target for private sector development programs as well. To date A.I.D. has signed up programs in Tunisia, Sri Lanka, Jamaica, Costa Rica, Morocco, and expects another in the Dominican Republic.

Question: We are now considering a provision in the Trade Bill that would require every Title I recipient to include such a Section 108 local currency program in their agreement. What is your view of this recommendation?

Answer: I do not support legislatively mandating a Section 108 program in each Title I country. My reasons are several:

- the underlying premise of the Section 108 program is that there is a shortage of local currency for lending in the host country's private sector. This is simply not the case in many countries. In much of Africa, for example, there is surplus local currency for lending -- much of it through existing assistance programs. There is little to be gained by adding U.S.-owned local currencies to this untapped pool of resources;
- in many Third World countries, the banking systems are largely government controlled. Under these circumstances, the funds could not be used in the private sector as intended by the Congress. We are working to change these conditions through our policy reform efforts;
- such a requirement might result in less U.S. surplus agricultural commodities being shipped under Title I if countries would not sign such agreements.

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Question: What has your Agency done to implement the private sector lending provisions added last year to PL-480?

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- such a requirement might result in less U.S. surplus agricultural commodities being shipped under Title I if countries would not sign such agreements.

AIDS

Background: AIDS has been reported in most A.I.D.-recipient countries -- with particularly high prevalence in Africa, parts of the Caribbean and of Latin America. The estimates are much higher than the actual reported incidence. In Africa alone, WHO estimates 50,000 people have developed AIDS and that more than two million people are infected with the HIV virus, most of whom may eventually develop AIDS. The infection can be passed to others before the symptoms of AIDS appear.

In Africa the major means of transmission is believed to be through heterosexual contact. Transmission also occurs through blood products and by means of skin-piercing instruments, such as needles and syringes. The population at risk includes all sexually active persons of both sexes, as well as their offspring who are at risk of perinatal transmission.

There is now no treatment or preventive vaccine. Prevention and control must be through screening blood supplies and public health education on the risks of sexual transmission and infection through contaminated skin-piercing instruments.

WHO has the lead in addressing AIDS through a Special Programme on AIDS reporting directly to the Director General. The direct management follows the lesson of the smallpox eradication program, which also used extra-budgetary and extra-bureaucratic procedures to cut through the usual bureaucratic channels. The Director is American, Dr. Jonathan Mann. A.I.D. is supporting the WHO program financially and with technical staff assistance. A.I.D. is also implementing some direct AIDS activities in A.I.D. countries, in collaboration with and support of the WHO program. A.I.D. issued A.I.D. Policy Guidance on AIDS (attached) in April 1987.

The impact of AIDS on future development will be serious. The disease strikes in the productive ages, does not spare the educated elite. Projections about the future of the disease are difficult due to the newness of the disease, uncertainties about its progression, and difficulties in predicting the level of behavioral change that may or may not occur in response to public education. Sensitivities have provided opportunities for Soviet and other disinformation campaigns and led to political differences. Sensitivities are beginning to abate, but underreporting statistics is still common.

The Agency is monitoring A.I.D. activities such as immunization that could be linked to the spread of AIDS. An AIDS Working Group oversees A.I.D. activities. A.I.D. is represented on two interagency working groups and in contact with other USG agencies, including HHS, State, DoD, CIA, and the White House.

Question: What is A.I.D. doing now about the international AIDS crisis and what are the agency's future plans in dealing with this crisis?

Answer: A.I.D. was the first donor to the WHO Special Programme on AIDS established in 1986, contributing \$2 million in that year.

In addition, A.I.D. has provided technical staff support to help WHO develop the global strategy and plan of action and will continue to lend such staff support.

In FY 1987 A.I.D. developed Policy Guidance for support for international AIDS-related activities and has initiated a \$14 million program to address AIDS, of which \$5 million will be provided to WHO and the rest will be used for related and complementary activities supported directly by A.I.D., including \$3 million for additional condoms that may be requested for AIDS prevention. Our focus will be on prevention and control of the spread of the infection. A.I.D. is using existing projects, as well as developing new mechanisms to provide support to countries to carry out country programs developed in conjunction with the WHO Special Program.

A.I.D. plans to continue support of AIDS activities through WHO and to provide direct support for such activities in FY 1988. Due to the seriousness of the problem, the sensitivities and unknowns surrounding it, the newness of the WHO program and country programs, the absorptive capacity of LDCs, and the lack of information on plans of other donors, we have not decided yet on the exact level of support which we will allocate in FY 1988.

The HAC markup has earmarked \$30 million for AIDS in FY 1988.

Question: Is A.I.D. currently promoting the use of condoms as a means of AIDS prevention and if so, what criteria are used in determining which countries receive condoms?

Answer: A.I.D. responds to host government requests for assistance in AIDS prevention. In a number of cases, including requests from Uganda, Burundi, Rwanda, and Mexico, A.I.D. has agreed to supply condoms, and will consider other requests. A.I.D. will also support the development of public health education programs on prevention and control of AIDS, including education about prevention of sexual transmission through abstinence and long-term stable relationships, as well as use of condoms.

In addition, assistance for education efforts and distribution of prophylactics against transmission are based on the cultural and religious norms of the countries being assisted.

Question: In general, what is A.I.D.'s position on testing for HIV? For participants coming to this country for training?

Answer: A.I.D. will support WHO efforts to prevent blood transmission of AIDS, including provision of equipment and supplies for blood screening programs. However, because of the high cost of testing and lack of appropriate blood testing technology in developing countries, A.I.D. does not currently advocate widescale testing in A.I.D.-recipient countries.

With respect to your question on participant trainees, A.I.D. does not test participants in accordance with current regulations regarding non-immigrant visitors to the United States.

Question: What is A.I.D.'s position on abortion for women who are HIV positive or who have AIDS?

Answer: A.I.D. will not support any involvement in any activities that include abortion. A.I.D. will, however, support counseling of women and men who wish to become parents about the risks of passing on the infection to their offspring and will provide contraceptives on request.

Question: Given the association between use of oral contraceptives and AIDS, what is A.I.D. doing about distribution of pills?

Answer: A.I.D. is participating with WHO in setting the research agenda for further examination of this suggested association. Recent data reporting such an association are inadequate for any major changes in policy on distribution of oral contraceptives.

Question: What steps is A.I.D. taking to prevent transmission of AIDS in A.I.D.-funded immunization programs?

Answer: A.I.D. is following WHO guidance which recommends against use of disposable needles because they cannot be sterilized and are often reused. A.I.D.-funded immunization programs are taking steps to insure that adequate supplies of reusable needles and syringes are available, that adequate sterilizing equipment is in use, and that upgraded training is provided for health workers. A.I.D. is also supporting research and development on the EZEJECT and other truly disposable injection devices.

Question: What is A.I.D. doing to prevent transmission of AIDS through breastmilk?

Answer: There is no convincing evidence that AIDS has been spread through breastmilk. However, because of the possibility that the virus could be transmitted in this way, A.I.D. is monitoring surveillance and research data that may confirm or deny this suggestion. In the meantime, A.I.D. is following WHO guidance which recommends breastfeeding for children of HIV positive women in LDCs.

Question: What overlap is there between A.I.D.-funded AIDS activities and those funded by international branches of domestic agencies dealing with AIDS?

Answer: A.I.D. participates in two interagency task forces on AIDS, one of which is chaired by DHHS, the other of which is chaired by State. Through these meetings and through continual professional contact with colleagues in the operative agencies, Agency Health staff are aware of international activities being undertaken by other USG agencies as well as other international donors on AIDS.

AIDS

Question: What is A.I.D. doing now about the international AIDS crisis and what are the agency's future plans in dealing with this crisis?

Answer: I take the AIDS issue extremely seriously and as the dimensions become fully known it could have a profound affect on the A.I.D. program. I know that A.I.D. has made special contributions to the W.H.O. program and has issued special guidance. Our focus will be on prevention and control of the spread of the infection. A.I.D. is using existing projects, as well as developing new mechanisms to provide support to countries to carry out country programs developed in conjunction with the WHO Special Program.

Question: Is A.I.D. currently promoting the use of condoms as a means of AIDS prevention and if so, what criteria are used in determining which countries receive condoms?

Answer: I understand A.I.D. responds to host government requests for assistance in AIDS prevention. In a number of cases, including requests from Uganda, Burundi, Rwanda, and Mexico, A.I.D. has agreed to supply condoms, and will consider other requests. A.I.D. will also support the development of public health education programs on prevention and control of AIDS, including education about prevention of sexual transmission through abstinence and long-term stable relationships, as well as use of condoms.

In addition, assistance for education efforts and distribution of prophylactics against transmission are based on the cultural and religious norms of the countries being assisted.

Question: In general, What is A.I.D.'s position on testing for HIV? For participants coming to this country for training?

Answer: I understand A.I.D. follows the position set by the President and the Department of State on this issue.

I understand that A.I.D. does not test participants in accordance with current regulations regarding non-immigrant visitors to the United States.

Question: What steps is A.I.D. taking to prevent transmission of AIDS in A.I.D.-funded immunization programs?

Answer: I am informed that A.I.D. is following WHO guidance which recommends against use of disposable needles because they

cannot be sterilized and are often reused. A.I.D.-funded immunization programs are taking steps to insure that adequate supplies of reusable needles and syringes are available, that adequate sterilizing equipment is in use, and that upgraded training is provided for health workers. A.I.D. is also supporting research and development on the EZEJECT and other truly disposable injection devices.

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Trade Issues

Background:

Bumpers/Lautenberg- The Bumpers Amendment (Section 209 of the 1986 Urgent Supplemental Appropriations Act) prohibits Development Assistance (DA) funding to A.I.D. recipient countries in support of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States, except where such activities would not have a significant impact on U.S. agricultural commodities or the research is intended primarily to benefit American producers.

The Lautenberg Amendment (Section 559 of the Foreign Assistance Appropriations Act) was signed into law in 1986. It prohibits A.I.D. direct involvement in specified activities which promote projects that would increase the capacity of an LDC to export certain products that are considered to be "import-sensitive" with respect to the United States.

Question: Should A.I.D. support the development of export industries in foreign countries that could compete with U.S. industries, either in U.S. or third country markets?

Answer:

-International trade is essential to LDCs for their economic growth and development. Growth in LDC exports is necessary to allow them access to critical imports and to service their external debt.

-A.I.D. policy forbids missions to support the production of agricultural commodities for export by developing countries when the commodity would compete directly with exports of similar U.S. commodities and have a significant impact on U.S. exporters.

-A.I.D.'s policy statement, Policy Determination 15, provides guidance for determining the kinds of agricultural export development projects that may be supported. In addition, A.I.D.'s Trade Development Policy Paper provides broad guidance to A.I.D. missions on support for projects that may lead to greater production of products that are considered import sensitive. A.I.D. is concerned about the potential injury to U.S. producers both in the United States and in third country markets in direct competition with U.S. exports.

Mixed Credits- As required by the November 30, 1983 Trade and Development Enhancement Act of 1983 (TDEA) in 1984 the A.I.D. Administrator established a defensive Tied Aid Credit Program to provide mixed credit financing, largely in conjunction with Eximbank. TDEA authorized use of Economic Support Funds (ESF) to finance tied aid credit transactions.

Since 1984, A.I.D. has participated in four tied aid credit offers: one was accepted, one is pending, and the other two were lost. A.I.D. rejected 10 Eximbank requests for participation in mixed credits because of the nonavailability of uncommitted ESF resources.

Congressman Bonker (Chairman, HFA Subcommittee on International Economic Policy and Trade), dissatisfied with A.I.D.'s performance, has proposed new measures which have been incorporated into HR.3 (House passed Trade Bill). Most of these provisions have also been incorporated into the pending Senate Trade Bill (S.490). Common to both bills are:

- make TDP a separate component of IDCA with a presidentially appointed head;
- transfer administration of the tied aid credit program to TDP;
- change NAC (National Advisory Council on International Monetary and Financial Policy) procedures for approval of mixed credits that involve AID/TDP funds from unanimous consent to majority vote;
- mandate TDP participation and voting rights in NAC deliberations on tied aid credits;

Specific to Representative bills:

- HR.3 authorizes \$10 million in DA funds for TDP in FY 1988 and \$11 million in FY 1989 while S.490 authorizes \$5 million in FY 1988 only;
- S.1420 makes ESF funds available for use by the TDP Director for tied aid credits with concurrence of the Secretary of State (Section 531, FAA of 1961), who is

to exercise his authority over tied aid credits in cooperation with the A.I.D. Administrator [HR.3 makes ESF funds available for tied aid credits "as agreed upon" by the Secretary of State, A.I.D. Administrator and TDP Director].

The FY 1988 Senate Authorization bill (S.1274) earmarks not less than \$50 million or more than \$100 million of the ESF Commodity Import Program funds for tied aid credits. The FY 1988-89 House Authorization bill earmarks not less than \$50 million ESF for FY 1988 and an aggregate of not less than \$100 million ESF for both FY 1988 and FY 1989 for tied aid credits.

Question: Should the mixed credits program be transferred to the Trade and Development Program (TDP)?

Answer: No. Although I fully support the TDP and am proud of its success, I believe the A.I.D. Administrator should continue to be responsible for decisions on the use of ESF resources for mixed credit financing. The Administrator has direct access to A.I.D. mission staff which provides information essential to the review of mixed credit applications, and the Administrator has the broad perspective needed to make difficult resource allocation decisions. However, I recognize that TDP can make a valuable contribution to this effort, and I would agree that the A.I.D. Administrator could carry out these responsibilities in consultation with TDP.

Current Situation In Panama

Background: In early June, accusations by Diaz Herrera, former Deputy Commander of the Panamanian Defense Forces (PDF), concerning PDF involvement in 1984 electoral fraud and 1985 killing of regime opponent Hugo Spadafora, sparked a movement protesting the PDF's role in the country's politics. The protest movement has grown significantly since the first week in June.

A GOP-orchestrated attack on the U.S. Mission June 30 resulted in interruption of certain disbursements to Panama. The GOP has paid us for damages but resumption of those disbursements is still under review. The GOP has stepped up verbal attacks on USG, Ambassador Davis and DCM Maisto. The GOP is also cracking down on opposition media; three newspapers have been closed and censorship imposed on all media.

The U.S. has emphasized a need for the PDF to get out of politics and for return to functioning democracy. On June 26, the U.S. Senate passed a resolution calling for PDF Commander Manuel Noriega to step down pending an investigation. The USG has protested these attacks. The Secretary has announced that assistance to Panama has been frozen.

QUESTION: What is the status of our A.I.D. activities?

Since the beginning of the disturbances in Panama, we have not made any new commitments to the Government of Panama or to the private sector.

When our Embassy was attacked on June 30, Ambassador Davis instructed the Mission to withhold disbursements to the GOP and informed the Panamanian Foreign Minister that in addition to our interruption of new commitments of economic and military assistance, we would not make disbursements to the GOP until the USG was reimbursed for damages to Embassy property. On July 29, the GOP delivered a check in full compensation to our Embassy for the damages.

We are currently reviewing all proposed and on-going activities to determine which projects should be suspended and then terminated, which can be suspended but frozen rather than terminated and which might conceivably proceed.

Those few public sector projects which might go forward will be low profile, and provide no benefit to the current government or possibility for use for political ends.

We shall also review the non-governmental portfolio for projects which directly reach the poorer elements of Panamanian society or promote non-governmental channels to decide which should proceed, and which might be candidates for expansion under present circumstances.

Fact Sheet for SAC Testimony
Status of Panama Funding

- o Total FY 87 Funding is \$33,737,000 (see note)
 - \$22,137,000 - Development Assistance (DA)
 - \$11,600,000 - Section 416 Food Assistance
- o Unobligated DA - \$15,976,000
 - Public Sector - \$7,159,000
 - Private Sector - \$7,275,000
 - Miscellaneous unobligated - \$1,542,000
- o Status of Sec. 416 - \$11,600,000 on hold
- o Already obligated DA - \$6,161,000
 - Almost all for Central Am. Peace Scholarships

KEY POINTS:

- New DA obligations and new food commitments for the public sector, i.e. \$11,600,000 for food assistance and \$7,159,000 in DA, have been held up pending the review now in progress
- Some \$7,275,000 in proposed DA to nongovernmental groups is at the moment also being held up but could proceed without new assistance being provided to the Govt. of Panama
- \$640,000 in disbursements on existing obligations for the public sector were being held up until compensation (\$106,000) for damage to the U.S. Embassy was provided - the GOP provided this compensation on July 31; the decision to release these funds is pending
- disbursements for ongoing activities will proceed unless a decision is taken to break off all ongoing development programs

Note: In addition, \$25 million in Housing Guarantees (HG) with the public sector and \$25 million with the private sector have been authorized, but only \$10 million of the public sector HG has been obligated. These funds have not yet been disbursed, and none of the remaining unobligated funds will be obligated under current circumstances.

Current Situation in Panama

Question: There are many members of this Congress and this Committee who believe that we have no business giving foreign aid to Panama -- a view strengthened by events of recent months. What do you think of having a program there?

Answer: In August, Secretary Shultz made it clear that the economic assistance program to Panama would be frozen. As a result, A.I.D. suspended its program.

At the same time, it seems to me that the issue of economic development in that entire region is too important for us to rule out a program in Panama. It might behoove us to focus our resources on the private sector rather than government-to-government programs, and we may need to review projects very carefully to ensure they contribute positively to the development of democracy as well as prosperity. But taking that kind of care would be my intention.

Salary Supplements to Host Government Employees

Background:

The Ecuador case (detailed separately) alerted the Agency to the need for a separate policy dealing with salary supplements to host country employees. In June an A.I.D. policy guidance cable was sent to the missions giving them guidance on this subject. The policy which discourages salary supplementation except in very special circumstances establishes the following major criteria:

1. The payments are permitted under host country law and regulations.
2. The cooperating entity has demonstrated that it cannot make these payments from its own resources for valid reasons such as the inability of the entity to provide the financing within the time required to meet the needs of the activity.
3. The supplements are judged essential to the achievement of project objectives.
4. Employees do not receive duplicate payments for the same activity.
5. The rates and fees paid are in accordance with local standards and are limited to magnitudes reasonable in reference to an employee's base pay and, for continuing programs, in magnitudes which the host country entity could be expected to meet from its own resources within a reasonable time.
6. The proposed recipients would be carrying out technical, managerial or administrative support rather than broad policy functions.
7. A mechanism exists for providing the supplements which prevents potential abuse in the determination of recipients and amounts to be provided. Ensures financial integrity in the payment system, and establishes adequate monitoring.

Question: What steps have you taken to establish a policy and provide guidance?

Answer: In early June A.I.D. sent a worldwide policy cable on salary supplements to host government employees. All supplementation practices were to conform to this guidance. Additionally, this was followed up by a questionnaire asking for the status of any salary supplements now in effect and details of current mission practices. We are now reviewing mission responses to determine what further clarifications or modifications are needed in Agency policy and mission practices.

Overall it appears that all missions, with the exceptions noted, are in compliance or will be able to bring their projects into compliance with the agency's policy: (1)Cairo has not yet submitted sufficient information to permit judgement; (2)Mogadishu claims adverse consequences in bringing its practice into conformity with agency policy. We are seeking clarification.

Question: What were the responses to this questionnaire? Did the responses reveal any deviation from the policy?

Answer: Overall, field missions reported that they were in compliance with the salary supplement policy. A number of missions reporting affirmatively on the payment of salary supplements had previously issued mission orders on the subject. Payments of honoraria, overtime and pay for outside "moonlighting" on behalf of the U.S. A.I.D. was also frequently reported. Honorariums were most generally paid to university staff, who are government employees only by virtue of their position at the university. Honorariums reported paid to other than university host country employees were minimal and limited to the employees attendance at functions or for presentations he/she made outside of the normal job function.

In a number of countries, short official government work days and low salaries coupled with the expectation or practice that government employees will seek outside employment have led missions to pay overtime pay or pay supplements to offset the opportunity costs of foregoing outside employment in order to carry out project related work. In other instances, "hiring" of host government employees has been deemed more cost-effective than hiring an outside consultant or contractor. A number of missions have suggested that the issue of salary supplementation is a major donor coordination issue, especially in Africa, i.e. other donors widely practice the payment of salary supplements and that some effort is needed to harmonize practices less the A.I.D. projects suffer. It is also clear that there remains complicated definitional problems in determining what constitutes salary supplementation.

Salary Supplements

Question: Would you tolerate this practice of salary supplements as Administrator?

Answer: I understand in theory why salary supplements are used in certain cases to bring technical personnel on board. I can also understand how abuses of this theory can occur in practice. I understand that A.I.D. has recently sent out guidance to its field missions to discourage such supplements and that any which are used will be subject to the most stringent safeguards.

Lobbying Congress for Foreign Aid Appropriations

Background: In November 1986, Deputy Secretary of State, John C. Whitehead verbally requested that DA/AID, Jay T. Morris spend some of his time in assisting State's bureaus and offices as they considered ways to create a broader public understanding of the foreign affairs function and its requirements. This assistance was to be in addition to Mr. Morris' regular responsibilities as Deputy Administrator. At no time was Mr. Morris detailed to the Department of State, nor were his DA/AID responsibilities reduced or suspended during this period.

Question: There have been serious allegations raised recently concerning Administration involvement in, support for, and coordination of lobbying the Congress for maximum levels of foreign aid. Are you aware of the civil and criminal prohibitions against lobbying by Administration officials? How do you intend to ensure and assure Members of Congress that such activities do not occur?

Answer: It is my understanding that Mr. Morris' responsibilities were defined to enable him to be the main point of contact for private groups especially interested in foreign affairs budget resource questions. To support him, a working group was established between State and AID to coordinate and plan appearances for the Secretary and other top officials with persons and organizations interested in foreign affairs.

At no time has the State Department or AID provided information to persons or groups outside the Federal government for the purpose of assisting them in lobbying or influencing Congress. In line with the Congressionally-mandated (Biden-Pell) obligation to inform and educate the public, both State and AID have provided official publications and speakers, through their respective Speakers Bureaus, to individuals and groups who request them through the normal public affairs channels.

Also, as Federal agencies, both State and AID are required by the Freedom of Information Act to provide information on operations, programs and budget to the public, so long as such information is not classified or proprietary in nature.

At all times, the language of 18 U.S. Code Section 1913 - Lobbying with Appropriated Money - has been conscientiously taken into account. In keeping with this statute, both State and AID have avoided activities which are, in fact, or may be construed as, lobbying.

It is my intention to continue to rely on AID's legal staff, as well as on keeping relevant Congressional staffs informed, to ensure that AID's educational and informational activities do not violate the anti-lobbying provisions of law.

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Lobbying Congress for Foreign Aid Appropriations

Answer: There is a need for genuine information exchange with regard to foreign assistance programs. At the same time I would never permit anyone working under my supervision to intentionally lobby in violation of law. If there is a misunderstanding between the Congress and the Agency on this issue, I will certainly consult with you.