



An Chartlann Náisiúnta National Archives

Reference Code:	2016/22/2262
Creation Dates:	10 April 1986
Extent and medium:	7 pages
Creator(s):	Department of Foreign Affairs
Accession Conditions:	Open
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STATEMENT OF
M. PETER MCPHERSON
ADMINISTRATOR
AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE
APRIL 10, 1986

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE TO DISCUSS THE ADMINISTRATION'S FOREIGN ASSISTANCE PROGRAM AND THE IRISH AID PROPOSAL. OUR FOREIGN ASSISTANCE PROGRAMS ARE A CRITICAL ELEMENT OF THIS COUNTRY'S FOREIGN AND NATIONAL SECURITY POLICIES. THESE PROGRAMS SIGNIFICANTLY ENHANCE THE SECURITY OF THE UNITED STATES, AND DO SO AT MINIMAL COST.

OUR TOTAL FOREIGN ASSISTANCE PROGRAM IS DESIGNED TO PURSUE BROAD NATIONAL GOALS. IT BOLSTERS FRIENDS FACING AGGRESSION, AND HELPS DETER REGIONAL CONFLICTS. IT FOSTERS ECONOMIC AND POLITICAL REFORM. IT ENCOURAGES DEVELOPMENT. IN THE PROCESS, IT ALLEVIATES THE POLITICAL AND SOCIAL UNREST WHICH THREATEN THE SECURITY NOT ONLY OF OUR FRIENDS, BUT ULTIMATELY OF OURSELVES. IT IS FAR LESS COSTLY, AS WELL AS MORE EFFECTIVE, TO ALLEVIATE THE CAUSES OF UNREST THAN TO ATTEMPT TO CONTAIN UNREST ONCE IT DEVELOPS. MORE IMPORTANTLY, IT MEETS BASIC HUMAN NEEDS OF POOR PEOPLE STRIVING TO BETTER THEMSELVES IN THE DEVELOPING COUNTRIES.

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IN ALLOCATING OUR ASSISTANCE, WE HAVE DEVELOPED A SET OF PRIORITIES. OUR COMMITMENT TO PEACE IN THE MIDDLE EAST IS CRITICAL. AS ARE OUR BASE RIGHTS COMMITMENTS, THE SUPPORT OF FRONT-LINE AND MILITARY ACCESS STATES, CENTRAL AMERICA AND THE PROMOTION OF PEACE, STABILITY AND ECONOMIC PROGRESS IN AFRICA, SOUTH ASIA AND OTHER AREAS IMPORTANT TO US. OUR COMMITMENT TO DEMOCRATIC VALUES HAS BORNE FRUIT, AND OVER THE PAST MONTHS THE PEOPLE OF SUCH COUNTRIES AS THE PHILIPPINES, HAITI AND GUATEMALA HAVE BROKEN WITH THE PAST AND HAVE REDEDICATED THEMSELVES TO THESE VALUES.

WE FACE THEREFORE, THE CHALLENGE OF MEETING OUR TRADITIONAL PRIORITIES AND RESPONDING TO THESE NEW REQUIREMENTS WITH VERY SCARCE FOREIGN AID RESOURCES.

THE ANGLO-IRISH ACCORD IS YET ANOTHER EXTRAORDINARY EVENT IN THIS REMARKABLE YEAR. OUR PROPOSAL FOR ASSISTANCE TO NORTHERN IRELAND REFLECTS OUR STRONG DESIRE TO RESPOND TO THE NEEDS OF THE IRISH PEOPLE AND OUR SUPPORT OF THE ANGLO-IRISH INITIATIVE PROVIDES US AN HISTORIC OPPORTUNITY TO ADVANCE THE PROSPECTS FOR PEACE AND PROSPERITY IN NORTHERN IRELAND AND THE AFFECTED COUNTIES OF THE IRISH REPUBLIC.

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LOOKING AT THE IRISH PROPOSAL WITHIN THE CONTEXT OF OUR OVERALL FOREIGN ASSISTANCE EFFORT. HOWEVER, WE HAVE HAD TO KEEP IN MIND THE SEVERE BUDGET CONSTRAINTS WE NOW CONFRONT. WE ARE COMMITTED TO MAKING RESOURCES AVAILABLE FOR THIS INITIATIVE. BUT BUDGETARY REALITIES LIMIT WHAT WE ARE ABLE TO OFFER. WE ARE PROPOSING A MIXED PROGRAM. THE VALUE OF THE PROGRAM IS \$250 MILLION -- INCLUDING CASH AND GUARANTEES -- TO BE DISTRIBUTED OVER A FIVE YEAR PERIOD. FOR FY 1986 AND FY 1987 WE ARE PROPOSING \$20 MILLION IN ESF CASH ASSISTANCE EACH YEAR. WE ARE ALSO PLANNING TO PROVIDE ASSISTANCE THROUGH OUR HOUSING GUARANTY PROGRAM, THE PRIVATE SECTOR REVOLVING LOAN FUND AND THE TRADE AND DEVELOPMENT PROGRAM. ADDITIONAL ASSISTANCE FROM OPIC AND EXIM WILL ALSO BE AVAILABLE. THE NON-CASH PACKAGE WILL TOTAL APPROXIMATELY \$30 MILLION A YEAR FOR FY 86 AND FY 87. WE BELIEVE THESE PROGRAMS CREATE INCENTIVES FOR PRIVATE INVESTMENT AND COMPLEMENT OUR CASH CONTRIBUTION. AS ALL INVOLVED AGREE, PRIVATE INVESTMENT IS THE KEY TO IMPROVING THE ECONOMIC SITUATION IN NORTHERN IRELAND.

THE HOUSE RECENTLY PASSED A BILL WHICH WOULD EARMARK \$50 MILLION OF FY 1986 ESF FUNDS FOR THE IRISH PROPOSAL. DURING LESS SEVERE BUDGET TIMES, A \$50 MILLION CASH CONTRIBUTION MIGHT BE POSSIBLE, BUT TODAY IT RAISES SIGNIFICANT PROBLEMS FOR US. GIVEN THE SEVERE LIMITATIONS ON RESOURCES AVAILABLE THIS FISCAL YEAR, IMPLEMENTATION OF THE HOUSE PROVISION WOULD DO SERIOUS HARM TO IMPORTANT PROGRAMS SERVING VITAL U.S. INTERESTS IN VARIOUS PARTS OF THE WORLD.

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TO PUT THIS PROBLEM INTO CONTEXT:

-- THE FINAL ESF APPROPRIATION FOR FY 1986 WAS 12% BELOW OUR REQUEST AND 7% BELOW THE 1985 LEVEL (EXCLUDING THE MIDDLE EAST PEACE SUPPLEMENTAL).

-- OF THE ESF FUNDS THAT CONGRESS APPROPRIATED (AFTER GRAMM-RUDMAN), 70% WERE EARMARKED. THE TWO MAJOR RECIPIENTS, ISRAEL AND EGYPT ACCOUNTED FOR 32% AND 22% RESPECTIVELY.

-- FOUR PERCENT OF THE TOTAL WAS ALLOCATED TO NON-EARMARKED BASE RIGHTS COUNTRIES TO FULFILL OUR COMMITMENTS AND SUPPORT THEIR SPECIAL ROLES IN COLLECTIVE DEFENSE.

-- ONLY \$930 MILLION, OR 27% OF THE TOTAL ESF APPROPRIATION FOR FY 1986 WAS LEFT TO ALLOCATE TO THE REST OF THE WORLD. THIS REPRESENTED A SHORTFALL OF 32% FROM OUR REQUEST LEVELS FOR THE COUNTRIES INVOLVED.

-- OF THAT AMOUNT, \$594 MILLION HAS BEEN ALLOCATED FOR CENTRAL AMERICA AND THE CARIBBEAN WHERE ESF IS BADLY NEEDED TO STRENGTHEN DEMOCRATIC GOVERNMENTS AND TO COUNTER THE THREAT POSED BY NICARAGUA AND SOVIET/CUBAN-SUPPORTED SUBVERSION.

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-- THAT LEAVES US LESS THAN \$340 MILLION TO MEET PRESSING NEEDS AROUND THE GLOBE FOR MORE THAN 30 COUNTRIES AND REGIONAL PROGRAMS. AND TO ATTEND TO ANY UNFORSEEN NEW REQUIREMENTS.

-- THE \$50 MILLION EARMARK PROPOSED BY THE HOUSE FOR IRELAND, THEREFORE, WOULD ACCOUNT FOR 15% OF THIS REMAINING BALANCE.

NUMBERS ALONE CANNOT TRULY ILLUSTRATE WHAT CUTS IN FUNDS REALLY MEAN. I WOULD LIKE TO GIVE SOME CONCRETE EXAMPLES OF A FEW OF THE PROGRAMS PLANNED FOR FY 1986 THAT HAVE BEEN AFFECTED:

-- ZAMBIA IS A KEY FRONTLINE STATE IN SOUTHERN AFRICA, AND HAS RECENTLY ADOPTED AN AGGRESSIVE PROGRAM TO PROMOTE ECONOMIC RECOVERY. THESE REFORMS HAVE RESULTED IN A SHARP DEVALUATION OF THE LOCAL CURRENCY AND HAVE HELPED THE ZAMBIANS TO PAY OFF IMF ARREARAGES. AT THE SAME TIME, HOWEVER, THE REFORM HAS PLACED SEVERE PRESSURE ON DOMESTIC PRICES, HURTING URBAN DWELLERS AND CREATING POLITICAL UNREST. REFORMS LIKE THIS REQUIRE SUPPORT FROM DONOR NATIONS SUCH AS THE UNITED STATES; MANY COUNTRIES IN AFRICA ARE LOOKING TO SEE WHETHER THESE KINDS OF POLICY REFORMS CAN BE SUSTAINED. OUR BUDGETARY CONSTRAINTS HAVE FORCED US TO CUT OUR FY 1986 ESF PROGRAM FOR ZAMBIA BY ONE-THIRD, AND JEOPORDIZE THE IMPORTANT PROGRESS MADE BY THE GOVERNMENT OF ZAMBIA.

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-- IN KENYA WE WILL BE UNABLE TO FUND A PROGRAM DESIGNED TO LIBERALIZE THE KENYAN PRIVATE SECTOR'S ACCESS TO U.S. PRODUCTS; OR A TECHNICAL ASSISTANCE PROGRAM TO IMPLEMENT POLICY REFORM AND STRUCTURAL ADJUSTMENT.

-- ESF FOR HAITI WAS NEARLY HALVED, AND WE ARE NOW DESPERATELY SEEKING FUNDS TO SUPPORT PETROLEUM IMPORTS FOR WHICH THE HAITIAN GOVERNMENT LACKS THE NECESSARY FOREIGN EXCHANGE.

-- IN MOROCCO WE WILL BE UNABLE TO INITIATE PLANNED PRIVATE SECTOR EXPORT CREDIT ACTIVITY BECAUSE OF A 50% CUT IN FUNDING FOR THE PROGRAM.

-- FINALLY, IN CHAD, WE HAD PLANNED A \$10 MILLION ESF PROGRAM TO HELP THE GOVERNMENT MAINTAIN A MINIMUM LEVEL OF AGRICULTURAL, HEALTH AND PUBLIC UTILITY SERVICES AND TO FUND ONGOING ROAD CONSTRUCTION WORK. BUDGET CONSTRAINTS HAVE FORCED US TO CUT THIS PROGRAM IN HALF.

WE ALSO HAVE A NUMBER OF NEW -- AND UNANTICIPATED -- REQUIREMENTS. IN RECENT WEEKS WE HAVE SEEN DEMOCRATIC TRANSITIONS IN BOTH HAITI AND THE PHILIPPINES. THE NEW GOVERNMENTS IN THESE TWO COUNTRIES ARE FACED WITH DEEP SOCIAL AND ECONOMIC PROBLEMS AND, IN THE PHILIPPINES, AN EMBEDDED COMMUNIST INSURGENCY. THE ADMINISTRATION INTENDS TO APPROACH

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THE CONGRESS IN THE NEXT FEW WEEKS TO DISCUSS PROPOSALS FOR ASSISTING THESE NEW GOVERNMENTS TO COPE WITH THEIR MULTITUDE OF PROBLEMS.

IT IS AGAINST THE BACKDROP OF WORLDWIDE INTERESTS AND COMMITMENTS, COMPETING DEMANDS AND STRAINED RESOURCES, THAT WE HAVE ADDRESSED THE ANGLO-IRISH INITIATIVE. THE ADMINISTRATION, LIKE THE CONGRESS, RECOGNIZES THE OPPORTUNITY WHICH THE INITIATIVE GRANTS US. THE ADMINISTRATION'S PROPOSAL IS A RESPONSIBLE PROGRAM FOR SUPPORTING THAT INITIATIVE WHILE RECOGNIZING BUDGET CONSTRAINTS. WE CANNOT MAKE MORE DEMANDS ON DEPLETED ESF RESOURCES. IF WE DO, WE INCUR RISKS FAR BEYOND ANY GAINS WE MIGHT MAKE IN NORTHERN IRELAND OR ELSEWHERE.

WE BELIEVE THIS PROPOSAL IS THE MOST RESPONSIBLE WAY TO ADDRESS THE ANGLO-IRISH INITIATIVE, AND REQUEST YOUR SUPPORT FOR THE ADMINISTRATION PROPOSAL. NOW, MR. CHAIRMAN, I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.