

OCA 2758-88

OFFICE OF CONGRESSIONAL AFFAIRS

Routing Slip

	ACTION	INFO
1. D/OCA		X
2. DD/Legislation	X	
3. DD/Senate Affairs		X
4. Ch/Senate Affairs		
5. DD/House Affairs		X
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7. Admin Officer		
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9. Constituent Inquiries Officer		
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Date

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Action Officer: [Redacted]

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Remarks: [Redacted]

NO objection on 8/21/88. per [Redacted]

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OFFICE OF CONGRESSIONAL AFFAIRS

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**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503**

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SPECIAL

August 16, 1988

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer -

National Security Council
Department of Defense
~~Central Intelligence Agency,~~
Agency for International Development

SUBJECT: State draft report on H.Con.Res. 277, regarding
shifting assistance to El Salvador from supporting the
war effort to promoting economic development and
reducing human suffering.

The Office of Management and Budget requests the views of your
agency on the above subject before advising on its relationship
to the program of the President, in accordance with OMB Circular
A-19.

A response to this request for your views is needed no later than
WEDNESDAY, SEPTEMBER 7, 1988.

Questions should be referred to **SUE THAU/ANNETTE ROONEY**
(395-7300), the legislative analyst in this office.

Ronald K. Peterson

**RONALD K. PETERSON FOR
Assistant Director for
Legislative Reference**

Enclosures

**cc: J. Eisenhour
B. Sasser**

SPECIAL



Washington, D.C. 20520

Dear Mr. Chairman:

I am pleased to reply to your letter of July 11 to the Secretary requesting the Department's views on House Concurrent Resolution 277, titled "Salvadoran Foreign Assistance Reform Resolution."

The Department strongly objects to this resolution because it contains serious factual errors and it distorts the true nature and impact of United States assistance to El Salvador. We believe that implementation of the resolution would not only diminish the Salvadoran government's ability to defend itself and its economy from attack, but it would also worsen the very socio-economic conditions the resolution purportedly seeks to improve and would encourage efforts of the guerrillas to overthrow the elected government.

In El Salvador we are trying to nurture the establishment of a democratic system. It is a challenge fraught with obstacles, but we have witnessed considerable progress:

- Five free and fair elections since 1982.
- The first democratically-elected president in 50 years.
- A new constitution (1983) drafted by an elected constituent assembly.
- Restoration of full political and civil rights.
- Full freedom of expression.

The Honorable
Dante B. Fascell, Chairman,
Committee on Foreign Affairs,
House of Representatives

- 2 -

- A resurgence of free labor union activity.
- Growing civilian control of the military.
- A dramatic decline in human rights abuses by government forces (but not by the insurgents).
- An economic turnaround from an 8.7 percent drop in GDP in 1980 to an increase of 2.6 percent in 1987.

El Salvador's economy was one of the strongest in the region prior to the late 1970's. A variety of factors, not the least of which was the beginning of a concerted attack on the economy by El Salvador's communist guerrilla groups, conspired to plunge the country into severe economic decline. According to the World Bank's 1986 Country Economic Memorandum, El Salvador had made "considerable improvements in social services" during the two decades prior to 1979. Its economic growth rate during the 1970's, according to the Congressional Research Service (Report No. 86-88F) averaged five percent a year. Despite these trends, the country faced considerable problems: limited agricultural land; severe overpopulation; heavy reliance on a few primary agricultural exports; and concentration of land and productive capacity in the hands of a few elite families (although the expansion of the previous two decades had created a thriving middle class).

Terrorist attacks on the foreign diplomatic and business communities in the late 1970's and forcible occupations of plants and businesses by radicalized, insurgent-controlled labor organizations, served to drive many foreign businesses out of the country and presaged the heavy capital flight characteristic of the late 1970's and early 1980's.

The issue of income disparity and control of the country's economy and government by a privileged few served as the impetus for the 1979 overthrow of General Humberto Romero and the civilian-military junta's decree of an extensive land reform program, nationalization of the domestic banks, and government control of the marketing of the nation's primary export crops. These reforms were designed to address the underlying problems, which led some Salvadorans to support the communist insurgency. However, they were seen as serious threats by both the wealthy land-owning class and the insurgents themselves, who feared loss of their raison d'etre. Rather than supporting the junta and the reforms, the guerrillas joined the oligarchs in violently attacking both the junta government and the land reform program.

- 3 -

Today the insurgents continue their policy of attacking the government, the economy, and reforms. Their espoused strategy is to block the establishment of free, democratic institutions and the functioning of the economy. It is a key part of the guerrillas' strategy to prevent the government from meeting the basic human needs of the people. Municipal officials are targetted for assassination and murder. The guerrillas destroy the coffee, cotton, and sugar production, the electrical, communications and transportation systems, thus interrupting commercial activities and denying thousands of Salvadorans their livelihood. We estimate, for example, that since 1980, guerrilla sabotage of economic infrastructure exceeds \$1.5 billion. A portion -- roughly ten percent -- of United States economic assistance is used for restoration and repair of power grids, roads, and bridges destroyed by the guerrillas, without which delivery of basic social services and economic activity would be impossible. United States support for Salvadoran Government efforts to repair vital economic infrastructure does not prolong the war as some believe. The guerrillas prolong the war by refusing to enter into good faith peace negotiations with the elected government.

The imperative need to defend the country against guerrilla sabotage and military attacks severely strains the Salvadoran national budget and drains resources from the provision of social services to national defense. In response, and with proper safeguards, United States economic assistance has stabilized a faltering economy by providing foreign exchange for critical import requirements and enabled the Salvadoran government to maintain a safety net of social services for the country's needy. Competing foreign assistance priorities worldwide, and the limits of Salvadoran absorptive capacity prevent us from doing more.

If implemented, the proposed resolution would limit our flexibility and reduce severely the amount of funding the government itself could provide for social services and infrastructure. It would negate the progress made under the administration of President Jose Napoleon Duarte, rather than enhance prospects for long-term economic growth and development. I have no doubt that if the proposed resolution is passed, the insurgents would applaud this indictment of our assistance program in El Salvador. I believe, however, that the resolution reflects a fundamental misunderstanding of the progress made in El Salvador and the positive contribution of United States aid.

- 4 -

U.S. economic assistance to El Salvador is helping to stabilize an economy drained by the costs of an eight year war and repeated guerrilla sabotage. Of direct, cash transfer assistance, approximately two-thirds of the dollar resources has helped finance imports to maintain production levels, employment and income opportunities. Related local currencies are financing social programs and other important goods that directly benefit the Salvadoran people. A.I.D. programs also fund economic and social development of the type that the U.S. Congress expects such as: agrarian reform, health, child survival, potable water and environmental sanitation, education and training, as well as improving the administration of justice, nurturing the democratic labor movement and encouraging investment and export promotion.

It should be noted that the United States is also helping El Salvador rebuild after the devastating October 1986 earthquake which rocked San Salvador causing more than \$1 billion in damages and claiming 1,000 lives. A.I.D. assistance, approved overwhelmingly by the United States Congress in the immediate aftermath, furnished over 40,000 families with loans or building materials to repair their homes. It provided loans to 2,500 small businessmen to reestablish their firms, and financed the construction of 700 classrooms, and scores of hospital, health clinic, market and utility repairs. We are now involved in the longer-term earthquake reconstruction program, in concert with several other donors.

In great part owing to U.S. economic assistance, the Salvadoran people increasingly reject the appeal of the insurgents, whose numbers have been reduced from 12-13,000 full-time combatants in the early 1980's to 6-7,000 today. The guerrillas no longer control any territory and avoid direct confrontations with the vastly improved Salvadoran security forces.

The internally displaced population has been reduced to about 300,000, and they are supported by the Salvadoran government and A.I.D. with employment, health, education and credit programs. As security continues to improve in many areas, thousands of displaced have been able to return to their homes with our help. More than 8,000 former refugees have also returned from U.N. refugee camps to El Salvador since 1985. The United States will continue to ensure a safety net of social and employment services for the eligible displaced who cannot return to their homes.

- 5 -

In regard to the proposed resolution's many inaccuracies, we would like to point out the following:

In fiscal year 1987, although still lower than the government of El Salvador's own contribution, the U.S. contribution was unusually high because of two factors. First, the level was skewed by a one-time donation of \$128 million for earthquake recovery and reconstruction. Second, and more importantly, the devaluation of the Salvadoran currency by half in 1986 effectively reduced El Salvador's contribution to the national budget when expressed in dollars. After taking into account these extraordinary circumstances, our assistance in FY 1987 was roughly equivalent to that of previous years: between 54 and 58 percent of El Salvador's own budget. This is also the approximate percentage in FY 1988.

The statement that three times as much U.S. assistance is used to support the internal war effort and address its effects as is used to attack the "underlying economic and social problems that led to the war" is a gross distortion of reality. Military assistance to the Government of El Salvador has consistently represented only 20 to 25 percent of our total assistance to El Salvador. In FY 1987, it was only 16 percent of the total grants and credits provided by the U.S. Thus, more than three-fourths of all United States aid to El Salvador is humanitarian or economic. That money has gone to fund such programs as a human rights training course for soldiers and policemen, a project to improve the Salvadoran justice system, agricultural development, and the safety net of health, education, and employment services described earlier.

We provide significant resources to the Salvadoran effort to relieve human suffering, including large contributions to the United Nations High Commission on Refugees and the International Committee of the Red Cross. We use non-governmental and international organizations to the maximum to distribute such humanitarian assistance.

- 6 -

The statement that "there are continuing reports of political imprisonment, killings, disappearances, and torture in El Salvador" appears to be irrelevant to the resolution. Most killings and disappearances unrelated to combat are attributable to the guerrillas and criminal elements, not to government forces. There are very few credible reports of torture by government authorities in recent years. El Salvador has not provided for incarceration under exceptional decrees since early 1987, and we have seen no evidence of anything which could be construed as "political" imprisonment since the expiration of that law. Imprisonments may only be ordered by civilian judicial authorities in accordance with full due process guarantees. We can provide more detail to the Committee, if necessary.

The statement that "executive branch auditors" have found that (U.S.-financed) development projects in El Salvador... are used to "require and reward support for the political party in power" has no basis in fact. We have seen no audit to support such a charge. A.I.D. and the Salvadoran government abide by strict guidelines prohibiting the distribution of United States-financed economic assistance by the Salvadoran military. United States economic assistance is distributed on an apolitical basis.

As for the allegation of corruption, repeated audits by the Agency for International Development's Office of Inspector General and by the General Accounting Office reveal no widespread mismanagement, corruption, or diversion of U.S. assistance. There have been isolated instances of diversion or misuse of food aid and local currency resources (owned by the Government of El Salvador) involving relatively small amounts of money. But these minor diversions have been detected by our own financial monitoring systems. In each case, the Salvadoran government has taken immediate remedial action.

Ten percent of the people of El Salvador do not live in refugee camps as the resolution alleges. In fact, the Archbishopric of San Salvador has been steadily closing its displaced persons camps because of a lack of need. The only Catholic Church-run camp still in operation has a population of only several hundred. Most of the displaced persons population (estimated at about 300,000 of a total estimated population of 5.2 million) do not live in camps but are dispersed, and many have integrated into new communities.

- 7 -

As mentioned, there is a growing, spontaneous and voluntary movement of displaced back to their home towns in former conflict zones. We encourage the displaced to return when security permits, and we are helping the Salvadoran government provide them with basic health and education services, agricultural starter kits and community restoration activities. Unfortunately, many displaced are targetted by the guerrillas when they return home.

There is no evidence that unemployment is even close to 50 percent, as the resolution claims. In 1987, open unemployment was about 10 percent. One of the primary causes of unemployment in El Salvador is overpopulation. El Salvador is one of the most densely populated countries in the Hemisphere, but with A.I.D.-financed population assistance, nearly fifty percent of eligible couples now practice some form of voluntary contraception.

The statement on inflation and purchasing power is misleading. After reaching a high of 32 percent in 1986, inflation fell to 25 percent in 1987, largely as a result of monetary and fiscal reforms undertaken by the Salvadoran government and encouraged by the United States. We project inflation to drop as low as 18 percent in 1988. Average real wages in the private sector fell by 11 percent in 1985, according to the IMF.

Social sector statistics quoted in the resolution distort the actual situation. We believe for example, that malnutrition is less than 27 percent as alleged in the resolution. A nutrition survey is being carried out by the Pan American Health Organization, and, preliminary results indicate that the nutritional status of Salvadoran children is average for Central America, which is remarkable given the conflict situation.

Infant mortality is only 50 deaths/1,000 live births, not 91 deaths as alleged. The ratio of physicians is very low in El Salvador, but this statistic masks the large number of trained para-professionals and primary health care workers providing preventive and curative health care services. The leading cause of death is intestinal infection, and A.I.D.-financed projects in rural potable water and environmental sanitation are focused on this problem.

- 8 -

The fact that "little progress has been made in achieving a political solution to the conflict" is completely unrelated to U.S. economic assistance and should not be linked to such assistance. Rather, the lack of progress is related -- as was described in extensive detail in our April 1, 1988 Report to the Congress on the Situation in El Salvador -- directly to the communist guerrillas' intransigence and refusal to incorporate themselves into the democratic process under the framework of the Central American Peace Agreement.

I hope your Committee will give full consideration to this report when evaluating H. Con. Res. 277. We would be happy to provide briefers from the Department and the Agency for International Development to discuss this resolution and our programs with you and your staff, at your convenience.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely,

J. Edward Fox
Assistant Secretary
Legislative Affairs