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DEPARTMENT OF STATE A/CDC/MP
 DEPARTMENT OF STATE
 REVIEWED BY WSP/Bom DATE 2-22-89
 ACTION MEMORANDUM

NO. OF PAGES 1 EXT. DATE _____
 NO. AUTH. _____ REASON(S) _____
 REVISIONS _____
 RELEASABLE
 ENCLAVE DENIED in part
 PA or FOI EXEMPTIONS B-5

NOV 6 1981

EXCISE

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11/7

CONFIDENTIAL (Entire Text)

TO: T - Mr. Buckley

FROM: PM - Richard Burt (B)

SUBJECT: Program Approval and Apportionment Request for FY 1982 FMS Loan for El Salvador

ISSUE FOR DECISION

We recommend that you sign the attached program approval and apportionment request, which provides authority to guarantee \$25 million in FMS financing to El Salvador. This funding is urgently needed to maintain and to improve the capability of the Salvadoran Armed Forces to combat the foreign-supported Marxist insurgency.

ESSENTIAL FACTORS

On October 19 you approved the allocation of \$25 million in FY 1982 FMS guaranteed financing to El Salvador under the October 1 - November 20 Continuing Resolution (CR). This is the full amount of FMS financing for El Salvador requested in the FY 1982 Congressional Presentation Document (CPD). Though the CPD request was for \$17 million in direct credit and \$8 million in guaranteed financing, we have revised these figures for planning purposes to \$16.5 million in guaranteed financing and \$8.5 million in direct credit in conformance with Senate action on the FY 1982 authorization bill. However, we currently have no legal authority or funds to provide direct credit. Therefore the entire financing program, under the current CR, must be in the form of guaranteed financing. The program will be divided into two parts -- a \$16.5 million Federal Financing Bank (FFB) loan agreement to be concluded as soon as possible after apportionment; and a \$8.5 million FFB loan agreement to be concluded (1) if and when it becomes clear that direct credit will not be available or (2) the \$16.5 million loan is drawn down and funds are needed for further purchases. This procedure will preserve the option of providing El Salvador with direct credit for some of its program, should Congress authorize and appropriate the necessary funds.

In ACDA's view the proposed financing involves the purchase of military materiel which would contribute to stability in the Central American region.

Congressional sensitivity to security assistance for El Salvador can be seen in action so far by the House Foreign Affairs Committee and the Senate to write a provision into the FY 1982 authorization bill which would require Presidential certifications before security assistance could be provided (Tab B). Congress is particularly concerned about human rights abuses by the Salvadoran security forces. Nevertheless, there is no indication that Congress will specifically attempt to decrease or eliminate the \$25 million FMS financing request, and there is no legal impediment to our concluding a loan agreement under the CR.

[REDACTED]

B5

RECOMMENDATIONS:

- (1) That you sign the program approval and apportionment request attached at Tab A.

Approve _____ Disapprove _____

(2) That we informally notify congressional staffs before the first loan agreement is signed [redacted]

Approve _____

Disapprove _____

Alternatively, that we consult with members of the Senate Foreign Relations and House Foreign Affairs Committees before the first loan agreement is signed [redacted]

Approve _____

Disapprove _____

Attachments:

- Tab A - Program Approval and Apportionment Request
- Tab B - Senate Restrictions

Drafted: PM/SAS:DWCOX:tlb
11/3/81:ext 27775

- Clearances:
- ARA/CEN: CJohnstone
 - ARA/RPP: LScott
 - L/PM: ECummings; RSloan
 - H: SBartlett
 - HA: RJacobs
 - ACDA: EFinegold
 - S/P: NTarcov
 - EB/ODF: LPeters (subs)
 - Treasury: CCrosswhite
 - DSAA: GRudd
 - OMB: JSegerson
 - PM/RSA: ARabassa
 - PM/SAS: RMOgden
 - PM: LBrown

INTERNATIONAL SECURITY ASSISTANCE
PROGRAM APPROVAL AND APPORTIONMENT REQUEST

COUNTRY: El Salvador

Description of Program: \$25 million in FMSCR FFB loans to finance the purchase of defense articles and services for the Armed Forces of El Salvador. The first loan agreement shall be in the amount of \$16.5 million. The second loan agreement shall be in the amount of \$8.5 million, and shall not be concluded without prior authorization of the Department of State. Items expected to be purchased include: M-16 rifles, machine guns, grenade launchers, recoilless rifles, ammunition, Bailey bridges, vehicles, vehicle spare parts, communications equipment, aircraft spare parts, radar detection equipment, and possibly helicopters. (Note: Treasury concurs with the financing of spare parts and consumables under the terms listed below on the basis that this is an exception for El Salvador.)

Political and Economic Justification:

The USG attaches the highest priority to helping the Government of El Salvador resist the foreign-supported Marxist insurgency and to supporting its plans to conduct free elections next year. Real GDP and net international reserves have declined for several years as the internal violence has discouraged private investment. The USG is providing large-scale economic assistance to insure the survival of the government. In such a situation the most lenient repayment terms possible are required.

Military Justification:

The equipment for which the financing is requested will improve the capabilities of the Armed Forces to interdict the illicit flow of weapons from abroad and to curb the insurgency.

Delinquencies:

\$310,163 in interest payments on the FY 1990 guaranteed loan is overdue. The GOES is being requested to make this payment, together with late charges, as quickly as possible.

Terms and Conditions:

Principal is to be repaid in fifteen approximately equal semi-annual installments, commencing five years after the signing of the loan agreements. The Government of El Salvador will pay guaranty fees of \$41,250 and \$21,250 respectively from its own resources. Other terms of the loans will be determined by the FFB.

03:15:07:03

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Budget Impact:

(\$ Millions)

| | <u>Program Value</u> | <u>Budget Authority</u> | <u>Direct Loan</u> | <u>Loan Guarantees</u> | <u>Grant</u> |
|-------|----------------------|-------------------------|--------------------|------------------------|--------------|
| FMSCR | 25.0 | - | - | 25.0* | - |

Approved: _____

James L. Buckley

Date: _____

* Consists of two loan agreements -- the first for \$16.5 million and the second for \$8.5 million. The specific concurrence of the Department of State is needed before the second loan agreement can be concluded.

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SENATE RESTRICTIONS ADOPTED ON FY-82 SECURITY ASSISTANCE TO
EL SALVADOR

The certification required...is a certification by the President to the Speaker of the House of Representatives and to the chairman of the Committee on Foreign Relations of the Senate of a determination that the Government of El Salvador, to the extent not precluded by forces outside its control -

- (1) is making a concerted and significant effort to control gross violations of internationally recognized human rights;
- (2) is moving to achieve control over all elements of its own armed forces, so as to bring to an end the indiscriminate torture and murder of Salvadoran citizens by these forces;
- (3) is making continued progress in implementing essential economic and political reforms, including the land reform programs;
- (4) is committed to the holding of free elections at an early date and to that end has demonstrated its willingness to negotiate an equitable political resolution of the conflict with any group which renounces and refrains from further military or paramilitary opposition activity.

Each such certification shall discuss fully and completely the justification for making each of the determinations required by paragraphs (1) through (4).

On making the first certification under subsection (a) of this section, the President shall also certify to the Speaker of the House of Representatives and the chairman of the Committee on Foreign Relations of the Senate that he has determined that the Government of El Salvador has made good faith efforts both to investigate the murders of the six United States citizens in El Salvador in December 1980 and January 1981 and to bring to justice those responsible for those murders.

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