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Department of State

OUTGOING
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DRAFTED BY: AID/FVA/PPE: J. MANZANO: AW: 2034E
APPROVED BY: AID/AA/FVA: J. C. BLCCH
AID/DAA/FVA: W. BOLLINGER (DRAFT) AID/FVA/FFP: T. REESE (DRAFT)
AID/FVA/PPE: D. RHODD (DRAFT) AID/ES: G. JOE
AID/LEG: SABRAMS (DRAFT)

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AIDAC PL 480 OFFICERS FROM AA/FVA JULIA BLOCH

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TAGS: N/A
SUBJECT: SUMMARY OF 1985 FARM BILL

L. THE FARM BILL OF 1985, AMONG A NUMBER OF CHANGES, GIVES THE PRIVATE SECTOR A GREATER ROLE IN PL 480 AND SEC 416 PROGRAMMING. THE FOOD FOR PROGRESS PROGRAM (SEC 1110) FOSTERS POLICY REFORMS AIMED AT ALLOWING MARKET FORCES AND PRIVATE ENTERPRISE TO SHAPE ECONOMIC ACTIVITY. THE FUNDING OF INTERMEDIATE FINANCE INSTITUTIONS WITH LOCAL CURRENCIES (SEC. 1111) PROVIDES FOR DEVELOPMENT LOANS TO PRIVATE AGRICULTURAL SECTOR BORROWERS. THE EXPANDED AUTHORITY OF SEC. 415 PROGRAMS (SEC. 1109) ALLOWS FOR U.S. AGRICULTURAL SURPLUSES TO BE USED FOR DEVELOPMENT AND HUMANITARIAN PURPOSES PARALLELING TITLE II PROGRAMS. IN ADDITION, LEGISLATION EARMARKS FUNDS FOR THE FARMER-TO-FARMER PROGRAM, ASSIGNS PRIORITY TO CHILD IMMUNIZATION PROGRAMS AND AUTHORIZES MONETIZATION UNDER TITLE II AND SEC. 416. IMPLEMENTATION OF THIS LEGISLATION WILL REQUIRE THE DEVELOPMENT OF EXTENSIVE GUIDANCE TO BECOME WORKABLE WITHIN CURRENT BUDGETARY AND POLICY LIMITATIONS. MISSIONS WILL BE KEPT INFORMED OF DEVELOPMENTS. A SUMMARY OF THE BILL FOLLOWS.

-- SEC. 1101- THE PRESIDENT IS AUTHORIZED TO RAISE THE DOLLARS 1 BILLION FUNDING LEVEL OF TITLE II WHEN NECESSARY TO MEET HUMANITARIAN NEEDS. THE PROGRAM YEAR WAS ALSO CHANGED FROM CALENDAR TO FISCAL YEAR.

-- SEC. 1102- TITLE II MINIMUMS AND SUB-MINIMUMS ARE RAISED TO 1.9 AND 1.435 MILLION MTS FOR FY 1987- 1990. AMOUNTS FOR FY 1986 ARE 1.8 AND 1.3 MILLION MTS.

-- SEC. 1103- REQUIRED LEVEL OF PROCESSED AND BAGGED FOODS IN TITLE II NONEMERGENCY PROGRAMS IS RAISED TO 75 PERCENT, ONLY SLIGHTLY HIGHER THEN LEVELS ACHIEVED IN FY '85. THE REQUIREMENT CAN BE WAIVED BY THE PRESIDENT.

SEC. 1104- PVOS REQUESTING MONETIZATION ARE REQUIRED TO SUBMIT A DESCRIPTION OF PLANNED USES OF CURRENCIES. ALSO, A 5 PERCENT LEVEL OF MONETIZATION IN THE AGGREGATE OF NONEMERGENCY TITLE II IS REQUIRED. THIS IS ROUGHLY

SEC. 1105- PL 480 IS EXTENDED THROUGH FY 1990.

-- SEC. 1107- ONE-TENTH OF 1 PERCENT OF PL 480 FUNDS IN FY 1986 AND 1937 ARE TO BE USED IN FARMER-TO-FARMER PROGRAMS AS DESCRIBED IN SEC. 406 (A) OF PL 480. THE PROGRAM IS TO BE IMPLEMENTED IN COORDINATION WITH SEC. 296 THROUGH 300 OF THE FAA.

-- SEC. 1108- THE REQUIRED LEVEL OF TITLE III IS REDUCED FROM 15 TO 10 PERCENT.

-- SEC. 1109- SEC. 416 COMMUNITIES DECLARED AVAILABLE BY THE SECRETARY OF AGRICULTURE MAY BE PROGRAMMED UNDER CONDITIONS LARGELY PARALLELING TITLE II, E.G. MINIMUM TONNAGES; UMRS; BELLMON AMENDMENT CONSIDERATIONS; AND MONETIZATION UNDER PRESCRIBED CONDITIONS. THIS SECTION NEEDS SUBSTANTIAL REVIEW AND GUIDANCE TO BECOME OPERATIONAL.

-- SEC. 1110- FOOD FOR PROGRESS AUTHORIZES MULTI-YEAR GRANT AGREEMENTS FOSTERING POLICY REFORMS CONDUCTIVE TO MARKET ORIENTED PRIVATE SECTOR DEVELOPMENT. THE SIZE OF THE PROGRAM IS LIMITED TO 500,000 MTS AND IS TO COME FROM TITLE I APPROPRIATIONS, SUPPLEMENTED BY A MINIMUM OF 75,000 MTS UNDER SEC 416. SUBSTANTIAL GUIDANCE WILL BE REQUIRED TO IMPLEMENT THE PROGRAM.

-- SEC. 1111- LOCAL CURRENCIES ARE TO BE USED TO FUND INTERMEDIATE FINANCING INSTITUTIONS TO EXTEND CREDIT TO

THE PRIVATE SECTOR IN AGRICULTURALLY RELATED ACTIVITY. A MINIMUM OF 10 PERCENT OF TITLE I WILL BE SOLD FOR LOCAL CURRENCIES. THIS MINIMUM IS WAIVABLE BY THE PRESIDENT. THESE U.S.-OWNED LOCAL CURRENCIES WILL CAPITALIZE IFI SUBLENDING. SIMILAR ALLOCATIONS OF COUNTRY-OWNED LOCAL CURRENCY GENERATIONS ARE ALSO ENCOURAGED. OVERALL, A 25 PERCENT LEVEL OF U.S. AND COUNTRY-OWNED LOCAL CURRENCIES IS ENVISAGED. THIS PROGRAM IS UNUSUALLY COMPLICATED AND WILL REQUIRE EXTENSIVE GUIDANCE TO BRING INTO OPERATION. EXTENSIVE NEGOTIATIONS WITH RECIPIENT COUNTRY GOVERNMENTS AND IFIS APPEAR LIKELY IN ORDER TO ARRIVE AT AN AGREEMENT.

-- SEC. 1112- INCREASES IN IMMUNIZATION LEVELS ARE TO BE PURSUED IN PL 480 HEALTH PROGRAMS. INCREASED LEVELS OF IMMUNIZATION ARE TO BE REPORTED TO CONGRESS AS REQUIRED BY SEC. 634 OF THE FAA.

-- SEC 1113 A SPECIAL ASSISTANT TO THE PRESIDENT FOR AGRICULTURAL TRADE AND AID IS TO BE APPOINTED.

2. A COPY OF THE FULL TEXT OF THE LAW HAS BEEN POUCHED BY AID/LEG TO THE MISSIONS. PROGRAM-SPECIFIC GUIDANCE WILL BE FORTHCOMING AS IT IS DEVELOPED. SHULTZ

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FOOD SECURITY ACT
OF 1985

THE COMMITTEE OF CONFERENCE

SUBMITTED THE FOLLOWING

CONFERENCE REPORT

[To accompany H.R. 2100]



DECEMBER 17, 1985.—Ordered to be printed

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"(iii) such honey is for any other reason unsound, unhealthy, unwholesome, or otherwise unfit for human consumption."

TITLE XI—TRADE

Subtitle A—Public Law 480 and Use of Surplus Commodities in International Programs

TITLE II OF PUBLIC LAW 480—FUNDING LEVELS

SEC. 1101. Effective October 1, 1985, section 204 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1724) is amended by—

(1) striking out "calendar" both places it appears in the first sentence and inserting in lieu thereof "fiscal"; and

(2) inserting after the first sentence the following: "The President may waive the limitation in the preceding sentence if the President determines that such waiver is necessary to undertake programs of assistance to meet urgent humanitarian needs."

MINIMUM QUANTITY OF AGRICULTURAL COMMODITIES DISTRIBUTED UNDER TITLE II

SEC. 1102. Section 201(b) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721(b)) is amended to read as follows:

"(b) The minimum quantity of agricultural commodities distributed under this title for each of the fiscal years ending September 30, 1987, September 30, 1988, September 30, 1989, and September 30, 1990, shall be 1,900,000 metric tons, of which not less than 1,425,000 metric tons for nonemergency programs shall be distributed through nonprofit voluntary agencies, cooperatives, and the World Food Program; unless the President determines and reports to the Congress, together with his reasons, that such quantity cannot be used effectively to carry out the purposes of this title."

TITLE II OF PUBLIC LAW 480—MINIMUM FOR FORTIFIED OR PROCESSED FOOD AND NONPROFIT AGENCY PROPOSALS

~~Sec. 1103.~~ Section 201 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721) is amended by adding at the end thereof the following new subsection:

"(c)(1) Except as provided in paragraph (2), in distributing agricultural commodities under this title, the President shall—

"(A) consider—

"(i) the nutritional assistance to recipients and benefits to the United States that would result from distributing such commodities in the form of processed and protein-fortified products, including processed milk, plant protein products, and fruit, nut, and vegetable products;

"(ii) the nutritional needs of the proposed recipients of the commodities;

"(iii) the cost effectiveness of providing such commodities, for purposes of selecting commodities for distribution under nonemergency programs; and

"(iv) the purposes of this title; and

"(B) ensure that at least 75 percent of the quantity of agricultural commodities required to be distributed each fiscal year under subsection (b) for nonemergency programs be in the form of processed or fortified products or bagged commodities.

"(2) The President may waive the requirement under paragraph (1)(B) or make available a smaller percentage of fortified or processed food than required under paragraph (1)(B) during any fiscal year in which the President determines that the requirements of the programs established under this title will not be best served by the distribution of fortified or processed food in the amounts required under paragraph (1)(B)."

FOOD ASSISTANCE PROGRAMS OF VOLUNTARY AGENCIES

~~Sec. 1104.~~ (a) Title II of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721 et seq.) is amended by adding at the end thereof the following:

"SEC. 207. (a) A nonprofit voluntary agency requesting a nonemergency food assistance agreement under this title shall include in such request a description of the intended uses of any foreign currency proceeds that would be generated with the commodities provided under the agreement.

"(b) Such agreements shall provide, in the aggregate for each fiscal year, for the use of foreign currency proceeds under this subsection in an amount that is not less than 5 percent of the aggregate value of the commodities distributed under nonemergency programs under this title for such fiscal year."

(b) Section 207 of the Agricultural Trade Development and Assistance Act of 1954 (as added by subsection (a)) shall apply with respect to agreements entered into after December 31, 1985.

EXTENSION OF THE PUBLIC LAW 480 AUTHORITIES

SEC. 1105. Section 409 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1736c) is amended by—

(1) striking out "1985" in the first sentence and inserting in lieu thereof "1990"; and

(2) in the second sentence—

(A) striking out "amendment" and inserting in lieu thereof "amendments"; and

(B) inserting "and the Food Security Act of 1985" after "Agriculture and Food Act of 1981".

FACILITATION OF EXPORTS

SEC. 1106. It is the sense of Congress that the President should work with the People's Republic of China to facilitate the export of agricultural commodities to the People's Republic of China.

FARMER-TO-FARMER PROGRAM UNDER PUBLIC LAW 480

~~Sec. 1107.~~ (a) Notwithstanding any other provision of law, not less than one-tenth of 1 percent of the funds available for each of the fiscal years ending September 30, 1986, and September 30, 1987, to carry out the Agricultural Trade Development and Assistance Act of 1954 shall be used to carry out paragraphs (1) and (2) of section 406(a) of that Act. Any such funds used to carry out paragraph (2)

of section 406(a) shall not constitute more than one-fourth of the funds used as provided by the first sentence of this subsection, shall be used for activities in direct support of the farmer-to-farmer program under paragraph (1) of section 406(a), and shall be administered whenever possible in conjunction with programs under sections 296 through 300 of the Foreign Assistance Act of 1961.

(b) Not later than 120 days after the date of enactment of this Act, the Administrator of the Agency for International Development, in conjunction with the Secretary of Agriculture, shall submit to Congress a report indicating the manner in which the Agency intends to implement the provisions of paragraphs (1) and (2) of section 406(a) of the Agricultural Trade Development and Assistance Act of 1954 with the funds made available under subsection (a).

FOOD FOR DEVELOPMENT PROGRAM

SEC. 1108. Section 302(c)(1)(C) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1727a(c)(1)(C)) is amended by striking out "15" and inserting in lieu thereof "10".

USE OF SURPLUS COMMODITIES IN INTERNATIONAL PROGRAMS

~~Section 1431~~ Section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431) is amended by—

- (1) striking out the last two sentences of subsection (a); and
- (2) amending subsection (b) to read as follows:

"(b)(1) The Secretary, subject to the requirements of paragraph (10), may furnish eligible commodities for carrying out programs of assistance in developing countries and friendly countries under title II of the Agricultural Trade Development and Assistance Act of 1954 and under the Food for Progress Act of 1985, as approved by the Secretary, and for such purposes as are approved by the Secretary. To ensure that the furnishing of commodities under this subsection is coordinated with and complements other United States foreign assistance, assistance under this subsection shall be coordinated through the mechanism designated by the President to coordinate assistance under the Agricultural Trade Development and Assistance Act of 1954.

"(2) As used in this subsection, the term 'eligible commodities' means—

"(A) dairy products, grains, and oilseeds acquired by the Commodity Credit Corporation through price support operations that the Secretary determines meet the criteria specified in subsection (a); and

"(B) such other edible agricultural commodities as may be acquired by the Secretary or the Commodity Credit Corporation in the normal course of operations and that are available for disposition under this subsection, except that no such commodities may be acquired for the purpose of their use under this subsection.

"(3)(A) Commodities may not be made available for disposition under this subsection in amounts that (i) will, in any way, reduce the amounts of commodities that traditionally are made available through donations to domestic feeding programs or agencies, or (ii)

into by the Secretary under a payment-in-kind program under this Act or other Acts administered by the Secretary.

"(B)(i) The requirements of section 401(b) of the Agricultural Trade Development and Assistance Act of 1954 shall apply with respect to commodities furnished under this subsection. Commodities may not be furnished for disposition to any country under this subsection except on determinations by the Secretary that—

"(I) the receiving country has the absorptive capacity to use the commodities efficiently and effectively; and

"(II) such disposition of the commodities will not interfere with usual marketings of the United States, nor disrupt world prices of agricultural commodities and normal patterns of commercial trade with developing countries.

"(ii) The requirement for safeguarding usual marketings of the United States shall not be used to prevent the furnishing under this subsection of any eligible commodity for use in countries that—

"(I) have not traditionally purchased the commodity from the United States; or

"(II) do not have adequate financial resources to acquire the commodity from the United States through commercial sources or through concessional sales arrangements.

"(C) The Secretary shall take reasonable precautions to ensure that—

"(i) commodities furnished under this subsection will not displace or interfere with sales that otherwise might be made; and

"(ii) sales or barter under paragraph (7) will not unduly disrupt world prices of agricultural commodities nor normal patterns of commercial trade with friendly countries.

"(4) Agreements may be entered into under this subsection to provide eligible commodities in installments over an extended period of time.

"(5)(A) Section 203 of the Agricultural Trade Development and Assistance Act of 1954 shall apply to the commodities furnished under this subsection.

"(B) The Commodity Credit Corporation may pay the processing and domestic handling costs incurred, as authorized under this subsection, in the form of eligible commodities, as defined in paragraph (2)(A), if the Secretary determines that such in-kind payment will not disrupt domestic markets.

"(6) The cost of commodities furnished under this subsection, and expenses incurred under section 203 of the Agricultural Trade Development and Assistance Act of 1954 in connection with those commodities, shall be in addition to the level of assistance programmed under that Act and shall not be considered expenditures for international affairs and finance.

"(7) Eligible commodities, and products thereof, furnished under this subsection may be sold or bartered only with the approval of the Secretary and solely as follows:

"(A) Sales and barter that are incidental to the donation of the commodities or products.

"(B) Sales and barter to finance the distribution, handling, and processing costs of the donated commodities or products in the importing country through which such com-

the importing country that are consistent with providing food assistance to needy people.

"(C) Sales and barter of commodities and products furnished to intergovernmental agencies or organizations, insofar as they are consistent with normal programming procedures in the distribution of commodities by those agencies or organizations.

"(D)(i) Sales of commodities and products furnished to non-profit and voluntary agencies, or cooperatives, for food assistance under agreements that provide for the use, by the agency or cooperative, of foreign currency proceeds generated from such sale of commodities or products for the purposes established in clause (ii) of this subparagraph.

"(ii) Foreign currency proceeds generated from the sales of commodities and products under this subparagraph shall be used by nonprofit and voluntary agencies, or cooperatives, for activities carried out by the agency or cooperative that will enhance the effectiveness of transportation, distribution, and use of commodities and products donated under this subsection, including food for work programs and cooperative and agricultural projects.

"(iii) Except as otherwise provided in clause (v), such agreements, taken together for each fiscal year, shall provide for sales of commodities and products for foreign currency proceeds in amounts that are, in the aggregate, not less than 5 percent of the aggregate value of all commodities and products furnished for carrying out programs of assistance under this subsection in such fiscal year. The minimum allocation requirements of this clause apply with respect to commodities and products made available under this subsection for carrying out programs of assistance under title II of the Agricultural Trade Development and Assistance Act of 1954, and not with respect to commodities and products made available to carry out the Food for Progress Act of 1985.

"(iv) Foreign currency proceeds generated from the sale of commodities or products under this subparagraph shall be expended within the country of origin within one year of acquisition of such currency, except that the Secretary may permit the use of such proceeds (I) in countries other than the country of origin as necessary to expedite the transportation of commodities and products furnished under this subsection, and (II) after one year of acquisition as appropriate to achieve the purposes of clause (i).

"(v) The provisions of clause (iii) of this subparagraph establishing minimum annual allocations for sales and use of proceeds shall not apply to the extent that there have not been sufficient requests for such sales and use of proceeds nor to the extent required under paragraph (3).

"(E) Sales and barter to cover expenses incurred under paragraph (5)(a).

No portion of the proceeds or services realized from sales or barter under this paragraph may be used to meet operating and overhead expenses, except as otherwise provided in subparagraph (C) and except for personnel and administrative costs incurred by local cooperatives.

"(8)(A) To the maximum extent practicable, expedited procedures shall be used in the implementation of this subsection.

"(B) The Secretary shall be responsible for regulations governing sales and barter, and the use of foreign currency proceeds, under paragraph (7) of this subsection that will provide reasonable safeguards to prevent the occurrence of abuses in the conduct of activities provided for in paragraph (7).

"(9)(A) Each recipient of commodities and products approved for sale or barter under paragraph (7) shall report to the Secretary information with respect to the items required to be included in the Secretary's report pursuant to clauses (i) through (iv) of subparagraph (B). Reports pursuant to this subparagraph shall be submitted in accordance with regulations of the Secretary. Such regulations shall require at least one report annually, to be submitted not later than December 31 following the end of the fiscal year in which the commodities and products are received; except that a report shall not be required with respect to fiscal year 1985.

"(B) Not later than February 15, 1987, and annually thereafter, the Secretary shall report to the Congress on sales and barter, and use of foreign currency proceeds, under paragraph (7) during the preceding fiscal year. Such report shall include information on—

"(i) the quantity of commodities furnished for such sale or barter;

"(ii) the amount of funds (including dollar equivalents for foreign currencies) and value of services generated from such sales and barter in such fiscal year;

"(iii) how such funds and services were used;

"(iv) the amount of foreign currency proceeds that were used under agreements under subparagraph (D) of paragraph (7) in such fiscal year, and the percentage of the quantity of all commodities and products furnished under this subsection in such fiscal year such use represented;

"(v) the Secretary's best estimate of the amount of foreign currency proceeds that will be used, under agreements under subparagraph (D) of paragraph (7), in the then current fiscal year and the next following fiscal year (if all requests for such use are agreed to), and the percentage that such estimated use represents of the quantity of all commodities and products that the Secretary estimates will be furnished under this subsection in each such fiscal year;

"(vi) the effectiveness of such sales, barter, and use during such fiscal year in facilitating the distribution of commodities and products under this subsection;

"(vii) the extent to which sales, barter, or uses—

"(I) displace or interfere with commercial sales of United States agricultural commodities and products that otherwise would be made,

"(II) affect usual marketings of the United States,

"(III) disrupt world prices of agricultural commodities or normal patterns of trade with friendly countries, or

"(IV) discourage local production and marketing of agricultural commodities in the countries in which commodities and products are distributed under this subsection; and

"(viii) the Secretary's recommendations, if any, for changes to improve the conduct of sales, barter, or use activities under paragraph (7).

"(10XA) Subject to the limitations established under paragraph (3), the Secretary shall make available for disposition under this subsection in each of the fiscal years 1986 through 1990 not less than the minimum quantities of eligible commodities specified in subparagraph (B).

"(B) The minimum quantity of eligible commodities that shall be made available for disposition under this subsection in each fiscal year shall be—

"(i) 500,000 metric tons of grains and oilseeds from the Corporation's uncommitted stocks, or an amount equal to 10 percent of the Corporation's uncommitted stocks of grains and oilseeds as of the end of such fiscal year (as estimated by the Secretary), whichever is less; and

"(ii) 10 percent of the Corporation's uncommitted stocks of dairy products, but not less than 150,000 metric tons of such products to the extent that uncommitted stocks are available.

The Secretary shall make such estimation of expected year-end levels of the Corporation's uncommitted stocks prior to the beginning of the fiscal year. The Secretary's determination as to the amount of the Corporation's stocks that shall be made available for disposition under this subsection for such fiscal year shall be published in the Federal Register, along with a breakdown by kind of commodity and the quantity of each kind of commodity that shall be made available, before the beginning of such fiscal year.

"(C) Of the aggregate amounts made available each fiscal year pursuant to both clauses (i) and (ii) of subparagraph (B), not less than 75,000 metric tons shall be made available to carry out the Food for Progress Act of 1985.

"(D)(i) The Secretary—

"(I) may waive the minimum quantity requirements of subparagraphs (A) and (B) for a fiscal year to the extent that the Secretary determines and reports to Congress that there are not sufficient requests for eligible commodities under this subsection for such fiscal year, except that the waiver authority of this subclause may not be used to waive the minimum quantity requirement of subparagraph (C);

"(II) may waive the minimum quantity requirement of subparagraph (C) in accordance with subsection (f)(2) of the Food for Progress Act of 1985; and

"(III) may waive the minimum quantity requirements of subparagraphs (A), (B), and (C) for a fiscal year, if the Secretary determines that the restrictions on the furnishing of commodities under paragraph (3) prevent the making available of commodities in such quantities.

"(ii) For any fiscal year in which the minimum levels of uncommitted Commodity Credit Corporation stocks specified in subparagraph (B) are not made available and during which any requests for commodities under this subsection are rejected, the Secretary shall provide a detailed, written explanation to Congress, at the end of such fiscal year, of the reasons for the rejections of such requests.

"(11XA) The Secretary may furnish eligible commodities under this subsection in connection with (i) concessional sales agreements entered into under title I of the Agricultural Trade Development and Assistance Act of 1954 or other statutes, or (ii) agricultural export bonus or promotion programs carried out under the Commodity Credit Corporation Charter Act or other statutes.

"(B) Eligible commodities may be furnished by the Secretary under this subsection in connection with agreements by recipient countries to acquire additional agricultural commodities from the United States through commercial arrangements.

"(C) The amount of any commodity furnished under subparagraphs (A) and (B) of this paragraph in any fiscal year shall not be considered for the purpose of determining whether the requirements of paragraph (10XA) of this subsection have been met during such fiscal year."

FOOD FOR PROGRESS

(a) This section may be cited as the "Food for Progress Act of 1985".

(b) In order to use the food resources of the United States more effectively in support of countries that have made commitments to introduce or expand free enterprise elements in their agricultural economies through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement, the President is authorized to enter into agreements with developing countries to furnish commodities made available pursuant to subsections (e) and (f) of this section. Such agreements may provide for commodities to be furnished on a multiyear basis.

(c) As used in this section, the term "commodities" means agricultural commodities and the products thereof.

(d) In determining whether to enter into an agreement with countries under this section, the President shall consider whether a potential recipient country is committed to carry out, or is carrying out, policies that promote economic freedom, private, domestic production of food commodities for domestic consumption, and the creation and expansion of efficient domestic markets for the purchase and sale of such commodities. Such policies may provide for, among other things—

(1) access, on the part of farmers in the country, to private, competitive markets for their product;

(2) market pricing of commodities to foster adequate private sector incentives to individual farmers to produce food on a regular basis for the country's domestic needs;

(3) establishment of market-determined foreign exchange rates;

(4) timely availability of production inputs (such as seed, fertilizer, or pesticides) to farmers;

(5) access to technologies appropriate to the level of agricultural development in the country; and

(6) construction of facilities and distribution systems necessary to handle perishable products.

(e)(1) The Commodity Credit Corporation shall make available to the President such commodities determined to be available under

section 401 of the Agricultural Trade Development and Assistance Act of 1954 as the President may request for purposes of furnishing commodities under this section.

(2) Notwithstanding any other provision of law, the Commodity Credit Corporation may use funds appropriated to carry out title I of the Agricultural Trade Development and Assistance Act of 1954 in carrying out this section with respect to commodities made available under that Act.

(3) The Commodity Credit Corporation may finance the sale and exportation of commodities, made available under the Agricultural Trade Development and Assistance Act of 1954, which are furnished to a developing country under this section. Payment by a developing country for commodities made available under that Act which are purchased on credit terms under this section shall be on the same basis as the terms provided in section 106 of that Act.

(4) In the case of commodities made available under the Agricultural Trade Development and Assistance Act of 1954 for purposes of this section, section 203 of that Act shall apply to commodities furnished on a grant basis to a developing country under this section and section 401(b) of that Act shall apply to all commodities furnished to a developing country under this section.

(f)(1) Commodities made available under section 416(b) of the Agricultural Act of 1949 for use in carrying out this section shall be provided to developing countries on a grant basis.

(2) Not less than 75,000 metric tons shall be made available pursuant to section 416(b)(10)(C) of the Agricultural Act of 1949 to carry out this section unless the President determines there are an insufficient number of eligible recipients.

(3) In carrying out section 416(b) of the Agricultural Act of 1949, the Commodity Credit Corporation may purchase commodities for use under this section if—

(A) the Commodity Credit Corporation does not hold stocks of such commodities; or

(B) Commodity Credit Corporation stocks are insufficient to satisfy commitments made in agreements entered into under this section and such commodities are needed to fulfill such commitments.

(4) No funds of the Commodity Credit Corporation in excess of \$30,000,000 (exclusive of the cost of commodities) may be used to carry out this section with respect to commodities made available under section 416(b) of the Agricultural Act of 1949 unless authorized in advance in appropriation Acts.

(5) The cost of commodities made available under section 416(b) of the Agricultural Act of 1949 which are furnished under this section, and the expenses incurred in connection with furnishing such commodities, shall be in addition to the level of assistance programmed under the Agricultural Trade Development and Assistance Act of 1954 and may not be considered expenditures for international affairs and finance.

(g) Not more than 500,000 metric tons of commodities may be furnished under this section in each of the fiscal years 1986 through 1990.

(h) An agreement entered into under this section shall prohibit the resale or transshipment of the commodities provided under the agreement to other countries.

(i) In entering into agreements under this section, the President shall take reasonable steps to avoid displacement of any sales of United States commodities that would otherwise be made to such countries.

(j) Within 90 days after the end of each fiscal year in which an agreement entered into with a country under this section is in effect, the President shall report to the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate on the status of such agreement and the progress being made to implement private, free enterprise agricultural policies for long-term agricultural development in such country.

(k) This section shall be effective during the period beginning October 1, 1985, and ending September 30, 1990.

SALES FOR LOCAL CURRENCIES; PRIVATE ENTERPRISE PROMOTION

~~SEC. 111.~~ (a) The first sentence of section 2 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691) is amended by inserting "to use foreign currencies accruing under this Act to foster and encourage the development of private enterprise in developing countries; to enhance food security in developing countries through local food production;" after "agricultural production;"

(b) The Congress finds that additional steps should be taken to use the agricultural abundance produced by American farmers—

(1) to relieve hunger and promote long-term food security and economic development in developing countries in accordance with the development assistance policy established under section 102 of the Foreign Assistance Act of 1961 (22 U.S.C. 2151-1); and

(2) to promote United States agricultural trade interests.

(c) Section 101 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1701) is amended to read as follows:

"SEC. 101. (a) In order to carry out the policies and accomplish the objectives set forth in section 2 of this Act, the President is authorized to negotiate and carry out agreements with friendly countries to provide for the sale of agricultural commodities—

"(1) for dollars on credit terms;

"(2) to the extent that sales for dollars under the terms applicable to such sales are not possible, for foreign currencies on credit terms and on terms that permit conversion to dollars at the exchange rate applicable to the sales agreement; or

"(3) for foreign currencies for use under section 108 on terms that permit conversion to dollars.

"(b)(1) Except as provided in paragraph (2), for each of the fiscal years 1986 through 1990 sales for foreign currencies for use under section 108 under agreements entered into under this title shall be made at an annual level of not less than 10 percent of the aggregate value of all sales of agricultural commodities under this title.

"(2) The President may reduce the minimum level of sales for foreign currencies required under paragraph (1) during any fiscal year

in which the President determines that the level of agricultural commodities furnished under this title will be significantly reduced as a result of compliance with the requirement under paragraph (1).

"(c) Agreements for sales for foreign currency in a developing country for use under section 108 may not be entered into to the extent that such agreements would generate currency in amounts that cannot be productively used and absorbed in the private sector of such country.

"(d) Sales for foreign currencies for use under section 108 under agreements entered into under this title shall be made on such terms and conditions as are specified in such agreements."

(d) Section 103 of such Act (7 U.S.C. 1703) is amended—

(1) by inserting ", in section 108," after "section 104" in subsection (b);

(2) by striking out "for dollars on credit terms" in the last sentence of subsection (d);

(3) in subsection (m)—

(A) by inserting "except as provided in section 108," after "(m)";

(B) by striking out the semicolon and inserting in lieu thereof a period; and

(C) by adding at the end thereof the following: "In carrying out this subsection, the President shall require that foreign currencies to be used under section 108 that are acquired under an agreement for the sale of commodities be convertible to dollars during the period beginning 10 years after the date of the last delivery of such commodities and ending 30 years after the date of such delivery. Such agreement for sale shall establish a schedule for such conversion but need not specify the exchange rate for such conversion";

(4) by striking out "for dollars on credit terms" and "for cash dollars" in subsection (n);

(5) by striking out "Take" in subsection (o) and inserting in lieu thereof "take";

(6) by striking out "Assure convertibility" in subsection (p) and inserting in lieu thereof "except as provided in section 108, assure convertibility"; and

(7) by striking out "Assure convertibility" in subsection (q) and inserting in lieu thereof "except as provided in section 108, assure convertibility".

(e) The first sentence of section 105 of such Act (7 U.S.C. 1705) is amended by striking out "section 104" and inserting in lieu thereof "sections 104 and 108".

(f) Section 106(a) of such Act (7 U.S.C. 1706(a)) is amended by adding at the end thereof the following new paragraph:

"(3) Payment for sales made for foreign currencies that are to be used under section 108 under an agreement entered into under this title shall be made on such terms as are specified in such agreement."

(g) Section 106(b) of such Act is amended by adding at the end thereof the following new paragraph:

"(4)(A) Notwithstanding any other provision of this subsection, agreements under this title for the sale of agricultural commodities

for dollars on credit terms may provide that proceeds from the sale of the commodities in the recipient country shall be used for such private sector development activities as are mutually agreed upon by the United States and the recipient government.

"(B) Proceeds used for private sector development activities pursuant to this paragraph shall be deposited in jointly programmed accounts to be loaned by the recipient government to one or more financial intermediaries operating within the country for use by those financial intermediaries for loans to private individuals, private and voluntary organizations, corporations, cooperatives, and other entities within such country. In the case of a cooperative or private and voluntary organization, proceeds may be granted to defray the startup costs of becoming a financial intermediary. Such proceeds shall not be used to promote the production of commodities or the products thereof that will compete, as determined by the President, in world markets with similar commodities or the products thereof produced in the United States."

(h) Such Act is amended by inserting after section 107 (7 U.S.C. 1707) the following new section:

"Sec. 108. (a)(1) In order to foster and encourage the development of private enterprise institutions and infrastructure as the base for the expansion, promotion, and improvement of the production of food and other related goods and services within a developing country and pursuant to an agreement for the sale of agricultural commodities entered into under this title, the President may enter into an agreement with a financial intermediary located or operating in such country under which the President shall lend to such financial intermediary foreign currency that accrues as a result of commodity sales to such country under a sales agreement entered into under this title after the date of enactment of the Food Security Act of 1985. Procurement and other contracting requirements, normally applicable to appropriated funds, shall not apply to such foreign currency.

"(2) Prior to loaning the foreign currencies as provided in this section, the President shall take such steps as may be necessary to assure that the availability of such foreign currencies to financial intermediaries is adequately publicized within the purchasing country.

"(b) To be eligible to obtain foreign currency under this section, a financial intermediary must enter into an agreement with the President under which the intermediary agrees to use such currency to make loans to private individuals, cooperatives, corporations, or other entities within a developing country, at reasonable rates of interest, for the purpose of financing—

"(1) productive, private enterprise investment within such country, including such investment in projects carried out by cooperatives, nonprofit voluntary organizations, and other entities found to be qualified by the President;

"(2) private enterprise facilities for aiding the utilization and distribution, and increasing the consumption of and markets for, United States agricultural commodities and the products thereof; or

"(3) private enterprise support of self-help measures and projects.

"(c) An agreement entered into under this section shall specify the terms and conditions under which the foreign currency shall be used and subsequently repaid, including the following terms and conditions:

"(1) A financial intermediary shall, to the maximum extent feasible, give preference to the financing of agricultural related private enterprise with the funds provided under this section.

"(2)(A) A financial intermediary shall repay a loan made under this section, plus accrued interest, at such times and in such manner as will permit conversion of such foreign currency to dollars in accordance with the schedule for such conversion.

"(B) A financial intermediary may repay a loan made under this section prior to the repayment date specified in such agreement.

"(3) To be eligible to receive financing from a financial intermediary under this section, an entity or venture must—

"(A) be owned, directly or indirectly, by citizens of the developing country or any other country eligible to participate in a sales agreement entered into under this title, except that up to 49 percent of such ownership interest may be held by citizens of the United States; and

"(B) not be owned or controlled, in whole or in part, by the government or any governmental subdivision of the developing country.

"(4)(A) The rate of interest charged on funds loaned to a financial intermediary under this section shall be such rate as is determined by the President and the intermediary.

"(B) In the case of a cooperative or nonprofit voluntary agency that is acting as a financial intermediary, the President may charge a lower rate of interest on funds loaned to such intermediaries or make a grant from currencies received from sales made under section 101(a)(3) of this Act to defray the startup costs of becoming a financial intermediary.

"(5) No currency made available under this section may be used to promote the production of agricultural commodities or the products thereof that will compete, as determined by the President, in world markets with similar agricultural commodities or the products thereof produced in the United States.

"(6) The President may not require a developing country to guarantee the repayment of a loan made to a financial intermediary under this section as a condition of receipt of such loan.

"(7) A financial intermediary shall take such steps as may be necessary to publicize in the developing country the availability of loan funds under this section.

"(d)(1) All currencies repaid by financial intermediaries under agreements entered into under this section shall be deposited and accounted for in accordance with section 105.

"(2) Currencies repaid by financial intermediaries shall, as determined by the President—

"(A) be used to finance additional productive, private enterprise investment under agreements with financial intermediaries entered into under this section;

"(B) be used for the development of new markets for United States agricultural commodities;

"(C) be used for the payment of United States obligations (including obligations entered into pursuant to other laws of the United States); or

"(D) be converted to dollars.

"(3) Section 1306 of title 31, United States Code, shall apply to currencies used for the purpose specified in paragraph (2)(C).

"(e)(1) Any agreement entered into under this section and section 106(b)(4) shall be subject to periodic audit to determine whether the terms and conditions of the agreement are being fulfilled.

"(2) Not later than 180 days after the end of each fiscal year, the President shall report to the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry and the Committee on Foreign Relations of the Senate on the activities carried out under this section and section 106(b)(4) during the preceding fiscal year, including an evaluation of the impact of investment under this section and section 106(b)(4) on the development of agricultural-related private enterprise in each participating country.

"(f) The President may provide agricultural technical assistance to further the purposes of this section, including the funding of market development activities. To the maximum extent practicable, the President shall use at least 5 percent of the foreign currencies obtained for use under this section from sales of agricultural commodities made under agreements entered into under this title after the date of enactment of the Food Security Act of 1985 to carry out such assistance.

"(g) For each of the fiscal years 1986 through 1990, and in accordance with the provisions of section 106(b)(4) and this section, the President is encouraged to channel foreign currencies, in an amount equivalent to 25 percent of the value of sales agreements under this title, for loans for private enterprise investment provided there are appropriate proposals for such an amount of foreign currencies.

"(h) The provisions of this section apply notwithstanding any other provision of law.

"(i) As used in this section and in section 106(b)(4)—

"(1) the term 'developing country' means a country that is eligible to participate in a sales agreement entered into under this title; and

"(2) the term 'financial intermediary' means a bank, financial institution, cooperative, nonprofit voluntary agency, or other organization or entity, as determined by the President, that has the capability of making and servicing a loan in accordance with this section."

CHILD IMMUNIZATION

~~Sec. 1112.~~ (a) The Agricultural Trade Development and Assistance Act of 1954 is amended—

(1) in paragraph (11) of section 109 (7 U.S.C. 1709(11)) by inserting immediately before the period at the end thereof ", including the immunization of children";

(2) in the first sentence of section 206 (7 U.S.C. 1726) by striking out "and" before "(B)" and by inserting immediately before

the period at the end thereof"; or (C) health programs and projects, including immunization of children"; and

(3) in the second sentence of section 301(b) (7 U.S.C. 1727(b)) by inserting "(including immunization of children)" immediately after "health services".

(b) In the implementation of health programs undertaken in relation to assistance provided under the Agricultural Trade Development and Assistance Act of 1954, it shall be the goal of the organizations and agencies involved to provide as many additional immunizations of children as possible. Such increased immunization activities should be taken in coordination with similar efforts of other organizations and in keeping with any national plans for expanded programs of immunization. The President shall include information concerning such immunization activities in the annual reports required by section 634 of the Foreign Assistance Act of 1961, including a report on the estimated number of immunizations provided each year pursuant to this subsection.

SPECIAL ASSISTANT FOR AGRICULTURAL TRADE AND FOOD AID

SEC. 1112³ (a) The President shall appoint a Special Assistant to the President for Agricultural Trade and Food Aid (hereinafter in this section referred to as the "Special Assistant").

(b) The Special Assistant shall serve in the Executive Office of the President.

(c) The Special Assistant shall—

(1) assist and advise the President in order to improve and enhance food assistance programs carried out in the United States and foreign countries;

(2) be available to receive suggestions and complaints concerning the implementation of United States food aid and agricultural export programs anywhere in the United States Government and provide prompt responses thereto, including expediting the program implementation in any instances in which there is unreasonable delay;

(3) make recommendations to the President on means to coordinate and streamline the manner in which food assistance programs are carried out by the Department of Agriculture and the Agency for International Development, in order to improve their overall effectiveness;

(4) make recommendations to the President on measures to be taken to increase use of United States agricultural commodities and the products thereof through food assistance programs;

(5) advise the President on agricultural trade;

(6) advise the President on the Food for Progress Program and expedite its implementation;

(7) serve as a member of the Development Coordination Committee and the Food Aid Subcommittee of such Committee;

(8) advise departments and agencies of the Federal Government on their policy guidelines on basic issues of food assistance policy to the extent necessary to assure the coordination of food assistance programs, consistent with law, and with the advice of such Subcommittee; and

(9) submit a report to the President and Congress each year through 1990 containing—

(A) a global analysis of world food needs and production;

(B) an identification of at least 15 target countries which are most likely to emerge as growth markets for agricultural commodities in the next 5 to 10 years; and

(C) a detailed plan for using available export and food aid authorities to increase United States agricultural exports to those targeted countries.

(d) The Special Assistant shall also—

(1) solicit information and advice from private and governmental sources and recommend a plan to the President and Congress on measures that should be taken—

(A) to promote the export of United States agricultural commodities and the products thereof; and

(B) to expand export markets for United States agricultural commodities and the products thereof;

(2) develop and recommend to the President national agricultural policies to foster and promote the United States agricultural industry and to maintain and increase the strength of this vitally important sector of the United States economy; and

(3)(A) appraise the various programs and activities of the Federal Government, as they affect the United States agricultural industry, for the purpose of determining the extent to which such programs and activities are contributing or not contributing to such industry; and

(B) make recommendations to the President and Congress with respect to the effectiveness of such programs and activities in contributing to such industry.

(d) Section 5312 of title 5, United States Code, is amended by adding at the end thereof the following new item:

"Special Assistant for Agricultural Trade and Food Aid."

Subtitle B—Maintenance and Development of Export Markets

TRADE POLICY DECLARATION

SEC. 1121. (a) Congress finds that—

(1) the volume and value of United States agricultural exports have significantly declined in recent years as a result of unfair foreign competition and the high value of the dollar;

(2) this decline has been exacerbated by the lack of uniform and coherent objectives in United States agricultural trade policy and the absence of direction and coordination in trade policy formulation;

(3) agricultural interests have been under-represented in councils of government responsible for determining economic policy that has contributed to a strengthening of the United States dollar;

(4) foreign policy objectives of the United States have been introduced into the trade policy process in a manner injurious to the goal of maximizing United States economic interests through trade; and

(5) the achievement of that goal is in the best interests of the United States.

(b) It is hereby declared to be the agricultural trade policy of the United States to—

- (1) provide through all means possible agricultural commodities and their products for export at competitive prices, with full assurance of quality and reliability of supply;
- (2) support the principle of free trade and the promotion of fairer trade in agricultural commodities and their products;
- (3) cooperate fully in all efforts to negotiate with foreign countries reductions in current barriers to fair trade;
- (4) counter aggressively unfair foreign trade practices using all available means, including export restitution, export bonus programs, and, if necessary, restrictions on United States imports of foreign agricultural commodities and their products, as a means to encourage fairer trade;
- (5) remove foreign policy constraints to maximize United States economic interests through agricultural trade; and
- (6) provide for consideration of United States agricultural trade interests in the design of national fiscal and monetary policy that may foster continued strength in the value of the dollar.

TRADE LIBERALIZATION

SEC. 1122. (a) Congress finds that—

- (1) the present high level of agricultural protectionism contrasts sharply with the general trade liberalization that has been achieved since the inception of the General Agreement on Tariffs and Trade (hereinafter referred to as "GATT"); and
- (2) GATT procedures should explicitly recognize the protective effect of domestic subsidies that alter trade indirectly by reducing the demand for imports and increasing the supply of exports.

(b) It is the sense of Congress that the President should negotiate with other parties to GATT to revise GATT rules and codes with the goal of reducing agricultural export subsidies, tariffs, and non-tariff barriers to trade.

AGRICULTURAL TRADE CONSULTATIONS

SEC. 1123. (a) To improve the orderly marketing of United States agricultural commodities, to achieve higher income for United States producers of agricultural commodities, and to reduce the likelihood of an agricultural commodity price war and the need for export subsidy programs, the Secretary of Agriculture shall, in coordination with the United States Trade Representative, confer with representatives of other major agricultural producing countries and, at the earliest possible date, initiate and pursue agricultural trade consultations among major agricultural producing countries.

(b) It is the sense of Congress that the objectives of the consultations called for in subsection (a) should be to—

- (1) increase the exchange of information on worldwide agricultural production, demand, and commodity supply levels;
- (2) determine a more equitable sharing of responsibility for maintaining agricultural commodity reserves and managing supplies of agricultural commodities; and

(3) attain increased cooperation in restraining export subsidy programs.

(c) The Secretary of Agriculture shall report to Congress by July 1, 1986, and annually thereafter through fiscal year 1990, on the progress of efforts to initiate and pursue the consultations called for in subsection (a), including any agreements reached with respect to the objectives set forth in subsection (b).

TARGETED EXPORT ASSISTANCE

SEC. 1124. (a) For export activities authorized to be carried out by the Secretary of Agriculture or the Commodity Credit Corporation, the Secretary of Agriculture shall use under this section, in addition to any funds or commodities otherwise required under this Act to be used for such activities, for the fiscal year ending September 30, 1986, and each of the fiscal years thereafter through September 30, 1990, not less than \$325,000,000 of funds of, or an equal value of commodities owned by, the Corporation.

(b)(1) Funds or commodities made available for use under this section shall be used by the Secretary only to counter or offset the adverse effect on the export of a United States agricultural commodity or the product thereof of a subsidy (as defined in paragraph (2)), import quotas, or other unfair trade practices of a foreign country.

(2) As used in paragraph (1), the term subsidy includes an export subsidy, tax rebate on exports, financial assistance on preferential terms, financial assistance for operating losses, assumption of costs or expenses of production, processing, or distribution, a differential export tax or duty exemption, a domestic consumption quota, or other method of furnishing or ensuring the availability of raw materials at artificially low prices.

(c) The Secretary shall provide export assistance under this section on a priority basis in the case of—

(1) agricultural commodities and the products thereof with respect to which there has been a favorable decision under section 301 of the Trade Act of 1974 (19 U.S.C. 2411); or

(2) agricultural commodities and the products thereof for which exports have been adversely affected, as defined by the Secretary, by retaliatory actions related to a favorable decision under section 301 of the Trade Act of 1974 (19 U.S.C. 2411).

SHORT-TERM EXPORT CREDIT

SEC. 1125. (a) In making available any guarantees of the repayment of credit extended on terms of up to 3 years in connection with the export sale of United States agricultural commodities or the products thereof, the Commodity Credit Corporation shall take into account—

(1) the credit needs of countries that are potential purchasers of United States agricultural exports;

(2) the creditworthiness of such countries; and

(3) whether the availability of Commodity Credit Corporation guarantees will improve the competitive position of United States agricultural exports in world markets.

(b) Effective for the fiscal year ending September 30, 1986 and each fiscal year thereafter through the fiscal year ending September

30, 1990, the Commodity Credit Corporation shall make available not less than \$5,000,000,000 in credit guarantees under its export credit guarantee program for short-term credit extended to finance the export sales of United States agricultural commodities and the products thereof.

(c) Notwithstanding any other provision of law, the Secretary of Agriculture may not charge an origination fee with respect to any credit guarantee transaction under the Export Credit Guarantee Program (GSM-102) in excess of an amount equal to one percent of the credit extended under the transaction.

COOPERATOR MARKET DEVELOPMENT PROGRAM

SEC. 1126. (a) It is the sense of Congress that the cooperator market development program of the Foreign Agricultural Service should be continued to help develop new markets and expand and maintain existing markets for United States agricultural commodities, using nonprofit agricultural trade organizations to the maximum extent practicable.

(b) The cooperator market development program shall be exempt from the requirements of Circular A 110 issued by the Office of Management and Budget.

(c) Subclause (B) of section 1207(a)(5) of the Agriculture and Food Act of 1981 (7 U.S.C. 1736m(a)(5)(B)) is amended to read as follows: "(B) funding an export market development program for value-added farm products and processed foods at a higher funding level than that provided during the fiscal year ending September 30, 1985; and".

DEVELOPMENT AND EXPANSION OF MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES

SEC. 1127. (a)(1) Notwithstanding any other provision of law, the Secretary of Agriculture (hereafter in this section referred to as the "Secretary") shall formulate and carry out a program under which agricultural commodities and the products thereof acquired by the Commodity Credit Corporation are provided to United States exporters, users, and processors and foreign purchasers at no cost to encourage the development, maintenance, and expansion of export markets for United States agricultural commodities and the products thereof, including value-added or high-value agricultural products produced in the United States.

(2)(A) The term "agricultural commodities", as used in this section in referring to United States agricultural commodities, includes, but is not limited to—

(i) wheat, feed grains, upland cotton, rice, soybeans, and dairy products produced in the United States;

(ii) any other agricultural commodity produced in the United States that is determined by the Secretary of Agriculture to be in surplus supply and that can be purchased with funds available under section 32 of the Act entitled "An Act to amend the Agricultural Adjustment Act, and for other purposes", approved August 24, 1935; and

(iii) products of the commodities and products described in clauses (i) and (ii) that are processed in the United States.

(B) United States agricultural commodities, as described in clause (ii) of subparagraph (A), may not be purchased with funds available under section 32 of the Act entitled "An Act to amend the Agricultural Adjustment Act, and for other purposes", approved August 24, 1935, for the sole purpose of use under the program under this section; and such commodities, or products thereof, may not be furnished to a United States user, exporter, processor, or foreign purchaser under the program under this section except by mutual agreement of such user, exporter, processor, or purchaser and the Secretary.

(3) In carrying out paragraph (1), the Secretary may provide such commodities in order to make United States commodities more competitive and shall, to the extent necessary, provide such commodities and products—

(A) to counter or offset—

(i) the adverse effect on the export of a United States agricultural commodity or the product thereof of a subsidy (as defined in paragraph (4)) or other unfair trade practice of a foreign country that directly or indirectly benefits producers, processors, or exporters of agricultural commodities in such foreign country;

(ii) the adverse effects of United States agricultural price support levels that are temporarily above the export prices offered by overseas competitors in export markets; or

(iii) fluctuations in the exchange rate of the United States dollar against other major currencies; and

(B) in conjunction with an intermediate export credit program conducted by the Commodity Credit Corporation—

(i) for the export sale of breeding animals (including, but not limited to, cattle, swine, sheep, and poultry), including the cost of freight from the United States to designated points of entry in other nations; and

(ii) for the establishment of facilities in the importing nation to improve handling, marketing, processing, storage, or distribution of imported agricultural commodities (through the use of local currency generated from the import and sale of United States agricultural commodities or the products thereof to finance all or part of such facilities).

(4) As used in paragraph (3)(A)(i), the term "subsidy" includes an export subsidy, tax rebate on exports, financial assistance on preferential terms, financial assistance for operating losses, assumption of costs or expenses of production, processing, or distribution, a differential export tax or duty exemption, a domestic consumption quota, or other method of furnishing or ensuring the availability of raw materials at artificially low prices.

(b) In carrying out the program established by this section, the Secretary of Agriculture—

(1) shall take such action as may be necessary to ensure that the program provides equal treatment to domestic and foreign purchasers and users of United States agricultural commodities and the products thereof in any case in which the importation of a manufactured product made, in whole or in part, from a commodity or the product thereof made available for export

under this section would place domestic users of the commodity or the product thereof at a competitive disadvantage;

(2) shall, to the extent that agricultural commodities and the products thereof are to be provided to foreign purchasers during any fiscal year, consider for participation all interested foreign purchasers, giving priority to those who have traditionally purchased United States agricultural commodities and the products thereof and who continue to purchase such commodities and the products thereof on an annual basis in quantities greater than the level of purchases in a previous representative period;

(3) shall encourage increased use and avoid displacing usual marketings of United States agricultural commodities and the products thereof;

(4) shall take reasonable precautions to prevent the resale or transshipment to other countries, or use for other than domestic use in the importing country, of agricultural commodities or the products thereof the export of which is assisted under this section; and

(5) may provide to a United States exporter, user, processor, or foreign purchaser, under the program, agricultural commodities of a kind different than the agricultural commodity involved in the transaction for which assistance under this section is being provided.

(c)(1) If a country does not meet the financial qualifications for export credit or credit guarantees provided by the Commodity Credit Corporation, the Secretary may provide to such country agricultural commodities and the products thereof acquired by the Corporation to the extent necessary to reduce the cost to such country of purchasing United States agricultural commodities and to allow such country to meet such qualifications.

(2) The Secretary shall review and adjust annually the quantity of commodities provided to a country under paragraph (1) in order to encourage such country to place greater reliance on increased use of commercial trade to meet the qualifications referred to in paragraph (1).

(d)(1) In carrying out this section, the Secretary may make green dollar export certificates available to commercial exporters of United States agricultural commodities and the products thereof.

(2) The Secretary shall make such certificates available under such terms and conditions as the Secretary determines appropriate.

(3) The amount of such certificates to be made available to an exporter may be determined—

(A) on the basis of competitive bids submitted by exporters; or

(B) by announcement of the Secretary.

(4)(A) An exporter may redeem a green dollar export certificate for commodities owned by the Commodity Credit Corporation.

(B) For purposes of redeeming such certificates, the Secretary may establish values for such commodities that are different than the acquisition prices of such commodities.

(5) Such certificates—

(A) may be transferred among commercial exporters of United States agricultural commodities; and

(B) shall be redeemed within 6 months after the date of issuance.

(e) The Secretary of Agriculture shall carry out the program established by this section through the Commodity Credit Corporation.

(f) Any price restrictions that otherwise may be applicable to dispositions of agricultural commodities owned by the Commodity Credit Corporation shall not apply to agricultural commodities provided under this section.

(g) The program established under this section shall be in addition to, and not in place of, any authority granted to the Secretary of Agriculture or the Commodity Credit Corporation under any other provision of law.

(h) The authority provided under this section shall terminate on September 30, 1990.

(i) During the period beginning October 1, 1985, and ending September 30, 1988, the Secretary shall use agricultural commodities and the products thereof referred to in subsection (a) that are equal in value to not less than \$2,000,000,000 to carry out this section. To the maximum extent practicable, such commodities shall be used in equal amounts during each of the years in such period.

POULTRY, BEEF AND PORK MEATS AND MEAT-FOOD PRODUCTS, EQUITABLE TREATMENT

SEC. 1128. In the case of any program operated by the Secretary of Agriculture during the years 1986 through 1989, for the purpose of encouraging or enhancing commercial sales in foreign export markets of agricultural products or commodities produced in the United States, which program includes the payment of a bonus or incentive (in cash, commodities, or other benefits) provided to the purchaser, the Secretary shall seek to expend annually at least 15 per centum of the total funds available (or 15 per centum of the value of any commodities employed to encourage such sales) for program activities to likewise encourage and enhance the export sales of poultry, beef or pork meat and meat products.

PILOT BARTER PROGRAM FOR EXCHANGE OF AGRICULTURAL COMMODITIES FOR STRATEGIC MATERIALS

SEC. 1129. Section 416 of the Agricultural Act of 1949 is amended by adding at the end thereof the following:

"(d)(1) The Secretary shall establish and carry out a pilot program under which strategic or other materials that the United States does not produce domestically in amounts sufficient for its requirements and for which national stockpile or reserve goals established by law are unmet shall be acquired in exchange for commodities meeting the criteria specified in subsection (a).

"(2) The program established under paragraph (1) shall be carried out through agreements with at least two countries.

"(3) In establishing the pilot program under paragraph (2), the Secretary shall give priority to—

"(A) the acquisition of materials that involve less risk of loss through deterioration and have lower storage costs than the agricultural commodities or products for which they are exchanged; and

"(B) nations with food and currency reserve shortages.

"(4) To the extent practical, the Secretary shall use private channels of commerce to consummate any exchange of commodities for materials under the program.

"(5) Any materials acquired under the programs shall be held by the Commodity Credit Corporation and may be transferred, on a reimbursable basis, to any Department or agency of the United States that has responsibility for any reserve or other need for the material. Any material acquired, in excess of any required reserve, may be sold by the Corporation to the extent authorized by the Secretary taking into consideration any effect that such sale may have on the commercial market of such material.

"(6) The program established by the Secretary shall be carried out during the fiscal years ending September 30, 1986, and September 30, 1987, and the Secretary shall submit a report to Congress, not later than 60 days after the end of each such fiscal year with respect to the operation of the program."

AGRICULTURAL EXPORT CREDIT REVOLVING FUND

SEC. 1130. Section 4(d)(6) of the Food for Peace Act of 1966 (7 U.S.C. 1707a(d)(6)) is amended by striking out "1985" both places it appears and inserting in lieu thereof "1990".

INTERMEDIATE EXPORT CREDIT

SEC. 1131. Section 4(b) of the Food for Peace Act of 1966 (7 U.S.C. 1707a(b)) is amended—

(1) by adding at the end of paragraph (1) the following new sentence: "In addition, the Corporation may guarantee the repayment of loans made to finance such sales.";

(2) in paragraph (2)—

(A) by inserting ", and no loan may be guaranteed," after "financed";

(B) by striking out "or" at the end of clause (A);

(C) by striking out the period at the end of clause (B) and inserting in lieu thereof "; or"; and

(D) by inserting at the end thereof the following new clause:

"(C) otherwise promote the export of United States agricultural commodities.";

(3) by striking out paragraph (7);

(4) by redesignating paragraphs (3) through (6) as paragraphs (4) through (7), respectively;

(5) by inserting after paragraph (2) the following new paragraph:

"(3) The Secretary is encouraged, to the maximum extent practicable, to finance or guarantee the export sales of agricultural commodities under this subsection to purchasers from—

"(A) countries that are previous recipients of credit extended under title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1701 et seq.);

"(B) countries unable, as determined by the Secretary, to utilize other short-term export credit programs offered by the Secretary or the Commodity Credit Corporation; and

"(C) countries that are friendly countries, as defined in section 103(d) of such Act (7 U.S.C. 1703(d)).";

(6) in paragraph (4) (as redesignated by clause (4))—

(A) by inserting "or guarantees" after "financing";

(B) by striking out "and" at the end of subparagraph (C);

(C) by striking out "credit" in subparagraph (D);

(D) by striking out the period at the end of subparagraph (D) and inserting in lieu thereof a semicolon; and

(E) by adding at the end thereof the following new subparagraphs:

"(E) to finance the importation of agricultural commodities by developing nations for use in meeting their food and fiber needs; and

"(F) otherwise to promote the export sales of agricultural commodities.";

(7) in paragraph (5) (as redesignated by clause (4))—

(A) by inserting "or guarantees" after "financing"; and

(B) by striking out "to encourage credit competition, or";

(8) in paragraph (6) (as redesignated by clause (4))—

(A) by inserting "(A)" after the paragraph designation;

(B) by redesignating subparagraphs (A) and (B) as clauses (i) and (ii), respectively;

(C) by amending clause (i) (as redesignated) to read as follows:

"(i) Repayment shall be in dollars with interest at a rate determined by the Secretary."; and

(D) by adding at the end thereof the following new subparagraph:

"(B) Contracts of guarantee under this subsection shall contain such terms and conditions as the Commodity Credit Corporation shall determine.";

(9) by inserting "or guarantees" after "financing" in paragraph (7) (as redesignated by clause (4));

(10) by inserting "or guaranteed" after "financed" in paragraph (8); and

(11) by adding at the end thereof the following new paragraph:

"(10) For purposes of guaranteeing export sales under this subsection, the Commodity Credit Corporation shall make available—

"(A) for each of the fiscal years ending September 30, 1986, through September 30, 1988, not less than \$500,000,000; and

"(B) for each of the fiscal years ending September 30, 1989 and September 30, 1990, not more than \$1,000,000,000."

AGRICULTURAL ATTACHE REPORTS

SEC. 1132. (a) The Secretary of Agriculture shall require appropriate officers and employees of the Department of Agriculture, including those stationed in foreign countries, to prepare and submit annually to the Secretary detailed reports that—

(1) document the nature and extent of—

(A) programs in such countries that provide direct or indirect government support for the export of agricultural commodities and the products thereof; and

(B) other trade practices that may impede the entry of United States agricultural commodities and the products thereof into such countries; and

(2) identify opportunities for the export of United States agricultural commodities and the products thereof to such countries.

(b) The Secretary shall annually compile the information contained in such reports and make such information available to Congress, the Agricultural Policy Advisory Committee and the agricultural technical advisory committees established under section 135 of the Trade Act of 1974 (19 U.S.C. 2155), and other interested parties.

(c) The United States Trade Representative shall—

(1) review the reports prepared under subsection (a) and any other information available to identify export subsidies or other export enhancing techniques (within the meaning of the agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade);

(2) identify markets (in order of priority) in which United States export subsidies can be used most efficiently and will have the greatest impact in offsetting the benefits of foreign export subsidies that—

(A) harm United States exports,

(B) are inconsistent with the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade,

(C) nullify or impair benefits accruing to the United States under international agreements, or

(D) cause serious prejudice to the interests of the United States and

(3) submit to the Congress and to the Secretary of Agriculture an annual report on—

(A) the existence and status of export subsidies and other export enhancing techniques that are the subject of the investigation conducted under paragraph (1), and

(B) the identification and assignment of priority to markets under paragraph (2).

(d) The Secretary and the United States Trade Representative shall convene a meeting, at least once a year, of the Agricultural Policy Advisory Committee and the agricultural technical advisory committees to develop specific recommendations for actions to be taken by the Federal Government and private industry to—

(1) reduce or eliminate trade barriers or distortions identified in the annual reports required to be submitted under subsections (a) and (c); and

(2) expand United States agricultural export opportunities identified in such annual reports.

CONTRACT SANCTITY AND PRODUCER EMBARGO PROTECTION

SEC. 1133. (a) It is hereby declared to be the policy of the United States—

(1) to foster and encourage the export of agricultural commodities and the products of such commodities;

(2) not to restrict or limit the export of such commodities and products except under the most compelling circumstances;

(3) that any prohibition or limitation on the export of such commodities or products should be imposed only in time of a national emergency declared by the President under the Export Administration Act; and

(4) that contracts for the export of such commodities or products entered into before the imposition of any prohibition or limitation on the export of such commodities or products should not be abrogated.

(b) Section 1204 of the Agriculture and Food Act of 1981 (7 U.S.C. 1736j) is amended—

(1) in subsection (a), by striking out "involved by" and all that follows through the period and inserting in lieu thereof "involved by making payments available to such producers, as provided in subsection (b) of this section.";

(2) by striking out "clause (1) of" in subsection (b);

(3) by striking out subsection (d); and

(4) by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

STUDY TO REDUCE FOREIGN EXCHANGE RISK

SEC. 1134. (a) The Secretary of Agriculture shall conduct a study to determine the feasibility, practicability and cost of implementing a program to reduce the risk of foreign exchange fluctuations that is incurred by the purchasers of United States agricultural exports under United States export credit promotion programs. The purpose of the study is to examine whether the GSM-102 program and all other United States export credit initiatives relating to agricultural exports would be enhanced by the United States assuming the foreign exchange risk of the buyer which resulted from a rise in the value of the United States dollar compared to the trade-weighted index of the dollar. The index referred to is the "trade-weighted index" published by the Department of Commerce as a measurement of the relative buying power of the dollar compared to the currencies of nations trading with the United States. The elements of the program to be considered in this study would include the following:

(1) On the date a foreign buyer receives GSM-102 or other credit for purposes of purchasing United States agricultural products, the maximum loan repayment exchange rate would be tied to the trade-weighted value of the United States dollar on the same date.

(2) If in the future the United States dollar gains in strength (a higher trade-weighted index), the buyer would continue to repay the loan at the lower value fixed at the time the GSM-102 credit was extended.

(3) If the United States dollar falls in value during the term of the repayment period, the foreign buyer could calculate his repayment on the lower dollar value.

(b) Not later than six months after the enactment of this Act, the Secretary shall report the results of such study to the Committee on Agriculture of the House of Representatives and to the Committee on Agriculture, Nutrition, and Forestry of the Senate.

Subtitle C—Export Transportation of Agricultural Commodities

FINDINGS AND DECLARATIONS

~~SEC. 1141.~~ (a) The Congress finds and declares—

(1) that a productive and healthy agricultural industry and a strong and active United States maritime industry are vitally important to the economic well-being and national security objectives of our Nation;

(2) that both industries must compete in international markets increasingly dominated by foreign trade barriers and the subsidization practices of foreign governments; and

(3) that increased agricultural exports and the utilization of United States merchant vessels contribute positively to the United States balance of trade and generate employment opportunities in the United States.

(b) It is therefore declared to be the purpose and policy of the Congress in this subtitle—

(1) to enable the Department of Agriculture to plan its export programs effectively, by clarifying the ocean transportation requirements applicable to such programs;

(2) to take immediate and positive steps to promote the growth of the cargo carrying capacity of the United States merchant marine;

(3) to expand international trade in United States agricultural commodities and products and to develop, maintain, and expand markets for United States agricultural exports;

(4) to improve the efficiency of administration of both the commodity purchasing and selling and the ocean transportation activities associated with export programs sponsored by the Department of Agriculture;

(5) to stimulate and promote both the agricultural and maritime industries of the United States and encourage cooperative efforts by both industries to address their common problems; and

(6) to provide in the Merchant Marine Act, 1936, for the appropriate disposition of these findings and purposes.

EXEMPTION OF CERTAIN AGRICULTURAL EXPORTS FROM THE REQUIREMENTS OF THE CARGO PREFERENCE LAWS

~~SEC. 1142.~~ The Merchant Marine Act, 1936, (46 U.S.C. 1101 et seq.) is amended by inserting after section 901 the following:

"SEC. 901a. The requirements of section 901(b)(1) of this Act and the Joint Resolution of March 26, 1934 (46 U.S.C. App. 1241-1), shall not apply to any export activities of the Secretary of Agriculture or the Commodity Credit Corporation—

"(1) under which agricultural commodities or the products thereof acquired by the Commodity Credit Corporation are made available to United States exporters, users, processors, or foreign purchasers for the purpose of developing, maintaining, or expanding export markets for United States agricultural commodities or the products thereof at prevailing world market prices;

"(2) under which payments are made available to United States exporters, users, or processors or, except as provided in section 901b, cash grants are made available to foreign purchasers, for the purpose described in paragraph (1);

"(3) under which commercial credit guarantees are blended with direct credits from the Commodity Credit Corporation to reduce the effective rate of interest on export sales of United States agricultural commodities or the products thereof;

"(4) under which credit or credit guarantees for not to exceed 3 years are extended by the Commodity Credit Corporation to finance or guarantee export sales of United States agricultural commodities or the products thereof; or

"(5) under which agricultural commodities or the products thereof owned or controlled by or under loan from the Commodity Credit Corporation are exchanged or bartered for materials, goods, equipment, or services, but only if such materials, goods, equipment, or services are of a value at least equivalent to the value of the agricultural commodities or products exchanged or bartered therefor (determined on the basis of prevailing world market prices at the time of the exchange or barter), but nothing in this subsection shall be construed to exempt from the cargo preference provisions referred to in section 901b any requirement otherwise applicable to the materials, goods, equipment, or services imported under any such transaction.

"SHIPMENT REQUIREMENTS FOR CERTAIN EXPORTS SPONSORED BY THE DEPARTMENT OF AGRICULTURE

"SEC. 901b. (a)(1) In addition to the requirement for United States-flag carriage of a percentage of gross tonnage imposed by section 901(b)(1) of this Act, 25 percent of the gross tonnage of agricultural commodities or the products thereof specified in subsection (b) shall be transported on United States-flag commercial vessels.

"(2) In order to achieve an orderly and efficient implementation of the requirement of paragraph (1)—

"(A) an additional quantity equal to 10 percent of the gross tonnage referred to in paragraph (1) shall be transported in United States-flag vessels in calendar year 1986;

"(B) an additional quantity equal to 20 percent of the gross tonnage shall be transported in such vessels in calendar year 1987; and

"(C) an additional quantity equal to 25 percent of the gross tonnage shall be transported in such vessels in calendar year 1988 and in each calendar year thereafter.

"(b) This section shall apply to any export activity of the Commodity Credit Corporation or the Secretary of Agriculture—

"(1) carried out under the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691 et seq.);

"(2) carried out under section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431);

"(3) carried out under the Food Security Wheat Reserve Act of 1980 (7 U.S.C. 1736f-1);

"(4) under which agricultural commodities or the products thereof are—

"(A) donated through foreign governments or agencies, private or public, including intergovernmental organizations; or

"(B) sold for foreign currencies or for dollars on credit terms of more than ten years;

"(5) under which agricultural commodities or the products thereof are made available for emergency food relief at less than prevailing world market prices;

"(6) under which a cash grant is made directly or through an intermediary to a foreign purchaser for the purpose of enabling the purchaser to obtain United States agricultural commodities or the products thereof in an amount greater than the difference between the prevailing world market price and the United States market price, free along side vessel at United States port; or

"(7) under which agricultural commodities owned or controlled by or under loan from the Commodity Credit Corporation are exchanged or bartered for materials, goods, equipment, or services produced in foreign countries, other than export activities described in section 901a(5).

"(c)(1) The requirement for United States-flag transportation imposed by subsection (a) shall be subject to the same terms and conditions as provided in section 901(b) of this Act.

"(2)(A) In order to provide for effective and equitable administration of the cargo preference laws the calendar year for the purpose of compliance with minimum percentage requirements shall be for 12 month periods commencing April 1, 1986.

"(B) In addition, the Secretary of Transportation, in administering this subsection and section 901(b), and consistent with these sections, shall take such steps as may be necessary and practicable without detriment to any port range to preserve during calendar years 1986, 1987, 1988, and 1989 the percentage share, or metric tonnage of bagged, processed, or fortified commodities, whichever is lower, experienced in calendar year 1984 as determined by the Secretary of Agriculture, of waterborne cargoes exported from Great Lake ports pursuant to title II of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721 et seq.).

"(d) As used in subsection (b), the term 'export activity' does not include inspection or weighing activities, other activities carried out for health or safety purposes, or technical assistance provided in the handling of commercial transactions.

"(e)(1) The prevailing world market price as to agricultural commodities or the products thereof shall be determined under sections 901a through 901d in accordance with procedures established by the Secretary of Agriculture. The Secretary shall prescribe such procedures by regulation, with notice and opportunity for public comment, pursuant to section 553 of title 5, United States Code.

"(2) In the event that a determination of the prevailing world market price of any other type of materials, goods, equipment, or service is required in order to determine whether a barter or exchange transaction is subject to subsection (b)(6) or (b)(7), such determination shall be made by the Secretary of Agriculture in consulta-

"MINIMUM TONNAGE

"SEC. 901c. (a)(1) For fiscal year 1986 and each fiscal year thereafter, the minimum quantity of agricultural commodities to be exported under programs subject to section 901b shall be the average of the tonnage exported under such programs during the base period defined in subsection (b), discarding the high and low years.

"(2) The President may waive the minimum quantity for any fiscal year required under paragraph (1) if he determines and reports to the Congress, together with his reasons, that such quantity cannot be effectively used for the purposes of such programs or, based on a certification by the Secretary of Agriculture, that the commodities are not available for reasons which include the unavailability of funds.

"(b) The base period utilized for computing the minimum tonnage quantity referred to in subsection (a) for any fiscal year shall be the five fiscal years beginning with the sixth fiscal year preceding such fiscal year and ending with the second fiscal year preceding such fiscal year.

"FINANCING OF SHIPMENT OF AGRICULTURAL COMMODITIES IN UNITED STATES-FLAG VESSELS

"SEC. 901d. (a) The Secretary of Transportation shall finance any increased ocean freight charges incurred in any fiscal year which result from the application of section 901b.

"(b) If in any fiscal year the total cost of ocean freight and ocean freight differential for which obligations are incurred by the Department of Agriculture and the Commodity Credit Corporation on exports of agricultural commodities and products thereof under the agricultural export programs specified in section 901b(b) exceeds 20 percent of the value of such commodities and products and the cost of such ocean freight and ocean freight differential on which obligations are incurred by such Department and Corporation during such year, the Secretary of Transportation shall reimburse the Department of Agriculture and the Commodity Credit Corporation for the amount of such excess. For the purpose of this subsection, commodities shipped from the inventory of the Commodity Credit Corporation shall be valued as provided in section 403(b) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1733(b)).

"(c) For the purpose of meeting those expenses required to be assumed under subsections (a) and (b), the Secretary of Transportation shall issue to the Secretary of the Treasury such obligations in such forms and denominations, bearing such maturities and subject to such terms and conditions, as may be prescribed by the Secretary of Transportation with the approval of the Secretary of the Treasury. Such obligations shall be at a rate of interest as determined by the Secretary of the Treasury, taking into consideration the average market yield on outstanding marketable obligations of the United States with remaining periods of maturity comparable to the average maturities of such obligations during the month preceding the issuance of such obligations of the Secretary of Transportation. The Secretary of the Treasury shall purchase any obligations of the Secretary of Transportation issued under this subsection and, for the purpose of financing such obligations, the Secretary of the Treasury

ury may use as a public debt transaction the proceeds from the sale of any securities issued under chapter 31 of title 31, United States Code, after the date of the enactment of this Act and the purposes for which securities may be issued under such chapter are extended to include any purchases of the obligations of the Secretary of Transportation under this subsection. All redemptions and purchases by the Secretary of the Treasury of the obligations of the Secretary of Transportation shall be treated as public-debt transactions of the United States.

"(d) There is authorized to be appropriated annually for each fiscal year, commencing with the fiscal year beginning October 1, 1986, an amount sufficient to reimburse the Secretary of Transportation for the costs, including administrative expenses and the principal and interest due on the obligations to the Secretary of the Treasury incurred under this section. Reimbursement of any such costs shall be made with appropriated funds, as provided in this section, rather than through cancellation of notes.

"(e) Notwithstanding the provisions of this section, in the event that the Secretary of Transportation is unable to obtain the funds necessary to finance the increased ocean freight charges resulting from the requirements of subsections (a) and (b) and section 901b(a), the Secretary of Transportation shall so notify the Congress within 10 working days of the discovery of such insufficiency.

"AUTHORIZATION OF APPROPRIATIONS

"SEC. 901e. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of sections 901a through 901k.

"TERMINATION OF SECTIONS 901a THROUGH 901k

"SEC. 901f. The operation of sections 901a through 901k shall terminate 90 days after the date on which a notification is made pursuant to section 901d(e), except with respect to shipments of agricultural commodities and products subject to contracts entered into before the expiration of such 90-day period, unless within such 90-day period the Secretary of Transportation proclaims that funds are available to finance increased freight charges resulting from the requirements of sections 901b(a) and 901d (a) and (b). In the event of termination under this section, nothing in sections 901a through 901d shall be construed as exempting export activities from or subjecting export activities to the cargo preference laws except to the extent those activities are exempt under section 4(b) of Public Law 95-501 (7 U.S.C. 1707a(b)). In the event of termination under this section, the 50 percent requirement in section 901(b) of the Merchant Marine Act, 1936 shall be in full effect.

"NATIONAL ADVISORY COMMISSION ON AGRICULTURAL EXPORT TRANSPORTATION POLICY

"SEC. 901g. (a) There is hereby established an advisory commission to be known as the National Advisory Commission on Agricultural Export Transportation Policy (hereafter in this section through section 901j referred to as the 'Commission').

"(b)(1) The Commission shall be composed of 16 members.

"(2) Eight members of the Commission shall be appointed by the President.

"(3) The chairman and ranking minority members of the Senate Committee on Agriculture, Nutrition, and Forestry, of the Subcommittee on Merchant Marine of the Senate Committee on Commerce, Science, and Transportation, of the House Committee on Agriculture, and of the House Committee on Merchant Marine and Fisheries shall serve as members of the Commission.

"(4)(A) Four of the members appointed by the President shall be representatives of agricultural producers, cooperatives, merchandisers, and processors of agricultural commodities.

"(B) The remaining four members appointed by the President shall be representatives of the United States-flag maritime industry, two of whom shall represent labor and two of whom shall represent management.

"(c)(1) The members of the Commission shall elect a Chairman from among its members.

"(2) Any vacancy in the Commission does not affect its powers but shall be filled in the same manner in which the original appointment was made.

"DUTIES OF THE COMMISSION

"SEC. 901h. (a) It shall be the duty of the Commission to conduct a comprehensive study and review of the ocean transportation of agricultural exports subject to the cargo preference laws referred to in section 901b and to make recommendations to the President and the Congress for improving the efficiency of such transportation on United States-flag vessels in order to reduce the costs incurred by the United States in connection with such transportation. In carrying out such study and review, the Commission shall consider the extent to which any unfair or discriminatory practices of foreign governments increase the cost to the United States of transporting agricultural commodities subject to such cargo preference laws.

"(b)(1) The Commission shall submit an interim report to the President and the Congress not later than one year after the date of the enactment of this subtitle and such other interim reports as the Commission considers advisable.

"(2) The Commission shall submit a final report containing its findings and recommendations to the President and the Congress not later than two years after the date of the enactment of this subtitle. The report shall include recommendations for any changes in the provisions of paragraph (1) that would help assure that the cost of ocean freight and ocean freight differential incurred by the Department of Agriculture and the Commodity Credit Corporation on the agricultural export programs specified in section 901b, is not increased above historical levels as a result of the extra demand for United States-flag vessels caused by section 901b.

"(3) Sixty days after the submission of the final report, the Commission shall cease to exist.

"(c) The Commission shall include in its reports submitted pursuant to subsection (b) recommendations concerning the feasibility and desirability of achieving the following goals with respect to the

ocean transportation of agricultural commodities subject to the cargo preference laws referred to in section 901b:

"(1) Ensuring that the timing of commodity purchase agreements entered into by the United States in connection with the export of such commodities, and the methods of implementing such agreements, will minimize cost to the United States.

"(2) Ensuring that shipments of such commodities are made on the most modern and efficient United States-flag vessels available.

"(3) Ensuring that shipments of such commodities are made under the most advantageous terms available, including—

"(A) charters for full shiploads;

"(B) charters for intermediate or long term;

"(C) charters for consecutive voyages and contracts of af-freightment; and

"(D) adjustment of rates in the event that vessels used for shipments of such commodities also carry cargoes on return voyages.

"(4) Reduction and elimination of impediments, including delays in port, to the efficient loading and operation of the vessels employed for shipment of such commodities.

"(5) Utilization of open and competitive bidding for the ocean transportation of such commodities.

"INFORMATION AND ASSISTANCE TO BE FURNISHED TO THE COMMISSION

"SEC. 901i. (a) Each department, agency, and instrumentality of the United States, including independent agencies, shall furnish to the Commission, upon request made by the Chairman, such statistical data, reports, and other information as the Commission considers necessary to carry out its functions.

"(b) The Secretary of Agriculture and the Secretary of Transportation shall make available to the Commission such staff, personnel, and administrative services as may reasonably be required to carry out the Commission's duties.

"COMPENSATION AND TRAVEL AND SUBSISTENCE EXPENSES OF COMMISSION MEMBERS

"SEC. 901j. Members of the Commission shall serve without compensation in addition to compensation they may otherwise be entitled to receive as employees of the United States or as Members of Congress, but shall be reimbursed for travel, subsistence, and other necessary expenses incurred in the performance of duties vested in the Commission.

"DEFINITION OF UNITED STATES FLAG VESSEL ELIGIBLE TO CARRY CARGOES UNDER CERTAIN SECTIONS

"SEC. 901k. A United States flag vessel eligible to carry cargoes under sections 901b through 901d means a vessel, as defined in section 3 of title 1, United States Code, that is necessary for national security purposes and, if more than 25 years old, is within five years of having been substantially rebuilt and certified by the Secretary of

Transportation as having a useful life of at least five years after that rebuilding."

EFFECT ON OTHER LAWS

~~SEC. 1145.~~ This subtitle shall not be construed as modifying in any manner the provisions of section 4(b)(8) of the Food for Peace Act of 1966 (7 U.S.C. 1707a(b)(8)) or chapter 5 of title 5, United States Code.

Subtitle D—Agricultural Imports

TRADE CONSULTATIONS

SEC. 1151. (c) The Secretary of Agriculture shall require consultation between the Administrator of the Foreign Agricultural Service and the heads of other appropriate agencies and offices of the Department of Agriculture, including the Administrator of the Animal and Plant Health Inspection Service, before relaxing or removing any restriction on the importation of any agricultural commodity or a product thereof into the United States.

(b) The Secretary shall consult with the United States Trade Representative before relaxing or removing any restriction on the importation of any agricultural commodity or a product thereof into the United States.

APRICOT STUDY

SEC. 1152. (a) The Secretary of Agriculture, in conjunction with the United States Trade Representative, not later than 120 days after the date of enactment of this Act, shall complete a study to determine—

(1) the effect of apricot imports into the United States on the domestic apricot industry; and

(2) the extent and nature of apricot subsidies existing in the countries from which such apricot imports are derived.

(b) The Secretary shall report the results of the study conducted under subsection (a), as soon as the study is completed, to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.

STUDY RELATING TO BRAZILIAN ETHANOL IMPORTS

SEC. 1155. The Secretary of Agriculture shall conduct a study to determine the impact that the import of Brazilian ethanol has on the domestic price of corn and other grains and the domestic ethanol refining industry. The Secretary of Agriculture shall also, in consultation with the International Trade Commission and the United States Trade Representative, determine what relief should be granted because of the interference of subsidized Brazilian ethanol with the domestic ethanol industry. Not later than 60 days after the enactment of this Act, the Secretary shall report the results of such study to the Committee on Agriculture and the Committee on Ways and Means of the House of Representatives and to the Committee on Agriculture, Nutrition, and Forestry of the Senate.

1004.) The *Senate* amendment contains no comparable provisions.

(b) The *House* bill will add to section 101 of the Agricultural Act of 1949 a new subsection (e) (relating to "cooperators") providing that—

(A) only a producer who is a cooperator for any crop for any farm will be eligible for any loan or purchase under any price support program carried out by the Secretary for rice, upland cotton, feed grains, or wheat for the crop under section 101, 103(a), 105, or 107 (so-called "permanent law" provisions) of the 1949 Act;

(B) a producer of any such commodity will be considered a cooperator for a crop with respect to a farm if the producer has established and maintained a farm acreage base for the crop year involved for the farm, and a crop acreage base for the crop year involved for each such commodity produced on the farm, and (i) the number of acres on the farm planted to all such commodities for harvest by the producer for the crop year does not exceed the farm acreage base for the farm for the crop year, except to the extent that such excess is due to an established practice of double cropping, and (ii) the number of acres on the farm planted to each such commodity for harvest by the producer for the crop year does not exceed the crop acreage base for the commodity for the farm for such crop year;

(C) the Secretary of Agriculture could suspend, on a nationwide basis, any farm acreage base limitation or any crop acreage base limitation with respect to a crop of a commodity if the Secretary determines that (i) a short supply or other similar emergency situation exists with respect to any such commodity; or (ii) market factors exist that require the suspension of any limitation to achieve the purposes of the farm and crop acreage base and program yield system established under the bill (as described in item (2) above); and

(D) notwithstanding the provisions described in clause (B) above, the Secretary, on a nationwide basis, could consider a producer a cooperator on a crop-specific basis, regardless of overall plantings on the farm. For any crop of rice, upland cotton, feed grains, or wheat produced on a farm by the producer, the Secretary could consider the producer a cooperator if (i) the producer has established and maintained a farm acreage base and a crop acreage base.

The conference did not include this section.

SUBTITLE C—HONEY

(1) Honey price support

The *Senate* amendment requires the Secretary of Agriculture, for each of the 1986 through 1988 crops of honey, to support the price of honey through loans, purchases, or other operations at such level as the Secretary determines will maintain the competitive relationship of honey in domestic and export markets after taking into consideration the cost of producing honey, supply and demand conditions, and world prices for honey. Beginning with the 1989

crop of honey, the *Senate* amendment prohibits supporting the price of honey through loans, purchases, or other operations. (Sec. 1101.)

The *House* bill contains no comparable provision.

(Note: Under current law, the price of honey must be supported through loans, purchases, or other operations at a level not in excess of 90 percent, nor less than 60 percent, or the parity price on honey.)

The *Conference* substitute adopts a substitute amendment which provides for a reduction in the loan level to 64¢ in 1986, 63¢ in 1987, and further reductions of five percent per year in each of 1988, 1989, and 1990. The section also gives the Secretary the authority to permit producers to repay their loans at a level that is the lesser of the loan level determined for the crop year, or such level as the Secretary determines will minimize the number of loan forfeitures, not result in excessive total stocks of honey, reduce the costs incurred by the government and maintain the competitiveness of the honey industry. The Secretary may also make payments available to producers who agree to forgo loans in return for such direct payments. (Sec. 1041.)

(2) Penalties for pledging adulterated or imported honey

The *Senate* amendment provides that if the Secretary determines that a person has knowingly pledged adulterated or imported honey as collateral to secure a price support loan the person would, in addition to any other penalties or sanctions prescribed by law, be ineligible for a loan, purchase, or payment for honey for the 3 crop years succeeding the determination. For purposes of this provision, honey would be considered adulterated if any substance were substituted wholly or in part for such honey; the honey contains a poisonous or deleterious substance that may render the honey injurious to health, except that in any case in which such substance is not added to the honey, the honey would not be considered adulterated if the quantity of the substance in or on the honey does not ordinarily render it injurious to health; or the honey is for any other reason unsound, unhealthy, unwholesome, or otherwise unfit for human consumption. (Sec. 1101.)

The *House* bill contains no comparable provision.

The *Conference* substitute adopts the *Senate* provision regarding penalties for pledging adulterated or imported honey. (Sec. 1041.)

TITLE XI—TRADE

(1) Public Law 480 Title II funding

(a) The *House* bill raises the existing \$1 billion annual limitation on Title II programs to \$1.2 billion. (Sec. 1101.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute deletes the *House* provision.

(b) The *House* bill changes the Title II programs from the calendar year basis in existing law, to a fiscal year basis. (Sec. 1101.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(c) The *House* bill authorizes the President to waive the program authorization ceiling if the President determines that such waiver

is necessary to undertake programs of assistance to meet urgent humanitarian needs. (Sec. 1101.)

The *Senate* amendment contains no comparable provision. The *Conference* substitute adopts the *House* provision.

(1A) Public Law 480 Title II minimums

The *Senate* amendment provides that the minimum quantity of agricultural commodities distributed under Title II for each of the fiscal years 1986 through 1989 shall be 1,900,000 metric tons, of which not less than 1,425,000 metric tons for nonemergency programs shall be distributed through nonprofit voluntary agencies, cooperatives, and the World Food Program; unless the President determines and reports to the Congress, together with his reasons, that such quantity cannot be used effectively to carry out the purposes of this title.

The *House* amendment contains no comparable provision.

The *Conference* substitute provides that the minimum quantity of commodities distributed under Title II for each of the fiscal years 1987 through 1990 shall be 1,900,000 metric tons, of which not less than 1,425,000 metric tons shall be for nonemergency programs distributed through nonprofit voluntary agencies, cooperatives, and the World Food Program.

(2) Public Law 480 Title II—fortified or processed foods and nonprofit agency proposals

(a) The *House* bill requires that no less than 75 percent of the agricultural commodities made available for distribution for non-emergency programs shall be fortified or processed food. (Sec. 1102.)

The *Senate* amendment requires the President to ensure that at least 75 percent of the quantity of such commodities for such programs be in the form of processed or fortified products or bagged commodities. (Sec. 123.)

The *Conference* substitute adopts the *Senate* amendment.

(b) The *House* bill authorizes the President to waive the requirement under paragraph (a) or make available a smaller percentage of fortified or processed food than required under paragraph (a) during any fiscal year in which the President determines that the requirements of such programs will not be best served by the distribution of fortified or processed food in the amounts required. (Sec. 1102.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(c) The *House* bill provides that, in making agricultural commodities available for distribution, the President shall consider the nutritional assistance to the recipients and benefits to the United States that would result from distributing such commodities in the form of processed milk and plant protein products, as well as fruit, nut, and vegetable products. (Sec. 1102.)

The *Senate* amendment provides that, in distributing agricultural commodities under this title, the President shall consider (A) the nutritional assistance to recipients and benefits to the United States that would result from distributing such commodities in the form of processed and protein-fortified products, including processed milk, plant protein products, and fruit, nut, and vegetable

products; (B) the nutritional needs of the proposed recipients; and (C) the cost effectiveness of providing such commodities, for purposes of selecting commodities for distribution under nonemergency programs. (Sec. 123.)

The *Conference* substitute adopts the *Senate* amendment.

(d) The *House* bill requires that any request by a nonprofit or voluntary agency for agricultural commodities for a nonemergency food program under title II shall include—(1) a statement of the intended use of any foreign currency proceeds generated by such agency through the use of commodities made available for such program; and (2) a statement of any possible detrimental disruption of traditional cultural food consumption habits that might arise from the distribution of commodities under such program. (Sec. 1102.)

The *Senate* amendment requires a nonprofit voluntary agency requesting a nonemergency food assistance agreement to include in such request a description of the intended uses of any foreign currency proceeds that would be generated with the commodities provided under the agreement. This provision will apply with respect to assistance agreements entered into after December 31, 1985. (Sec. 124.)

The *Conference* substitute adopts the *Senate* amendment.

(e) The *Senate* amendment amends title II by adding certain new provisions regarding food assistance programs carried out by voluntary agencies:

(1) Such agreements must provide, in the aggregate for each fiscal year, for the use of foreign currencies in an amount not less than 5 percent of the aggregate value of the commodities distributed under the title II nonemergency programs for that fiscal year.

(4) The above provisions apply with respect to assistance agreements entered into after December 31, 1985. (Sec. 124.)

The *House* bill contains no comparable provisions.

The *Conference* substitute adopts the *Senate* amendment with regard to issue (1) and deletes the *Senate* amendment with regard to (2) and (3). With respect to issue (4) of the *Senate* amendment, the *Conference* substitute changes the effective date to December 31, 1985.

(f) The *Senate* amendment states that it is the sense of Congress that the President is encouraged to invite representatives of nonprofit voluntary agencies that participate in the programs carried out under title II of P.L. 480 and others to participate in a task force to study the means of providing food assistance under the Act to people with the greatest nutritional need in the recipient countries. If established the task force should report to Congress by February 15, 1986 on steps that could be taken to provide food to such people. (Sec. 124.)

The *House* bill contains no comparable provision.

The *Conference* substitute deletes the *Senate* amendment.

(3) P.L. 480 extension

The *House* bill extends the P.L. 480 sales and assistance authorities from December 31, 1985, to December 31, 1990. (Sec. 1103.)

The *Senate* amendment extends these authorities to December 31, 1989. (Sec. 126.)

The *Conference* substitute adopts the *House* provision.

(4) *Facilitation of exports*

The *House* bill expresses the Sense of Congress that the President should work with the People's Republic of China to facilitate exports to China under P.L. 480 and Section 416 of the Agricultural Act of 1949, including dairy products and white wheat, with a view to increasing markets in China for those commodities; and that the President to the extent practicable should respond favorably to any request of the People's Republic of China for such commodities. (Sec. 1104.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute expresses the Sense of Congress that the President should work with the People's Republic of China to facilitate agricultural exports to the People's Republic of China.

It is the intent of the conferees that the exports include dairy products and white wheat.

(5) *P.L. 480 farmer-to-farmer program*

The *House* bill provides that notwithstanding any other provision of law, not less than one-tenth of 1 percent of P.L. 480 funds for fiscal years 1986 and 1987 must be used for the farmer-to-farmer technical assistance program authorized under Section 406 of P.L. 480. Not more than one-fourth of these funds can be used for activities through universities for recruitment and training, and these activities must be in direct support of the farmer-to-farmer program. Such funds shall be administered whenever possible in conjunction with programs of foreign agricultural assistance carried out under sections 296 through 300 of the Foreign Assistance Act of 1985.

The *House* bill also requires a report by the AID Administrator in conjunction with the Secretary of Agriculture, within 120 days after the date of enactment indicating the manner in which the Agency intends to implement the farmer-to-farmer program. (Sec. 1105.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provisions.

(6) *Food for development program*

The *Senate* amendment amends section 302(c)(1)(C) of the Agricultural Trade Development and Assistance Act of 1954 to set the aggregate value of Food for Development agreements made in any fiscal year at 10 percent of the aggregate value of all title I agreements for that fiscal year. (Sec. 125.)

The *House* bill contains no comparable provision.

The *Conference* substitute adopts the *Senate* amendment.

(7) *Use of surplus commodities in international programs (Section 416)*

(a) The *House* bill applies the existing section 416 requirement for coordination of donations abroad through the mechanism estab-

lished by the President under P.L. 480 to donations under the revised program. (Sec. 1106.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(b) The *House* bill specifies the commodities eligible for distribution under the section 416 program as follows—

(A) dairy products, grains and oilseeds acquired by the Commodity Credit Corporation through price support operations; and

(B) such other edible agricultural commodities as the Secretary of Agriculture or the CCC may acquire in the normal course of operations and are available for disposition under the program. (Sec. 1106.)

The *Senate* amendment specifies the commodities eligible for the section 416 program to include all agricultural commodities and products acquired by the CCC through price support operations that meet the criteria specified in subsection (a) section 416 (distribution to prevent waste). (Sec. 127.)

The *Conference* substitute adopts the *House* provision.

(c) The *House* bill prohibits the acquisition of commodities by the Secretary or the CCC for the purpose of using them under the section 416 program. (Sec. 1106.)

The *Senate* amendment contains no authority to purchase commodities under section 416(b) and specifies that if the quantity of eligible commodities available for distribution for a fiscal year is less than 400,000 metric tons, other provisions of the section do not require the Secretary to purchase additional commodities. (Sec. 127.)

The *Conference* substitute adopts the *House* provision.

(d) the *House* bill states that commodities may not be furnished for disposition to any country except on determinations by the Secretary that (1) the receiving country has the absorptive capacity to use the commodities efficiently and effectively; and (2) such disposition of the commodities will not interfere with usual marketings of the United States, nor disrupt world prices of agricultural commodities and normal patterns of commercial trade with developing countries.

The *House* bill also requires the Secretary to take reasonable precautions to ensure that—

(1) commodities furnished under this subsection will not displace or interfere with sales that otherwise might be made; and

(2) sales or barter will not unduly disrupt world prices of agricultural commodities nor normal patterns of commercial trade with friendly countries.

The *House* bill prohibits commodities from being made available that will prevent the Secretary from fulfilling any agreement entered into by the Secretary under a payment-in-kind program. (Sec. 1106.)

The *Senate* amendment provides that in furnishing commodities under section 416, the Secretary must take reasonable precautions to (1) safeguard usual marketings of the United States and (2) assure that donations under this section will not unduly disrupt

world prices of agricultural commodities or normal patterns of commercial trade with friendly countries.

The *Senate* amendment limits the requirement for the safeguarding of usual marketings by specifying that this requirement may not be used to prevent the furnishing of an eligible commodity under section 416(b) for use in countries that—

(1) have not traditionally purchased the commodity from the United States; or

(2) do not have adequate financial resources to acquire the commodity from the United States through commercial sources or through concessional sales arrangements.

The *Senate* amendment allows the Secretary of Agriculture, in consultation with the Administrator of the Agency for International Development to waive, with respect to sales to generate foreign currencies (monetization), application of the requirement of section 103 that the President take reasonable precautions to safeguard usual marketings of the United States and to assure that such sales will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries. (Sec. 127.)

The *Conference* substitute adopts the *House* provisions with an amendment limiting the requirement for the safeguarding of usual marketings by specifying that this requirement may not be used to prevent the furnishing of an eligible commodity under section 416(b) for use in countries that—

(1) have not traditionally purchased the commodity from the United States; or

(2) do not have adequate financial resources to acquire the commodity from the United States through commercial sources or through concessional sales arrangements.

(e) The *House* bill authorizes the Commodity Credit Corporation to pay in cash (under the provisions of section 203 of Public Law 480) or in the form of eligible commodities for the processing and domestic handling costs of donated commodities if the Secretary determines that such in-kind payments will not disrupt domestic markets. (Sec. 1106.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(f) The *House* bill provides that eligible commodities may be sold or bartered to finance the distribution, handling, and processing costs in a country through which such commodities or products must be transshipped. (Sec. 1106.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(g) The *House* bill authorizes the sale and barter of commodities furnished to nonprofit and voluntary agencies or cooperatives under agreements in which the foreign currency proceeds are used for activities that will directly supplement the transportation, distribution and use of the commodities and products donated. (Sec. 1106.)

The *Senate* amendment provides that if requested by a nonprofit voluntary agency or cooperative, an agreement for eligible commodities made available for use by the nonprofit voluntary agency or cooperative may provide for the use of foreign currency proceeds

for activities that will enhance the effectiveness of the food assistance program being carried out pursuant to the commodity agreement. Under the *Senate* amendment, such activities may include food for work programs, local program management, local agricultural and cooperative development projects, and outreach projects designed to provide food to people with the greatest nutritional need, if such activities are directly related to the nonprofit voluntary agency's or cooperative's food assistance program. (Sec. 127.)

The *Conference* substitute adopts the *House* provision with an amendment deleting "directly supplement the transportation, distribution, and use of commodities and products donated under this subsection." and inserting in lieu thereof: "enhance the effectiveness of transportation, distribution, and use of commodities and products donated under this subsection, including food for work programs, and cooperative and agricultural projects."

(h) The *House* bill requires expenditure of such currencies within one year of the acquisition of the currencies, such expenditure to be within the country of origin, except as needed to expedite the transportation of commodities and directly supplement the transportation, distribution and use of commodities furnished in connection with such foreign sale agreements. (Sec. 1106.)

The *Senate* amendment requires that all foreign currencies generated pursuant to an agreement with a nonprofit voluntary agency or cooperative be expended within one year after the period of the agreement. (Sec. 127.)

The *Conference* substitute adopts the *House* provision.

(i) The *House* bill requires that 5 percent of the commodities provided under section 416 be provided for subsequent sale, except that such minimum does not apply to the extent there are insufficient requests for use of the local currency sales, or with respect to commodities made available in the new Food for Progress Program (item 8) below.

The *Senate* amendment requires, that to the extent practicable, that 5 percent of the aggregate value of commodities provided under section 416, be provided for subsequent sale. (Sec. 127.)

The *Conference* substitute adopts the *House* provision with an amendment to make the 5% applicable to the aggregate value of commodities

(j) The *House* bill contains a prohibition against the use of proceeds from the sale or barter of section 416 commodities and products for operating and overhead expenses. (Sec. 1106.)

The *Senate* amendment prohibits the use of such proceeds (1) for personnel or administrative costs incurred by a U.S. or recipient agency, other than a local cooperative; (2) for costs of construction or maintenance of a church-owned or operated edifice; or (3) to replace of resources otherwise available to a nonprofit voluntary agency or cooperative. (Sec. 127.)

The *Conference* substitute adopts the *House* provision with an amendment allowing proceeds to be used for personnel or administrative costs of a local cooperative.

(k) The *House* bill requires the Secretary to issue regulations governing sale and barter and the use of foreign currency proceeds under the donation program that will provide reasonable safeguards to prevent abuses. The Secretary is required to report by

April 1, 1987, and annually thereafter, on sales and barter and use of foreign currency proceeds. The report must contain information on the quantity of sales, the amount of funds generated, the use of the funds, and an appraisal of the effectiveness of the program. (Sec. 1106.)

The *Senate* amendment contains no comparable provisions.

The *Conference* substitute adopts the *House* provision with an amendment changing the reporting date to February 15 and requiring that the Secretary of Agriculture be responsible for regulations governing sale and barter and the use of foreign currency sales. The amendment further provides that recipients of this donation program report to the Secretary of Agriculture on December 31, 1986, and at least annually thereafter on the quantity of commodities received, the amount of funds (including dollar equivalents for foreign currencies) and value of services generated from such sales and barter, how such funds and services were used, and the amount of foreign currency proceeds that were used in the program.

(1) The *House* bill requires the Secretary to make available an annual minimum tonnage under section 416 (but not for the food for progress program) as follows: The minimum tonnage will be—

- (i) 1.0 million tons in fiscal 1986 and 600,000 tons in fiscal 1987 of grains and oilseeds, or 10 percent of CCC uncommitted year-end stocks, whichever is less; and
- (ii) at least 150 thousand tons of dairy products or 10 percent of CCC's uncommitted year-end stocks. (Sec. 1106.)

The *House* bill requires a detailed, written explanation by the Secretary for any year in which the above minimum levels are not made available and any requests for commodity use under this program are rejected. (Sec. 1106.)

The *Senate* amendment requires a minimum of 650,000 tons of annual disposals of commodities to private voluntary agencies and cooperatives under section 416(b), of which one half must be grains and cereals and of which not less than 150,000 tons must be distributed under the Food for Progress Program. (Sec. 127.)

The *Conference* substitute adopts the *House* provision with an amendment providing for 500,000 metric tons of grains and oilseeds or 10 percent of CCC uncommitted year-end stocks, whichever is less, and 10 percent of CCC uncommitted year-end daily stocks, but not less than 150,000 tons for fiscal years 1986 through 1990 for agreements with private voluntary organizations and cooperatives and in government-to-government programs and the World Food Program. The conferees encourage the Secretary to give priority to private voluntary organizations and cooperatives in entering into agreements for such commodities under this program. Of this amount, 75,000 metric tons shall be distributed under the Food for Progress Program.

(8) Food for progress program

(a) The *House* bill amends title III of the Agricultural Trade Development Assistance Act of 1954 by adding a new section 311 to authorize the President to negotiate and carry out multiyear agreements with developing countries, that have made commitments to agricultural policy reforms, providing for the furnishing of agricul-

tural commodities to such countries, on a credit or grant basis, to support reform and implementation of agricultural policy decisions based on free market principles. (Sec. 1107.)

The *Senate* amendment amends section 416 of the Agricultural Act of 1949 by adding a new subsection that provides, notwithstanding any other provision of law, in order to use the food resources of the United States more effectively in support of countries that have made commitments to introduce or expand free enterprise elements in their agricultural economies through changes in commodity pricing, marketing, input availability, distribution, and private sector involvement, commodities and the products thereof acquired by the Commodity Credit Corporation that the Secretary determines meet the specified in section 416(a) (prevention of waste), may be furnished by the Secretary to carry out certain agreements entered into by the President. The President may enter into agreements with developing countries to furnish commodities and the products thereof made available under the program to such countries to promote the implementation of private, free enterprise agricultural policies for long-term agricultural development. Such commodities shall be furnished on such terms and conditions as the President considers are in the public interest and will promote the objectives of the program. (Sec. 128.)

(b) The *House* bill requires that before entering into such agreements the President shall be satisfied that such country is committed to certain specified policies. (Sec. 1107.)

The *Senate* amendment requires the President to consider—(1) whether a potential recipient country is committed to the same policies listed in the *House* bill, with the additional policies that may provide for construction of facilities and distribution systems necessary to handle perishable products; and (2) the ability to use the quantity of commodities being considered for donation without disruption of the internal market of the country for domestically produced agricultural commodities and the products thereof. (Sec. 128.)

(c) The *House* bill provides that notwithstanding any other provision of law, the Commodity Credit Corporation may use funds to carry out this program that have been appropriated to carry out title I of P.L. 480. The Commodity Credit Corporation may finance the sale and exportation of commodities furnished to a developing country under this section. The Commodity Credit Corporation shall make available to the President such agricultural commodities determined to be available under section 401 as the President may request for purposes of furnishing commodities on a grant basis under this section.

The *House* bill provides that any new spending authority provided shall be effective for any fiscal year only to such extent or in such amounts as are provided in advance in appropriation Acts. (Sec. 1107.)

The *Senate* amendment provides that no funds of the Commodity Credit Corporation in excess of \$30,000,000 (exclusive of the cost of commodities) any be used to carry out this subsection unless authorized in advance in appropriation Acts. (Sec. 128.)

The *Senate* amendment authorizes the Commodity Credit Corporation to purchase agricultural commodities and the products

thereof if (1) the Commodity Credit Corporation does not hold stocks of such commodities and the products thereof; or (2) Commodity Credit Corporation stocks are insufficient to satisfy commitments made in agreements entered into under this subsection and such commodities and the products thereof are needed to fulfill such commitments.

(d) The *Senate* amendment provides that—

(1) An agreement entered into under this program shall prohibit the resale or transshipment of the donated agricultural commodities to other countries.

(2) In entering into agreements with countries for the donation of agricultural commodities and the products thereof under this subsection, the President shall take reasonable precautions to avoid displacement of any sales of United States agricultural commodities and the products thereof that would otherwise be made to such countries.

(3) Section 203 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1723) shall apply to agricultural commodities furnished under this subsection.

(4) The cost of the commodities furnished under this subsection, and the expenses incurred in connection with furnishing such commodities, shall be in addition to the level of assistance programmed under the Agricultural Trade Development and Assistance Act of 1954 and may not be considered expenditures for international affairs and finance.

(5) The President must carry out the duties imposed under this program through the National Security Advisor in the Executive Office of the President. The National Security Advisor, with the approval of the Secretary, may use personnel of the Department of Agriculture in carrying out this subsection.

(6) Within 120 days after the close of each fiscal year in which an agreement entered into with a country under this subsection is in effect, the President shall report to the *House* and *Senate* Agriculture Committees on the status of such agreement and the progress being made to implement private, free enterprise agricultural policies for long-term agricultural development.

(7) The program shall be effective during the period beginning October 1, 1985, and ending September 30, 1989. (Sec. 128.)

The *House* bill specifies that section 203 of the Act applies to commodities furnished on a grant basis to a developing country under this program. (Sec. 1107.)

(e) The *Senate* amendment specifies that a minimum of 150,000 tons and not more than 500,000 metric tons of commodities may be furnished in each of the fiscal year ending September 30, 1986, September 30, 1987, September 30, 1988, and September 30, 1989. (Sec. 127, 128.)

The *House* bill contains no comparable provision.

(f) The *House* bill provides that payment by a developing country for commodities purchased on credit terms shall be on the same basis as the terms provided in section 106 of P.L. 480. (Sec. 1107.)

The *Senate* amendment gives the President discretion to set the terms and conditions under which the commodities will be furnished. (Sec. 128.)

(g) The *Senate* amendment requires that the President report to the oversight committees on the status of the program within 120 days after the close of each fiscal year. (Sec. 128.)

The *House* bill contains no comparable provision.

The *Conference* substitute combines the House and Senate provisions in a new, freestanding "Food for Progress Act of 1985".

The new act authorizes the President to enter into agreements to provide food to countries to promote the implementation of private, free enterprise agricultural policies for agricultural development. Commodities provided under this Act would be bonuses above and beyond any assistance a country normally receives from the United States, and may be provided through authorities under Title I of Public Law 480 or Section 416 of the Agriculture Act of 1949.

The President is authorized to enter into multi-year commitments. In determining whether to enter into a Food for Progress agreement, the President shall consider whether the recipient country is carrying out or is committed to carry out policies that promote economic freedom, private, domestic production of food commodities for domestic consumption, and the creation and expansion of efficient domestic markets for the purchase and sale of such commodities; and whether the country is able to use the commodities without disruption of the internal market of the country for domestically produced agricultural commodities.

The substitute provides that not less than 75,000 tons be provided annually through Section 416 authorities for use under this act, provided there are a sufficient number of qualified participants to utilize this quantity. No more than 500,000 tons of commodities could be provided under this program in any year. However, the President is encouraged to utilize the entire 500,000 tons, provided that there are a sufficient number of qualified participants.

In entering into Food for Progress agreements, the President would be required to take reasonable precautions to avoid displacement of any sales of U.S. agricultural commodities that would otherwise be made to such countries, and any agreement entered into would have to prohibit the resale or transshipment to other countries, of commodities furnished under this Act.

(9) *Sales for foreign currencies and private enterprise promotion*

(a) The *House* bill amends section 106(b) of the Agricultural Trade Development Assistance Act to provide for agreements for the sale of agricultural commodities for dollars on credit terms that may provide that proceeds from the sales of the commodities in the recipient country shall be used for such private sector development activities as are mutually agreed upon by the United States and the recipient government. Proceeds used for private sector development activities shall be loaned by the recipient government to one or more financial intermediaries operating within the country for use by those financial intermediaries for loans to private individuals, private and voluntary organizations, corporations, cooperatives, and other entities within such country. As used, the term "private sector development activities" means activities

which foster and encourage the development of private enterprise institutions and infrastructure as the base for the expansion, promotion, and improvement of the production of goods and services within a recipient country; and the term "financial intermediaries" includes banks, cooperatives, private and voluntary organizations, and other financial institutions capable of making and servicing loans. (Sec. 1107.)

The *Senate* amendment amends section 101 of the Agricultural Trade Development and Assistance Act of 1954 by authorizing the President to enter into agreements with friendly countries for the sale of agricultural commodities to such countries for foreign currencies for use in the programs established by the Senate amendment as a new section 108 of the Act.

Sales for foreign currencies for fiscal year 1986, and each fiscal year thereafter, must be made at an annual level of not less than the higher of:

- (1) 25 percent of the aggregate value of all sales made under title I of the Act; or
- (2) 500,000 metric tons.

In no event, however, can such sales exceed 50 percent of the aggregate value of all sales made under title I of the Act during a fiscal year.

The minimum annual level of sales for foreign currencies may be reduced for fiscal years 1986, 1987, and 1988 if—

(A) there is an insufficient number of approved financial intermediaries that have entered into agreements with the Secretary of Agriculture to carry out the program;

(B) there are insufficient requests for loan funds by financial intermediaries to utilize the foreign currencies generated by such sales; or

(C) the President requires additional time to implement the program, except that, the minimum annual level of such sales for foreign currencies for fiscal year 1986 may not be reduced below 5 percent of all title I sales made during that fiscal year. The floor under the minimum sales for foreign currencies increases to 10 percent for fiscal year 1987 and 15 percent for fiscal year 1988.

Agreements for sales for foreign currency may not be entered into to the extent that such agreements would generate currency that could not be productively used and absorbed in the private sector of the purchasing country. Agreements for sales of agricultural commodities for foreign currencies will be made on such terms and conditions as are specified in the sales agreements. (Sec. 128.)

(b) The *Senate* amendment amends section 103 of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) to make conforming amendments. Specifically, section 103(b) is amended to permit any credit sale entered into under title I to include provision for payment in foreign currency for use in the program to be authorized as section 108. Sections 103(d) and 103(n) of P.L. 480 are also amended to delete specific references to sales agreements for dollars on credit terms, so that these sections will apply to all types of sales now authorized under title I. (Sec. 128.)

Sections 103(m), 103(p), and 103(q) of P.L. 480 are amended to clarify that the requirements in those sections pertaining to the

convertibility of foreign currencies are not applicable to foreign currencies received for use in the new lending program.

Section 103(m) of P.L. 480 is also amended to require that foreign currency acquired for use under section 108 of the Act will be converted to dollars pursuant to a schedule for conversion established in the commodity sales agreement. The schedule must provide for conversion to dollars beginning no later than 10 years after the date of the last delivery of commodities under the sales agreement, and be completed no later than 30 years after the date of the last delivery.

Foreign currencies generated under these provisions can be used in the program authorized in section 108. The payment terms sales for foreign currencies may be on such terms as are agreed upon in the agreement.

The *House* bill contains no comparable provision.

(c) The new section 108, as proposed in the *Senate* amendment

(1) Gives authority to the President to enter into agreements with financial intermediaries, under which the President would lend to the financial intermediary located or operating in a developing country foreign currency earned from commodity sales to that country. The foreign currency available for lending is limited to currencies generated from sales agreements entered into after the date of enactment of the Agriculture, Food, Trade and Conservation Act of 1985. The purpose of such lending is to foster and encourage the development of private enterprise institutions and infrastructure as the base for increasing the production of food and related goods and services within the developing country.

(2) In order to obtain a foreign currency loan from the President, a financial intermediary must enter into an agreement in which it agrees to make loans to private individuals, cooperatives, corporations or other entities at reasonable rates of interest for the purpose of financing—

(A) Productive private enterprise investment within the country;

(B) Private enterprise facilities for aiding the utilization and distribution, and increasing the consumption of and markets for, United States agricultural commodities and products; or

(C) Private enterprise support of self-help measures and projects.

(3) An agreement between the President and a financial intermediary must specify the terms and conditions under which the foreign currency must be used and subsequently repaid, including the following:

(A) The financial intermediary must, to the maximum extent feasible, give preference to financing agriculturally related private enterprise;

(B) The financial intermediary must repay loans made, plus accrued interest, at such times as will permit conversion of the foreign currency in accordance with the conversion schedule agreed upon, but in no event later than the date specified in section 103(m) of the Act; and

(C) The financial intermediary may repay a loan prior to the repayment date specified in the loan agreement.

(D) An entity or venture receiving funds from a financial intermediary must—

(i) be owned, directly or indirectly, by citizens of the developing country, except that not more than 25 percent of such ownership may be held by citizens of the United States; and

(ii) may not be owned or controlled, in whole or in part, by the Government of the developing country or any governmental subdivision thereof.

(E) the rate of interest charged on loans made to financial intermediaries will be negotiated between the President and the intermediary. A cooperative or nonprofit voluntary agency acting as a financial intermediary may be charged a lower rate of interest than would otherwise be charged in order to defray the start-up costs of becoming a financial intermediary or a foreign currency grant could be made to defray the start-up costs of becoming a financial intermediary.

(F) no foreign currency may be made available to promote the production of agricultural commodities, that as determined by the President would compete in world markets with United States commodities or products.

(G) the President may not condition loan eligibility on a guarantee of repayment made by the developing country in which the borrowing intermediary is located or is operating.

(4) All currencies repaid by financial intermediaries will be deposited and accounted for under the provisions of section 105 of P.L. 480 and, when repaid, may be used to fund additional loans to financial intermediaries; agricultural market development activities; payment of United States obligations; or be converted to dollars.

(5) The loan agreements between the President and the financial intermediaries will be subject to periodic audit. Not later than 180 days after the close of each fiscal year, the President must report to the House and Senate Agriculture Committees on the activities carried out under section 108, including an evaluation of the impact of the lending activities carried out during the preceding year.

(6) The President may provide agricultural technical assistance to further the purposes of the program. The Secretary must, to the maximum extent practicable, use at least 5 percent of the foreign currencies initially obtained for use under section 108 to pay for this assistance. (Sec. 121.)

The *House* bill contains no comparable provisions.

(b) The *Senate* amendment amends section 2 of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) by adding to the existing statement of policy the policies of using foreign currencies accruing under the Act to foster and encourage the development of private enterprise in developing countries, and the enhancing of food security in developing countries through local food production.

The *Senate* amendment also includes the Congressional finding that additional steps should be taken to use the agricultural abundance produced by American farmers to relieve hunger and promote long-term food security and economic development in developing countries, in accordance with development assistance policy established under section 102 of the Foreign Assistance Act of 1961, and to promote United States agricultural trade interests. (Sec. 120.)

The *House* bill contains no comparable provisions.

The *Conference* Substitute combines the House and Senate provisions. It amends Title I of Public Law 480 to authorize the use of foreign currencies accruing from Title I concessional loans for promoting private enterprise in developing countries.

Under these authorities, foreign currencies would be loaned to financial intermediaries in countries purchasing Title I commodities for use in providing loans for private enterprise investment. Financial intermediaries may include banks, financial institutions, cooperatives, nonprofit voluntary agencies, or other organizations or entities, as determined by the President, that have the capability of making and servicing a loan in accordance with this section.

The loans would go to private individuals, cooperatives, corporations, or other nongovernmental entities for productive private enterprise projects.

Funds loaned by financial intermediaries could not be used to finance state-owned entities or ventures, or to produce commodities or products that would compete with U.S. commodities or products. In addition, upon signing Title I agreements making local currencies available for private investment, the President would be required to ensure that notice is placed in publications to make local private enterprise and financial intermediaries aware of the availability of these currencies.

Under authorities provided for in the House provision, the foreign currencies for this private enterprise promotion program would be provided by the host government in an amount equal to the value of the commodities received through Title I sales for dollars on credit terms. The host government-owned currencies would be applied from a jointly programmed account. The host government would continue to pay its PL 480 Title I dollar debt to the United States as under current law.

Under authorities provided for from the Senate provision, the President could enter into agreements with friendly countries for the sale of commodities for foreign currencies convertible to dollars for use in private enterprise development.

Included in the agreements would be a schedule permitting the conversion of these currencies to dollars 10 to 30 years following delivery of the commodities. Prior to conversion of these currencies, the President is authorized to loan the currencies to financial intermediaries in purchasing countries for use in private enterprise investment. These loans are to be made at reasonable interest rates consistent with business practices. However, preferential rates of interest or local currency grants may be provided to cooperatives and private voluntary organizations to help defray startup costs of becoming a financial intermediary.

Once the financial intermediaries begin to make repayments of their loans to the President, he may convert such currencies into dollars in accordance with the conversion schedule included in the original sales agreement, reloan the currencies to financial intermediaries to finance additional private investment, use the currencies for agricultural market development, or use the currencies to pay U.S. obligations within the recipient country.

For fiscal years 1986 through 1990, no less than 10 percent of the aggregate value of P.L. 430 Title I agreements are to be made for local currencies for use in this program, provided that this requirement may be waived in any year in which meeting the minimum would result in a significant reduction in the volume of commodities furnished under Title I.

To the maximum extent practicable, at least 5 percent of the foreign currencies generated under these sales agreements may be used to provide agricultural technical assistance, including the funding of market development activities.

In providing for this program utilizing U.S. owned foreign currencies, the managers recognize that some exchange rate risks are entailed in the program. In addition, auditing of this program may be done through certification procedures, distribution of these currencies does not entail restrictions placed on domestic distribution of Federal funds, and the program is not intended to affect currency use payments.

The authorities in the House provision provide for private enterprise promotion activities to be operated in conjunction with sales of agricultural commodities for dollars on credit terms. Proceeds from the sales of these commodities in the recipient countries—equal to the value of the commodities provided—shall be placed in jointly programmed, special accounts for use for private sector development activities as are mutually agreed upon by the United States and the recipient countries. These activities would require the loaning of the proceeds to financial intermediaries within the country for the purpose of providing loans to private entities.

For each of the years of the bill, the President is encouraged to channel foreign currencies, in an amount equivalent to 25 percent of the value of Title I sales agreements, for use in loans provided for under the authorities in the Conference substitute, to the extent that there are appropriate proposals for such use.

In providing for these new authorities, the Conferees recognize their consistency with the will of Congress to direct foreign assistance more toward the private sector. Furthermore, the managers intend to judge the performance of the administration of these authorities on the quality of investments made under the program, and not upon the volume of funds directed into financial intermediaries in any recipient country.

The Conferees further intend that the performance of these, and other programs with mandatory minimums or targets be examined thoroughly during the next reauthorization of P.L. 480.

(10) Child immunization programs

The *House* bill amends the Agricultural Trade Development Act of 1954 (P.L. 480) to include the immunization of children as one of the self-help measures that the President must consider before

making an agreement for the sale of commodities to that country. The *House* bill also authorizes the use of funds made available under title II for the immunization of children. The bill sets a target for the immunization, by fiscal year 1987, of at least three million more children annually than received immunizations under such programs in fiscal year 1985. The increased immunization activity should be undertaken in coordination with similar efforts of other organizations and in keeping with any national plans for expanded programs of immunization. The President must include information concerning such immunization activities in the annual reports required by section 634 of the Foreign Assistance Act of 1961, including a report on the estimated number of immunizations provided each year pursuant to this subsection. (Sec. 1108.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision with an amendment that deletes the numerical immunization target and substitutes a directive that those organizations and agencies implementing health programs increase the level of immunizations.

(11) Special Assistant for Agricultural Trade and Food Aid

The *Senate* amendment provides that the President must appoint, with the advise and consent of the Senate, a Special Assistant to the President for Agricultural Trade and Food Aid to serve in the Executive Office of the President.

The Special Assistant would be required to—

- (1) assist the President to improve U.S. food assistance programs carried out in foreign countries,
- (2) coordinate food assistance programs carried out by the Department of Agriculture and AID,
- (3) make recommendations on ways to increase the use of U.S. agricultural commodities through food assistance programs,
- (4) advise the President on agricultural trade,
- (5) serve as a member of the Development Coordination Committee and as Chairman of the Food Aid Subcommittee, and
- (6) issue policy guidelines on food assistance policy.

The Special Assistant would be *authorized* to—

- (1) solicit information and advice from private and governmental sources and recommend a plan to the President and Congress on measures that could be taken—
 - (A) to promote the export of United States agricultural commodities and products; and
 - (2) develop and recommend to the President national agricultural policies to foster and promote the United States agricultural industry and to maintain and increase the strength of this sector of the United States economy; and
- (3)(A) appraise the various programs and activities of the Federal Government, as they affect the United States agricultural industry, for purposes of determining the extent to which these programs and activities are contributing or not contributing to that industry; and
- (B) make recommendations to the President and Congress

ties in contributing to the United States agricultural industry. (Sec. 129.)

The *House* bill contains no comparable provision.

The *Conference* substitute adopts the *Senate* amendment with an amendment providing for a Special Assistant to the President for Agricultural Trade and Food Aid who shall advise, assist, and make recommendations over the broad range of United States agricultural export and food aid matters, and expedite program implementation in any instances in which there is unreasonable delay. He shall serve in the Executive Office of the President, but not be in the lines of authority which exist in the Federal Government for the Secretary of Agriculture, the Administrator of the Agency for International Development, and other departmental and agency heads. The duties of the Special Assistant shall include:

Assisting and advising the President in order to improve United States food assistance abroad; receiving suggestions and complaints about the implementation of United States food aid and agricultural export programs of any Federal agency and providing prompt responses thereto, including expediting the implementation in any cases in which there is unreasonable delay;

Making recommendations to the President on means to coordinate the manner in which Federal food aid programs are carried out in order to improve their effectiveness; and making recommendations to the President on measures to be taken to increase use of United States agricultural commodities abroad through foreign food assistance programs;

Advising the President on agricultural trade;

Advising the President on the Food for Progress program and expediting its implementation;

Serving as a member of the Development Coordination Committee and its Food Aid Subcommittee, and advising Federal departments and agencies on their guidelines on food aid policy to the extent necessary to assure the coordination of food aid programs, consistent with law and the Subcommittee's advice;

Submitting an annual report to the President and Congress within one year after the enactment of this Act and annually thereafter through fiscal year 1990, containing a global analysis of world food needs and protection, identifying at least 15 countries which are most likely to emerge as growth markets for agricultural commodities over the next 5-10 years, and a detailed plan for using available export and food aid authorities to increase United States agricultural exports to these target countries.

The duties of the Special Assistant shall also include:

Soliciting information and advice from private as well as governmental sources and recommending to the President and Congress measures that should be taken to promote United States agricultural exports and expand United States agricultural markets abroad;

Recommending to the President national agricultural policies to promote the United States agricultural industry;

Appraising various Federal programs and activities affecting the United States agricultural industry to determine the extent to which they are contributing to the United States agricultural industry and making recommendations to the President and Congress on the effectiveness of such programs and activities.

(12) Trade Policy Declaration

The *House* bill includes Congressional findings regarding the significant decline in the volume and value of U.S. agricultural exports as a result of unfair foreign competition and the high value of the dollar. It further states that U.S. agricultural trade policy should be:

(1) To provide by all means possible for export of agricultural commodities and their products at competitive prices;

(2) To support the principle of free trade and the promotion of fairer trade;

(3) To cooperate in all efforts to negotiate reductions in barriers to fair trade;

(4) To counter aggressive unfair trade practices by all available means;

(5) To remove foreign policy constraints in order to maximize agricultural trade;

(6) To provide for consideration of U.S. agricultural trade interests in the design of national fiscal and monetary policy.

The *House* bill also declares Congressional findings to the effect that the present high level of agricultural protectionism contrasts with the general trade liberalization achieved under the General Agreement on Tariffs and Trade; the protective effect of domestic subsidies alters trade indirectly by reducing demand for imports and increasing the supply of exports; current GATT rules distinguish between primary and manufactured products; the rule permitting export subsidies on primary products has proven unworkable; and a unified treatment of tariffs and subsidies would clarify trading rules for market participants and simplify trade negotiations. (Secs. 1121, 1133.)

The *Senate* amendment provides findings regarding the need for open and fair trade, the adverse effects of unfair trade practices of many countries on exports of U.S. agricultural commodities, and the need for more effective rules governing international agricultural trade. It further states that it is the policy of the U.S. to (1) promote free and active world trade in agricultural goods through negotiations to reduce or eliminate restrictive trade practices, and (2) to reduce or eliminate U.S. restrictions on imports of agricultural goods as part of an international program of mutual opening of agricultural trade markets. (Sec. 107.)

The *Conference* substitute adopts the *House* provision with an amendment deleting Congressional findings regarding certain GATT rules.

(13) Agricultural trade consultation

(a) The *House* bill requires the Secretary of Agriculture, in coordination with the U.S. Trade Representative, to initiate and pursue multilateral agricultural trade consultations among major

interest on direct credit loans, and requires the Commodity Credit Corporation to make available not less than \$500 million in intermediate export credit guarantees for each fiscal year 1986 through 1988, and not more than \$1 billion in intermediate export credit guarantees in fiscal year 1989. The amendment includes sense of the *Senate* language that the intermediate export credit program should be expanded to include guarantees in order to provide more export marketing flexibility and to improve the capability of importing countries to purchase United States agricultural commodities. (Sec. 101, 1934.)

The *Conference* substitute adopts the *Senate* amendment with an amendment deleting the sense-of-the-*Senate* language.

(21) *Export subsidy reports*

The *House* bill contains Congressional findings concerning the impact of aggressive trading practices and export subsidies of foreign governments on the sale of U.S. agricultural commodities abroad. The Secretary of Agriculture is directed to require detailed information annually from USDA employees stationed abroad on the export subsidies provided by the foreign governments, and identify in those countries opportunities for U.S. agricultural exports. The Secretary shall compile the information annually and make it available to Congress and other interested parties.

The *House* bill also contains a statement of Congressional findings concerning U.S. agriculture exports and obstacles by foreign nations to agricultural commerce, and directs the Secretary of Agriculture to submit an annual report to Congress and the President detailing foreign tariffs, subsidies, and other practices disadvantaging U.S. farm exports. (Secs. 1130, 1161, 1162.)

The *Senate* amendment directs the Secretary to require detailed reports from USDA employees stationed abroad on the agricultural export subsidies and other trade practices impeding U.S. agricultural exports where they are stationed, and identify opportunities for U.S. agricultural exports, with the Secretary to compile the information and make it available to Congress and interested parties including the Agricultural Policy Advisory Committee and the agricultural technical advisory committees established under section 135 of the Trade Act of 1974.

The *Senate* amendment (1) directs the U.S. Trade Representative to review the above reports, identify markets (in order of priority) in which offsetting U.S. export subsidies can be used most efficiently, and submit to Congress and the Secretary an annual report on the foreign subsidy situation and identification potential of U.S. markets for offsetting subsidies; and (2) requires an annual meeting of the Agricultural Policy Advisory Committee and the technical committees to develop recommendations for U.S. actions to reduce the trade distortions identified in the annual reports and expand U.S. agricultural export opportunities identified in the report.

The *Senate* amendment encourages the President to commence negotiations with other countries to reduce trade barriers identified in the reports, and requires that he report periodically to Congress on the actions taken. (Sec. 109.)

The *Conference* substitute adopts the *Senate* amendment with an amendment deleting the requirement that the President commence

negotiations with other countries to reduce trade barriers and clarifying that all appropriate USDA officers and employees, including those stationed abroad, shall be required to provide information on the nature of foreign export subsidies, unfair trade practices, and trade opportunities.

(22) *Contract sanctity and producer embargo protection*

The *House* bill declares it to be U.S. policy not to restrict or limit the export of U.S. agricultural commodities, or products except under the most compelling circumstances, that any such prohibition or limitation be imposed only in time of a national emergency under the terms of the Export Administration Act, and that contracts entered into before prohibitions or limitations are imposed should not be abrogated. (Sec. 1131.)

The *Senate* amendment amends section 1204 of the Agriculture and Food Act of 1981 to limit to direct payments in the form of compensation that may be made to producers of agricultural commodities for which export controls have been imposed. Section 1204 of the Agriculture and Food Act provides for embargo protection in the form of direct payments or loans at 100 percent of parity or a combination of both to producers of agricultural commodities subject to certain export controls. (Sec. 111.)

The *Conference* substitute adopts both the *House* provisions and the *Senate* amendment.

(23) *Study to reduce foreign exchange risk*

The *House* bill mandates a study by the Secretary of Agriculture to determine the feasibility, practicability and cost of implementing a program to reduce the risk of foreign exchange fluctuations incurred by purchasers of U.S. agricultural exports under U.S. export credit promotion programs. The results of the study shall be reported to the House and Senate agriculture committee within six months. (Sec. 1132.)

The *Senate* amendment contains no comparable provision.

The *Conference* substitute adopts the *House* provision.

(24) *Cargo preference*

(a) The *House* bill states that nothing in this Act shall be construed as exempting export activities from the cargo preference laws except to the extent that they were exempt under the existing law (PL 95-501) before September 13, 1985. (Sec. 1141.)

The *Senate* amendment makes congressional findings that productive and healthy U.S. agriculture and maritime industries are vitally important to the U.S., that both industries must compete in international markets increasingly subject to foreign subsidies and trade barriers and that increased agricultural exports and utilization of U.S. merchant vessels help the U.S. trade balance and generate employment opportunities. It declares that it is the policy of Congress to clarify ocean transportation requirements in order to permit USDA to plan its exports effectively, to take immediate steps to promote the growth of U.S. cargo carrying capacity, to expand U.S. international agricultural trade, and to improve the administrative efficiency of both commodity transactions and ocean transport activities associated with USDA sponsored export pro-

grams, and to stimulate both the agricultural and maritime industries. (Sec. 131.)

The *Senate* amendment also provides that the cargo preference requirements of the Merchant Marine Act, 1936, and the Joint Resolution of March 26, 1934, do not apply to any USDA or CCC export activity—

(1) under which CCC-acquired commodities are made available for the purposes of developing, maintaining, or expanding export markets for U.S. agricultural commodities or products at previously world market prices;

(2) under which payments are made available to U.S. exporters, users, or processors (or grants are made available to importers, so long as the cash grant does not result in the grantee paying less than the prevailing world market price for the commodities purchased) for purposes of developing, maintaining, or expanding export markets for U.S. agricultural commodities at prevailing world market prices;

(3) under which commercial credit guarantees are blended with direct CCC credit to reduce effective interest rates on export sales of U.S. commodities;

(4) under which CCC short term credit or credit guarantees are extended to finance or guarantee export sales of U.S. commodities; and

(5) under which commodities or products that are owned, controlled, or under loan from the CCC are exchanged or bartered for materials, goods, equipment, or services at prevailing world market prices. (Sec. 132.)

The *House* bill contains no comparable provision.

The *Conference* substitute adopts the *Senate* amendment with an amendment, technical in nature, including the positioning of the amendment in the Merchant Marine Act, 1936.

(b) The *Senate* amendment requires that the percentage of agricultural cargoes that are subject to the cargo preference laws is, to offset cargoes declared exempt in the preceding section, to be increased from the present 50 percent of certain cargoes to 60 percent of the such cargoes in calendar year 1986, 70 percent in 1987, and 75 percent in 1988 and thereafter.

The agricultural commodities and products that will be subject to the new higher levels of cargo preferences are:

(1) those exported under P.L. 480;

(2) those exported under section 416 of the Agricultural Act of 1949 (section 416 donations) and the Food Security Wheat Reserve Act of 1980;

(3) those donated to foreign governments or sold on credit terms of more than 10 years;

(4) commodities being made available for emergency food relief at less than prevailing world market prices;

(5) those purchased through the use of cash grants, if the grants result in the purchasers paying less than the prevailing world market price for such commodities; and

(6) those owned, controlled or under loan from the CCC that are exchanged or bartered for materials, goods, equipment, or services at prices other than prevailing world market prices. The requirement for U.S. flag transportation is subject to the

terms and conditions provided in section 901(b) of the Merchant Marine Act, 1936.

In implementing this cargo preference requirement, the Secretary of Transportation shall give due consideration to the availability of U.S.-flag vessels to transport the commodities. The Secretary of Transportation also shall administer the cargo preference provisions in a flexible manner, to the maximum extent practicable within the law, giving due consideration to historical trading patterns and to divisions in U.S. international shipping trades between bulk and liner service to particular geographic areas. The Secretary must administer the program in a manner which preserves to the greatest extent practicable the mean historical port range share of cargoes subject to cargo preference that are exported from the Atlantic, Gulf, Pacific, and Great Lakes port ranges.

In addition, the Secretary of Transportation must take whatever steps are necessary and practicable to preserve during calendar years 1986, 1987, 1988 and 1989, the percentage share, or metric tonnage, whichever is lower, of bagged, processed, or fortified commodities, exported under P.L. 480 title II in 1984 from Great Lakes ports.

The determination of prevailing world market prices for agricultural commodities shall be determined in accordance with procedures established by the Secretary of Agriculture. In event of a determination in the case of barter or exchange, the determination shall be made by the Secretary of Agriculture in consultation with the heads of other appropriate Federal agencies.

The *House* bill contains no comparable provision.

The *Conference* substitute adopts the *Senate* amendment—

(1) deleting the requirement that the Secretary of Transportation give due consideration to the availability of U.S. flag vessels to transport the commodities and deleting the language dealing with flexible administration of the program as well as the reference to the division between bulk and liner services and the preservation of historical port range shares;

(2) changing the minimum percentage requirements from a calendar year to 12-month periods commencing on April 1, 1986;

(3) requiring the program to be operated without detriment to any other port facility range;

(4) clarifying cash transfer provisions.

(c) The *Senate* amendment will require that the minimum quantity of agricultural exports subject to the cargo preference laws for fiscal 1986 and annually thereafter shall be the average of the tonnage exported under the programs described above in paragraph (b) during the base period, discarding the high and low years. The base period for any fiscal year shall be the five fiscal years beginning with the sixth fiscal year preceding such fiscal year and ending with the second fiscal year preceding such fiscal year. The President may waive the minimum for any year in which he determines the quantity cannot be effectively used for the purposes of such programs or, based on a certification by the Secretary of Agriculture, that the commodities are not available for reasons including the unavailability of funds. (Sec. 134.)

The *Senate* amendment provides that the Secretary of Transportation shall finance any increased ocean freight charges resulting from the increased cargo preference mandated above. The Secretary of Transportation also shall reimburse USDA and the CCC for the amount which their ocean freight and ocean freight differential costs in any fiscal year exceed 20 percent of the total cost of the commodities shipped plus ocean freight and differential.

For meeting these expenses, the Secretary of Transportation shall issue interest-bearing notes which the Treasury shall purchase as public debt transactions. Authorization is granted for annual appropriations commencing in fiscal 1986 to reimburse the Secretary of Transportation for the costs, including administrative expenses and the principal and interest due to the Treasury. If the Transportation Secretary is unable to get the funds necessary to finance the increased cargo preference, he shall notify Congress within 10 working days. (Sec. 135.)

The *House* bill contains no comparable provisions.

The *Conference* substitute adopts the *Senate* amendment with an amendment, technical in nature.

(d) The *Senate* amendment also provides for a National Advisory Commission on Agricultural Export Transportation Policy to be established to conduct a comprehensive study of ocean transportation of agricultural exports subject to cargo preference laws and to make recommendations to the President and the Congress for improving the efficiency of such transportation on U.S. vessels in order to reduce the costs incurred by the U.S. The Commission shall be composed of 16 members including eight appointed by the President, four from the agricultural sector and four from the U.S. maritime industry (two representing labor, two management); and eight Congressional members consisting of the Chairman and ranking minority members of the House Agriculture Committee, Senate Agriculture, Nutrition, and Forestry Committee, and the House Merchant Marine and Fisheries and Senate Commerce, Science, and Transportation Committees. The Commission shall submit an interim report within one year and a final report within two years.

"Such sums as may be necessary" are authorized to be appropriated to carry out all the provisions of the *Senate* amendment (Subtitle C-Export Transportation of Agricultural Commodities).

The *Senate* amendment (Subtitle C) shall terminate 90 days after the Secretary of Transportation notifies the Congress of funding unavailability for the costs of increased cargo preference pursuant to the above notification requirement, unless within the 90 day period he proclaims the funds are available.

The 1936 Merchant Marine Act is amended to require that no U.S. commercial vessel shall be deemed to be available for the transportation of cargoes subject to the cargo preference unless such vessel has been certified by the Secretary of the Navy upon the recommendation of the Chief of Naval Operations as being necessary for the defense of the United States and its allies. (Sec. 136-139, 143.)

The *House* bill contains no comparable provisions.

The *Conference* substitute adopts the *Senate* amendment with amendments: (1) technical in nature; (2) clarifying that upon notification by the Secretary of Transportation that if funding is not

available for the increased costs of cargo preference required in this subtitle, the subtitle terminates and the 50 percent requirement of all programs covered by section 901(b) of the Merchant Marine Act of 1936 shall be in full affect; and (3) certification by the Secretary of Transportation of vessels eligible to carry cargoes.

The conferees intend that the special preference given to cargo shipped from the Great Lakes should not cause a reduction in the cargo shipped from other port ranges throughout the nation. The conferees also intend that the 1984 baseline for shipment of bagged grain from Great Lakes ports is a minimum.

(25) Consultations on import restrictions

The *House* bill requires that before any authority within the Department of Agriculture acts to relax or remove a restriction on the importation of an agricultural commodity, all appropriate authorities within the Department, including the Foreign Agricultural Service and the Animal and Plant Health Inspection Service, shall be consulted. (Sec. 1151.)

The *Senate* amendment requires similar consultations within the Department of Agriculture before an import restriction is relaxed or removed, and requires the Secretary of Agriculture to consult with the United States Trade Representative before such action is taken. The amendment requires Department of Agriculture personnel involved in agricultural trade negotiations with any country to consult with the Agricultural Policy Advisory Committee and the appropriate agricultural technical advisory committee established under Section 135 of the Trade Act of 1974 regarding agricultural practices and procedures before concluding any agricultural trade agreement. (Sec. 108.)

The *Conference* substitute adopts the *Senate* amendment with an amendment deleting the requirement that the Agricultural Policy Advisory Committee and certain advisory committees be consulted.

(26) Findings and export market development report

(a) The *House* bill proposes findings by Congress relative to the decline in U.S. agricultural exports, the resulting economic distress in rural America, the importance of exports to assuring a healthy farm economy, and the potential for increasing U.S. agricultural exports by utilizing existing authorities and programs to aid in the strengthening of developing countries so that they may one day become commercial customers for agricultural products of the United States. (Sec. 1153.)

The *Senate* amendment contains no comparable provision.

(b) The *House* bill requires the Secretary of Agriculture in conjunction with the Administrator of the Agency for International Development, and in consultation with the Secretary of State and the U.S. Trade Representative to submit a report to the President and Congress within one year. The report will contain (1) a global analysis of world food needs and production; (2) identify at least 15 target countries which are most likely to emerge as growth markets for agricultural commodities in the next 5 to 10 years; (3) and present a detailed plan for using available export and food aid authorities to increase U.S. agricultural exports to such target countries. Each year thereafter through fiscal 1990 the Secretary shall



TCR Services, Inc.

1008 North Randolph Street, Suite 206
Arlington, Virginia 22201-4697

Telephone 703-243-2378
TWX No 710-955-9826

Daniel E. Shaughnessy
President

November 12, 1986

To: Rita Hudson, FVA/FFP/POB
From: Daniel E. Shaughnessy *Dan Shaughnessy*
Subject: P.L. 480 Legislative Analysis for Incorporation in
AID Handbook Nine*

Following are the substantive changes in the P.L. 480 law over the past 10 years (1977-86). They have been reviewed and will be incorporated where necessary in Handbook Nine. This document will be used as a checklist as draft sections of the Handbook are prepared in order to assure inclusion of these new provisions.

Sec. 2 - U.S. policies include "to use foreign currencies accruing under this Act to foster and encourage the development of private enterprise in developing countries; to enhance food security in developing countries through local food production;" (added by Sec. 1111(a) of the Food Security Act of 1985).

Sec. 101 - Provides for sale of agricultural commodities for foreign currencies for use under Section 108, in addition to the sale for dollars on credit terms or for foreign currencies on credit terms permitting conversion to dollars which was previously authorized. A minimum of 10 percent of the aggregate Title I value is required for Section 108 use each fiscal year 1986 through 1990, along with other provisions concerning Section 108. (Amended by Sec. 1111(c) of the Food Security Act of 1985)

Sec. 102 - Two provisos regarding restrictions on sale and export of Commodity Credit Corporation commodities were struck from this section. (Deleted by Sec. 201(a) of the International Development and Food Assistance Act of 1977)

Sec. 102 - Authority given to the Commodity Credit Corporation to serve as purchasing or shipping agent when requested by the purchaser. (Added by Sec. 1201 of the Food and Agriculture Act of 1977)

Sec. 103(d) - Definition of "friendly country" narrowed by deletion of provisions concerning Cuba/North Vietnam and the United Arab Republic. (Deletion by Sec. 201(b) of the International Development and Food Assistance Act of 1977)

*An analysis of AID policy changes, Food for Progress legislation and Section 416 legislation, is also underway.

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Sec. 103(f) - Rewritten to relate expansion of markets for U.S. and local agricultural commodities to stimulation of equitable economic growth in recipient countries. (Amendment by Sec. 201 of the International Development Cooperation Act of 1979)

Sec. 103(l) - Deletion of wording designed to insure that Title I food commodities sold for foreign currencies would be identified at distribution or sale location as being provided on a concessional basis through the generosity of the American people. (Amendment by Sec. 401(4) of the International Security and Development Cooperation Act of 1981)

Sec. 103(m) - Addition of the last two sentences requiring convertibility of foreign currencies under Sec. 108 within 10-30 years but not requiring exchange rate specification. (Added by Sec. 1111(d)(3)(C) of the Food security Act of 1985)

Sec. 104(d) - Ceiling on use of Title I foreign currencies for emergency relief requirements raised from \$5 million to \$10 million annually. (Amendment by Sec. 402 of the International Security and Development Cooperation Act of 1981)

Sec. 104(f) - Agency for International Development substituted for Advisory Committee on Voluntary Foreign Aid in reference to registry and approval of nonprofit voluntary agencies (Amendment by Sec. 121 of the International Development Cooperation Act of 1979)

Sec. 106(a)(2) - Title I repayment terms shall be no less favorable than those for development loans under Section 122 of the Foreign Assistance Act. (Added by Sec. 401(6) of the International Security and Development Cooperation Act of 1981)

Sec. 106(a)(3) - Payment for foreign currency sales under Section 108 shall be on such terms as are specified in the Section 108 agreements. (Added by Sec. 1111(f) of the Food Security Act of 1985)

Sec. 106(b)(2) - Struck out provision that proceeds from sales in the recipient country when used for economic development purposes as provided in Sec. 106(b)(1) shall be deemed payments for the purposes of Sec. 103(b), up to 15 percent of the total value of Title I agreements in that fiscal year; and substituted the language placing greatest

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emphasis on using the proceeds for developmental programs in accordance with the Sec. 109 self-help provisions of P.L. 480 and the policy objectives of Sections 103 and 104 of the Foreign Assistance Act. (Amendment by Sec. 211(b)(2) of the International Development and Food Assistance Act of 1977)

Sec. 106(b)(4) - Authorizes use of proceeds from Title I sales in the recipient country for private sector development activities, through loans by the recipient government to financial intermediaries for loans to private entities. Proceeds may be granted to defray startup costs for cooperatives or PVO's of becoming a financial intermediary. Proceeds shall not be used to promote production of products which will compete with similar U.S. products in world markets. (Added by Sec. 1111(g) of the Food Security Act of 1985)

Sec. 108 - Authorizes a program of P.L. 480, Title I sales for foreign currencies which are to be loaned through intermediaries to private entities within the recipient countries for the purpose of financing productive private enterprise investment within those countries, promoting markets for U.S. agricultural products, and private enterprise support of self-help measures (Added by Sec. 1111(h) of the Food Security Act of 1985)

Sec. 109(a)(3) - Includes reduction of illiteracy among the rural poor in the self-help provision regarding training and instruction of farmers. (Added by Sec. 1210(a)(1) of P.L. 97-98)

Sec. 109()(11) - Adds to the self-help provisos carrying out programs to improve the health of the rural poor. (Added by Sec. 1210(a)(3) of P.L. 97-98)

Sec. 109(a)(11) - Adds immunization of children to the self-help proviso regarding improving the health of the rural poor. (Added by Sec. 1112(a)(1) of the Food Security Act of 1985)

Sec. 109(b) - Previously contained a 20 percent earmarking of certain Title I foreign currencies for self-help measures by countries not engaged in armed conflict against Communist forces or against nations with which the U.S. has no diplomatic relations. (Repealed by Sec. 401(8) of the International Security and Development Cooperation Act of 1981)

Sec. 109(d) - Requires that the economic development and self-help measures in each Title I agreement shall be described in specific and measurable terms to the maximum extent feasible and in a manner ensuring that the needy people in the recipient country will be the major beneficiaries. The self-help measures are, to the maximum extent feasible, to be additional to the measures the recipient country would otherwise have taken. (Added by Sec. 1210(b) of the Agriculture and Food Act of 1981)

Sec. 111 - Changed the formula for allocating Title I sales so that not more than 25 percent in each fiscal year can go to countries other than those meeting the poverty criterion established for International Development Association financing and are unable to meet their immediate food need through their own production or commercial imports. (Amendment by Sec. 202 of the International Development and Food Assistance Act of 1977.) [See also original Sec. 111 from Sec. 207 of the International Development and Food Assistance Act of 1975]

Sec. 112 - Added a prohibition against Title I sales to any country engaging in a consistent pattern of gross violations of internationally recognized human rights. (Added by Sec. 203 of the International Development and Food Assistance Act of 1977)

Sec. 112 - Added the reference to the disappearance of persons from abduction and clandestine detention. (Added by Sec. 701(c) of the International Security and Development Cooperation Act of 1980)

Sec. 113 - Requires priority in Title I allocations for food and fiber commodities. (Added by Sec. 204 of the International Development and Food Assistance Act of 1977)

Sec. 114 - On Title I sales of high protein, blended, or fortified food, repayment of the debt may be forgiven for the recipient country to the extent the product value is attributable to the costs of processing, enrichment, or fortification. (Sec. 205 of the International Development and Food Assistance Act of 1977)

Sec. 115 - Requires publicly advertised, open, competitive bidding procedures for Title I purchases. Any commission paid to agents by a supplier of commodities or ocean transportation must be reported to the Secretary of Agriculture. (Sec. 1202 of the Food and Agriculture Act of 1977)

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Sec. 201(b) - Successive increases for minimum tonnages for Title II and subminimums for nonprofit voluntary agencies and the World Food Program were prescribed in Sec. 206 of the International Development and Food Assistance Act of 1977. The subminimum was restricted only to nonemergency programs of PVO's and the WFP by Sec. 404 of the International Security and Development Cooperation Act of 1981. In 1985 Section 201(b) was restated and the minimum was raised to 1.9 million metric tons each fiscal year in 1987-90 with a subminimum of 1.425 million metric tons for PVO's and WFP nonemergency programs. (Amended by Sec. 1102 of the Food Security Act of 1985)

Sec. 201(c) - Requires that at least 75 percent of the commodities required to be distributed for nonemergency programs under Title II each year be in the form of processed or fortified products or bagged commodities, unless the President determines the programs will not be best served by this amount. (Added by Sec. 1103 of the Food Security Act of 1985)

Sec. 202(a) - Sentence added to make clear that the President may furnish commodities "for direct distribution, sale, barter, or other appropriate disposition" in carrying out the purposes of Title II. (Added by Sec. 1003 of the International Security and Development Cooperation Act of 1985)

Sec. 202(a) - The reference to the Agency for International Development was substituted for the Advisory Committee on Voluntary Foreign Aid. (Amendment by Sec. 121 of the International Development Cooperation Act of 1979)

Sec. 202(b)(1-3) - Distributors of Title II commodities are encouraged to work with indigenous institutions and workers to assess the needs of beneficiary groups and help them. Priority shall be given to those who are suffering from malnutrition through such means as priority for malnourished preschool children and distribution to the poorest regions of countries. (Added by Sec. 207(3) of the International Development and Food Assistance Act of 1977 and Sec. 202 of the International Development Cooperation Act of 1979)

Sec. 202(b)(4) - In Title II distributions by PVO's consideration shall be given to the nutritional and development objectives established by the PVO's in light of their assessment of the needs of the people assisted. (Added by Sec. 1104(a) of the International Security and Development Cooperation Act of 1985)

Sec. 202(c) - The President is encouraged to approve multiyear Title II agreements if requested by the PVO or cooperative involved. The PVO or cooperative shall not be required to obtain annual approval for the program's continuation unless exceptional and unforeseen circumstances occur. (Added by Sec. 1105 of the International Security and Development Cooperation Act of 1985)

Sec. 203 - The Commodity Credit Corporation authority to pay costs was expanded to include transportation to points of entry other than ports when a substantial savings in costs or time can be effected. (Added by Sec. 209 of the International Development and Food Assistance Act of 1977)

Sec. 203 - CCC authority to pay costs was further broadened, in the case of urgent and extraordinary relief requirements, to include transportation to storage and distribution sites and associated storage and distribution costs. (Added by Sec. 305 of the President's Emergency Food Assistance Act of 1984)

Sec 204 - The annual appropriation authorization ceiling for Title II programs was changed from a calendar year to a fiscal year basis. (Amendment by Sec. 1101 of the Food Security Act of 1985)

Sec.204 - The annual Title II appropriations ceiling was raised from \$600 million to \$750 million by Sec. 1203 of P.L. 95-113. In 1981 the ceiling was raised again, from \$750 million to \$1 billion. (Amendment by Sec. 1212 of the Agriculture and Food Act of 1981)

Sec. 204 - A waiver of the Title II appropriations ceiling is authorized when necessary to meet urgent humanitarian needs. (Added by Sec. 1101 of the Food Security Act of 1985)

Sec. 206 - Title II commodities cannot be sold to generate foreign currencies unless the recipient country agrees to self-help measures in accord with Sec. 109 of P.L. 480 and the currencies are used in accord with the purposes of Section 103 of the Foreign Assistance Act, which deals with agriculture, rural development and nutrition assistance. (Amended by Sec. 210 of the International Development and Food Assistance Act of 1977 and by Sec. 203 of the International Development Cooperation Act of 1979)

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Sec. 206 - Currencies generated under this provision may, under the assistance agreement, be used for health programs and projects, including the immunization of children. (Added by Sec. 1112(a)(1) of the Food Security Act of 1985)

Sec. 207 - A PVO requesting a nonemergency food assistance agreement under Title II shall describe the intended uses of any foreign currency generations. In the aggregate, such agreements shall provide for foreign currency proceeds totaling at least 5 percent of the total value of the Title II commodities distributed for nonemergency programs each fiscal year. (Added by Sec. 1104(b) of the Food Security Act of 1985)

Secs. 301-7 - The Food for Development Program, which is the principal subject matter of Title III of P.,L. 480, provides for multiyear concessional sales of P.L. 480 commodities to countries meeting the IDA development loan criterion, the assistance to be used for specified development programs in the areas of agricultural development, rural development, nutrition, health services and population planning. The recipient country receives the commodities under Title I financing. Disbursement of the proceeds from the domestic commodity sales according to the Food for Development program terms is credited to the recipient country as repayment of its debt. Title III Food for Development Programs are required to total not less than 10 percent of the aggregate value of all Title I agreements each fiscal year. (Added by Sec. 211 of the International Development and Food Assistance Act of 1977) (See also Sec. 302(c)(1)(C) below)

Sec. 301(a) - Eligibility for a Food for Development program was broadened to include agreed programs for the uses of the commodities, as well as for agreed uses of the proceeds from the sale of the commodities. (Sec. 204(a)(2) of the International Development Cooperation Act of 1979)

Sec. 301(b) - Immunization of children was specified as among the health services which could be beneficiaries of a Food for Development program. (Amendment by Sec. 1112(a)(3) of the Food Security Act of 1985)

Sec. 302(c)(1)(C) - The 15 percent minimum of the Title I annual aggregate originally required for Food for Development programs was reduced to 10 percent. (Amendment by Sec. 1108 of the Food Security Act of 1985)

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Sec. 302(d)(4) - Consideration shall be given to using the expertise of American agriculture in developing and carrying out Food for Development Programs. (Added by Sec. 205 of the International Development Cooperation Act of 1979)

Sec. 302(d)(4) - U.S. nonprofit voluntary agencies and cooperatives were added to American agriculture as sources to be considered for using their expertise in developing and carrying out Food for Development programs. (Added by Sec. 1004(b) of the International Security and Development Cooperation Act of 1985)

Sec. 304(d) - The CCC was authorized to pay ocean freight charges on Food for Development shipments for countries on the UNCTAD list of relatively least developed countries. (Added by Sec. 202 of the International Development and Food Assistance Act of 1978)

Sec. 305(b) - Countries on the UNCTAD relatively least developed countries list which have Food for Development currency disbursements in excess of their Food for Development debt in a fiscal year may apply the excess as repayment of other debt owed under P.L. 480. (Added by Sec. 203 of the International Development and Food Assistance Act of 1978)

Sec. 305(c) - The dollar value of commodities applied in accordance with a Food for Development Program can be credited as debt repayment. (Added by Sec. 204(b) of the International Development Cooperation Act of 1979)

Sec. 306 - The annual report required on each Food for Progress program must include a detailed description of how the commodities were used or a specific accounting for funds generated. (The reference to describing commodity use was added by Sec. 207(a) of the International Development Cooperation Act of 1979)

Sec. 310 - No restrictions shall be placed on the countries of the free world into which surplus agricultural commodities may be sold. (Sentence added by Sec. 1167(c) of the Food Security Act of 1985)

Sec. 310 - To the maximum extent practicable, private trading firms shall be utilized in barter agreements. (Sentence added by Sec. 1167(c) of the Food Security Act of 1985)

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Sec. 401(a) - Commodities may be provided under P.L. 480 for urgent humanitarian purposes regardless of the normal availability criteria otherwise stated in Sec. 401(a). (Clause added by Sec. 1204 of the Food and Agriculture Act of 1977)

Sec. 401(b) - No P.L. 480 shipments may be made unless the Secretary of Agriculture determines that adequate storage is available in the recipient country and distribution of the commodity will not be a substantial disincentive to domestic production in that country. (Sec. 212 of the International Development and Food Assistance Act of 1977)

Sec. 401(b) - The anti-disincentive requirement was broadened to include "or interference with" production, and interference with marketing was precluded as well. (Added by Sec. 208 of the International Development Cooperation Act of 1979)

Sec. 402 - Beer was added as an item not prohibited from market development activities carried out with P.L. 480, Title I currencies. (Added by Sec. 24 of the Export Administration Act of 1979)

Sec. 403(b) - P.L. 480 commodities from the CCC inventory shall be valued by the Secretary of Agriculture, in determining reimbursement due the CCC, at not greater than the export market price at the time of P.L. 480 use. (Added by Sec. 1206 of the Food and Agriculture Act of 1977 and by Sec. 1214 of the Agriculture and Food Act of 1981)

Sec. 403(c) - The President may transfer up to 15 percent of the funds in any P.L. 480 title in a fiscal year to another P.L. 480 title. (Added by Sec. 407 of the International Security and Development Cooperation Act of 1980)

Sec. 404 - Policy language reworded and expanded to specify objectives of market expansion and priority for focusing P.L. 480 aid to benefit the poor. (Amendment by Sec. 209 of the International Development Cooperation Act of 1979)

Sec. 406 - Not less than one-tenth of 1 percent of P.L. 480 funding for fiscal years 1986 and 1987 shall be used for farmer-to-farmer programs under Sec. 406(a)(1) and (2). (Sec. 1107 of the Food Security Act of 1985)

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Sec. 408(a) - The deadline for the annual P.L. 480 report was changed from April 15 to February 15. (Amendment by Sec. 1215 of the Agriculture and Food Act of 1981)

Sec. 408(b) - An annual report must be submitted to Congress by September 30 containing a global assessment of food production and needs and setting forth planned Title I allocations for the coming year. Further reports showing the current status of Title I programming are due by each December 31 and June 30. (Amendment by Sec. 213 of the International Development and Food Assistance Act of 1977 and by Sec. 213 of the Congressional Reports Elimination Act of 1980)

Sec. 408(b) - The planned programming reports required for Title I shall be required for Title II also. (Added by Sec. 1006 of the International Security and Development Cooperation Act of 1985)

Sec. 408(d) - The Secretary of Agriculture shall issue revised regulations governing operations under Title I every two years. The regulations shall be designed to encourage an increase in the number of exporters participating in P.L. 480. All revised regulations on Title I and III operations shall be transmitted to Congress. (Added by Sec. 1207 of the Food and Agriculture Act of 1977)

Sec. 408(e) - Bagged commodities under P.L. 480 may be considered exported upon delivery at port. (Added by Sec. 1207 of the Food and Agriculture Act of 1977)

Sec. 409 - Successive omnibus farm bills extended P.L. 480 programming and spending authority by multiyear terms, the most recent being the 5-year extension to 1990 enacted in 1985. (Sec. 1105(1) of the Food Security Act of 1985)

Sec. 409 - New spending authority for Title I shall be effective for any fiscal year only to the extent as provided in appropriation acts. (Added by Sec. 1208 of the Food and Agriculture Act of 1977)

Sec. 413 - P.L. 480 commodities shall be made available on a multiyear basis to the maximum extent practicable when necessary for the most effective accomplishment of the law's humanitarian and developmental purposes. (Added by Sec. 210 of the International Development Cooperation Act of 1979)

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SECTION 416

Agricultural Act of 1949, 1982 Amendment Section 1109, Food Security Act of 1985

Intent: The intent of Section 416 is to reduce U.S. agricultural surpluses -- additional to PL 480 - and to provide humanitarian and development aid in the same way as Title II projects world-wide.

Description: Amendments to Section 416 of the Agriculture Act in 1982 authorized USDA to donate dairy products from Commodity Credit Corporation (CCC) stocks for poor people needing food assistance in foreign countries. These donations can be made through the foreign governments, or through U.S. private, nonprofit voluntary organizations (PVOs).

An 1984 agreement divided programming responsibilities between A.I.D. and USDA. USDA is now responsible for determining which commodities are available and in what quantities. A.I.D.'s responsibilities include review and approval of program sponsors, development and review of specific proposals, establishment of Section 416 program policy, and development of audit procedures. Section 416 is considered additional to PL 480 and is available to countries beyond the list of LDCs now receiving the bulk of Title II assistance. This includes middle-income countries and advanced developing countries such as Mexico and Chile.

Procedures for submitting and approving Section 416 proposals are much the same as that for PL 480 Title II programs. They are submitted to A.I.D. for preliminary review and then presented to the DCC for final approval. Existing Title II logistical systems are used to transfer the commodities.

Food Security Act Amendment - The Farm Bill increased the amounts and commodities available for programming under Section 416. Grains and oilseeds are now included and the following minimum tonnages are to be made available during the period FY 1986 - FY 1990: 500,000 MT of grains and oilseeds and 150,000 MT of dairy products.

The Farm Bill also contains provisions on monetization under Section 416. A minimum of five percent of the aggregate value of commodities made available to PVOs and cooperatives is to be provided for sale. The following specific provisions on

Section 416 monetization are included: a) such sales are to be incidental to donation of 416 commodities; b) sales can finance distribution, handling and processing costs of 416 commodities; c) sales of commodities provided to PVUs and cooperatives can be used to enhance the effectiveness of transportation, distribution and use of the commodities for Food for Work programs and cooperative and agricultural products.

The following are additional important 416 provisions in the Farm Bill: a) disincentive and UMR analyses are to be conducted prior to programming; b) multi-year programs are authorized; and c) Cargo preference rules now apply.

Citations: Food Security Act, 1985, Section 1109
Agriculture Act of 1949, Section 416,
Amendment 1982

Subject: Section 416 Legislative Analysis

Section 416 of the Agricultural Act of 1949

Section 416 of the Agricultural Act of 1949 (Public Law 81-439), in its earliest years, contained broad authority for use of U.S. agricultural commodities for barter and food aid abroad. Section 416 was substantially amended in 1954 and in effect, basically superseded in its foreign distribution aspects by "P.L. 480", the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480). A further amendment in 1966 (Public Law 89-808) shifted authority in Section 416 clause (4), for donation of excess food commodities to needy persons and for nonprofit lunch programs outside the United States, to Title II of P.L. 480.

In 1982, amid demands for greater disposal of large dairy surpluses, Congress included in the Omnibus Budget Reconciliation Act of 1982 (Public Law 97-253, Sec. 110) an amendment to Section 416 providing for donation abroad of dairy products acquired by the Commodity Credit Corporation under price support operations. The amendment provided that such dairy products may be donated through foreign government humanitarian organizations for the assistance of needy persons outside the United States.

In 1984, the Agricultural Programs Adjustment Act of 1984 (Public Law 98-258, Sec. 502) further amended Section 416 to add wheat to dairy products as CCC surplus commodities eligible for donation to needy persons abroad under the program. The 1984 Act also provided for a two-year pilot program under which CCC dairy products would be bartered or exchanged for 40,000 metric tons of ultra-high temperature (UHT) processed fluid milk, which would be available for donation to needy persons abroad.

In 1985, the Food Security Act of 1985 (Public Law 99-198, Sec. 1109) comprehensively amended Section 416, placing in a new Section 416(b) extensive authorities and requirements for food assistance abroad. Ten clauses of the new Section 416(b) set forth these provisions, as follows:

(1) The Secretary of Agriculture may furnish "eligible commodities" for carrying out foreign assistance programs under Title II of P.L. 480 and the Food for Progress Act of 1985, for such purposes as he approves. The assistance is to be coordinated through the mechanism designated by the President to coordinate P.L. 480 assistance.

(2) "Eligible commodities" are defined as dairy products, grains and oilseeds acquired by the CCC through price support operations, and other edible commodities acquired during normal CCC operations. Commodities may not be acquired for the purpose of Section 416(b) use.

(3) Commodities cannot be made available for Section 416(b) in amounts that will reduce the amounts traditionally donated to domestic feeding programs or agencies, or will prevent fulfillment of any payment-in-kind agreement under laws administered by the Secretary.

The requirements of Section 401(b) of P.L. 480, which required determinations of adequate storage facilities and absence of substantial disincentive to production in the recipient country from the food aid, apply to Section 416(b) shipments. Section 416(b) commodities may not be provided except on determinations by the Secretary that the recipient country has the absorptive capacity to use the commodities efficiently and effectively, and that their dispositions will not interfere with usual marketings of the United States nor disrupt world prices of agricultural commodities and normal patterns of commercial trade with developing countries. The usual marketings requirement shall not prevent Section 416(b) shipments to countries which have not traditionally bought the commodity from the United States, or do not have adequate funding to buy the commodity from the United States commercially or concessionally. The Secretary shall take reasonable precautions to ensure that Section 416(b) aid will not displace sales which otherwise might be made, and that its sales and barter will not unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade.

(4) Agreements under Section 416(b) may provide commodities in installments over an extended period of time.

(5) Section 203 of P.L. 480, authorizing CCC payment for packaging, enrichment, preservation, fortification, processing, transportation and handling costs, applies to Section 416(b) commodities. The CCC may pay processing and domestic handling costs with Section 416(b) commodities if this will not disrupt domestic markets.

(6) Costs of Section 416(b) commodities and programs shall be in addition to the P.L. 480 program and shall not be considered expenditures for international affairs and finance.

(7) Section 416(b) commodities and their products may be sold or bartered only with the Secretary of Agriculture's approval and solely as follows:

-- For sales and barter that are incidental to the donations; sales and barter to finance the distribution, handling, and processing costs of the donated commodities or products in the importing country or in a country through which they must be transshipped, or other activities in the importing country consistent with providing food assistance to needy people; and sales and barter of donations to intergovernmental organizations which are consistent with their normal programming procedures.

-- For sales of Section 416(b) commodities and products under agreements with nonprofit voluntary agencies, providing for their PVO use of the foreign currency proceeds for activities enhancing the effectiveness of transportation, distribution and use of donations including food for work programs and cooperative and agricultural projects.

-- Not less than 5 percent of the aggregate value of the Section 416(b) commodities and products provided under Section 416(b) for carrying out assistance programs under P.L. 480 Title II shall be for sales for foreign currencies.

-- Such agreements shall provide for sales for foreign currency proceeds which in the aggregate are not less than 5 percent of the aggregate value of all commodities and products provided under Section 416(b) in the fiscal year. The minimum shall not apply to the extent that there have not been requests for such sales for foreign currency uses.

-- Foreign currency proceeds from these sales shall be spent in the country of origin within one year, except that they may be used, upon the Secretary's permission, in other countries when necessary to expedite transportation of the commodities or products, and after one year as appropriate to enhance effectiveness of the donations.

-- For sales and barter to cover CCC expenses incurred under use of P.L. 480 Section 203 authority cited in (5) above.

-- None of the proceeds may be spent for operating and overhead expenses, except under normal international organization programs and except for personnel and administrative costs incurred by local cooperatives.

(8) Expedited procedures shall be used to the maximum extent practicable in implementing Section 416(b). The Secretary of Agriculture shall be responsible for regulations on sales and barter and foreign currency proceeds to prevent abuses in activities provided for in (7) above.

(9) Each recipient of Section 416(b) commodities for sale or barter under (7) shall report to the Secretary at least once annually before December 31 on the quantity of commodities sold or bartered during the preceding fiscal year, the amount of funds and value of services received, and how they were used. By February 15 of each year the Secretary shall report to Congress on the quantity of commodities sold or bartered under (7) during the preceding fiscal year, the amount of funds and value of services received, how they were used, and the percentage of the quantity of Section 416(b) commodities and products such use represented. The Secretary's report shall also include his best estimate of the amount of foreign currency proceeds that will be used under the agreements with PVO's or cooperatives cited in (7) in the then current fiscal year and the next following fiscal year (if all requests for such use are agreed to), and the percentage that such estimated use represents of the quantity of commodities and products that the Secretary estimates will be furnished under Section 416(b) in each such fiscal year. The Secretary's report also shall include information on the effectiveness of such sales, barter and use during the year in facilitating the distribution of the goods furnished under Section 416(b); the extent to which they displaced commercial sales of U.S. agricultural commodities and products, affect usual marketings of the United States, or discourage local production and marketing of agricultural commodities in the countries in which the Section 416(b) goods are distributed. Finally, the Secretary's reports shall include his recommendations, if any, for changes to improve the sales, barter, or use activities under (7).

(10) The Secretary of Agriculture shall make available for Section 416(b) each fiscal year 1986 through 1990 at least 500,000 metric tons of grains

and oilseeds from CCC's uncommitted stocks, or an amount equal to 10 percent of CCC's uncommitted stocks of these commodities, whichever is less; and 10 percent of CCC's uncommitted stocks of dairy products, but not less than 150,000 metric tons of such products to the extent they are available.

The Secretary shall estimate expected year-end levels of uncommitted CCC stocks before the beginning of the fiscal year. The estimate shall be published in the Federal Register along with a breakdown by each kind of commodity and its quantity.

Of the minimum quantities specified for Section 416(b) disposal, not less than 75,000 metric tons shall be for the Food for Progress program.

The Secretary may waive the minimum quantity requirements (except for the Food for Progress minimum, which is covered by a separate waiver under the Food for Progress Act) to the extent that he determines and reports to Congress that there are not sufficient requests for the commodities. A waiver is provided also if the Secretary determines the commodities are unavailable because of the restrictions in (3) above.

For any fiscal year in which the minimums are not met and in which requests for Section 416(b) commodities are rejected, the Secretary shall provide a detailed written explanation to Congress at the end of the fiscal year of the reasons for the rejections of such requests.

Section 416(b) as amended by the Food Security Act of 1985 also has two further provisions, relating to sales abroad, in a clause (11):

(11) The Secretary of Agriculture may furnish Section 416(b) commodities in connection with P.L. 480 Title I concessional sales agreements or other statutes, or agriculture bonus or promotion programs carried out under the CCC charter or other statutes.

Section 416(b) commodities may also be furnished in connection with agreements by recipient countries to buy additional U.S. agricultural commodities commercially.

The commodities furnished under (11) are not to be counted in determining whether the minimum quantity requirements of (10) are met.

Subsection (c) of Sec. 416, as amended by the Food Security Act of 1985, repeats the provision for a pilot program for ultra-high temperature milk which was first enacted in the Agricultural Programs Adjustment Act of 1984.

(Subsection (d) of Sec. 416, a new provision added by Sec. 1129 of the Food Security Act of 1985 mandates a pilot barter program of exchange of CCC commodities for strategic or other materials not produced domestically in amounts sufficient to meet U.S. requirements.)

December 1986

FOOD FOR PROGRESS
Section 1110 Food Security Act of 1985

Intent: To use U.S. food resources in support of developing country agricultural sector policy reform in four basic areas: 1) price policy; 2) marketing reform; 3) input supply and distribution policy; and 4) private sector involvement.

Description: Under NSC direction, the Third World Hunger Study in December 1984 recommended a new tool for use in addressing global hunger problems: a Food for Progress program which would use U.S. food donations to support developing countries which agree to specific reforms in their agricultural policies. The President approved the program and Congress authorized it with some modifications in Section 1110 of the 1985 Food Security Bill. Funding is from Section 416 and Title I.

In FY 1986, the DCC Food Aid Subcommittee, moving quickly on this new authority, wrote the field guidance and requested proposals for pilot projects in seven African countries. All seven Missions responded with proposals. The best two -- from Madagascar and Guinea -- were selected by the DCC for immediate FY 1986 funding. In FY 1987, the guidance was modified based on the experience of the pilot programs and sent to 16 additional Missions world-wide.

Existing Programs: The Guinea program is for 30,000 mt of rice which will be used to promote liberalization of marketing policies. Specific economic reforms to which the program is tied include: 1) changes in exchange rates including a significant currency devaluation and tying currency exchange to market rates. 2) replacing government banks with private banks; 3) abolition of food rationing and state trading companies which had a monopoly over food imports; 4) liquidation of most parastatals and reductions in the civil service.

The Madagascar program is designed to complement a World Bank effort to strengthen Madagascar's recent initiative to remove state controls on rice trading. Specifically, the 30,000 mt of rice in the program will be used to dampen price swings as government controls are lifted.

Citations: State cable 77930 (guidance); State cable 25180; NSDDs 156 and 167

UNCLASSIFIED
Department of State

OUTGOING
TELEGRAM

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ORIGIN AID-00

0215 103770 AID:594

STATE 014102

0215 103770 AID:594

EXPLICIT UNDERSTANDING BETWEEN THE MISSION AND THE HOST

ORIGIN OFFICE FFP-01
INFO AFEA-03 AFSA-03 AFFW-04 AFCH-01 AFDP-06 AEDP-01 AFA-02
ANPD-05 GCAN-02 AFFD-04 SERP-01 LACL-02 LADK-03 LADP-04
LADR-03 AFTR-05 FVA-01 OFDA-02 PPPB-02 GC-01 GCAT-01
SEOS-02 GCLA-03 GCOM-01 ANTR-06 FVPP-01 AGRI-01 COM-02
ANME-03 OMB-02 TRSY-05 RELO-01 ANEA-02 ANSA-02
/099 AA 329

GOVERNMENT THAT A MULTI-YEAR PROGRAM MAY BE SUSPENDED OR TERMINATED IF THESE STOCKS MAY NOT BE SUFFICIENT TO COVER PROGRAMS. THE AMOUNT OF COMMODITIES PROVIDED IN THE AGGREGATE WILL, IN THE FINAL ANALYSIS, DEPEND ON THE NUMBER OF QUALIFIED PARTICIPANTS. ACTION REQUEST IS AT PARA. 7. END INTRODUCTION.

INFO LOG-00 AF-00 ER-00 NEA-07 ARA-00 EAP-00 /015 R

2. BACKGROUND: NSDD 156 MANDATES THAT, IN CONTRAST WITH OTHER EXISTING AID PROGRAMS WITH COMPREHENSIVE AND MULTIPLE OBJECTIVES, THIS INITIATIVE WILL HAVE AS ITS SOLE OBJECTIVE THE ACHIEVEMENT OF AGRICULTURAL POLICY REFORM IN THIRD WORLD COUNTRIES. WHILE THIS MANDATE WAS BROADENED BY NSDD 147, LEGISLATIVE LANGUAGE AND INTENT CLEARLY DICTATE ADHERENCE TO THAT SINGLE OBJECTIVE. THE 1985 FOOD SECURITY ACT FURTHER DELINEATES THAT SUCH POLICY REFORM MAY PROVIDE FOR AMONG OTHER THINGS: A) ACCESS, ON THE PART OF FARMERS IN THE COUNTRY, TO PRIVATE, COMPETITIVE MARKETS FOR THEIR PRODUCTS; B) MARKET PRICING OF COMMODITIES TO FOSTER ADEQUATE PRIVATE SECTOR INCENTIVES TO INDIVIDUAL FARMERS TO PRODUCE FOOD ON A REGULAR BASIS FOR THE COUNTRY'S DOMESTIC NEEDS; C) ESTABLISHMENT OF MARKET-DETERMINED FOREIGN EXCHANGE RATES; D) TIMELY AVAILABILITY OF PRODUCTION INPUTS (SUCH AS SEED, FERTILIZER, OR PESTICIDES) TO FARMERS; E) ACCESS TO TECHNOLOGIES APPROPRIATE TO THE LEVEL OF AGRICULTURAL DEVELOPMENT IN THE COUNTRY; AND F) CONSTRUCTION OF FACILITIES AND DISTRIBUTION SYSTEMS NECESSARY TO HANDLE PERISHABLE PRODUCTS.

DRAFTED BY: EB/FP/FPG:K JMCISAAC
APPROVED BY: AID/FVA/C/FPF:T H REESE
OMB:R BOSTICK USDA/FAS/EC:G WHITEMAN
TREASURY:J KOTZE AID/FVA/FPF/I:J O'HEARA (SUBS)
STATE/EB/TOC:C BILLO AID/PPC/PB:L TAMNER (SUBS)
-----131546 2823492 /38

3. WHILE THIS PROGRAM SERVES U.S. STRATEGIC AND FOREIGN POLICY INTERESTS, FOOD FOR PROGRESS IS NOT, REPEAT NOT TO BE CONSIDERED A NEW, ON-GOING SOURCE FOR COMMODITY FUNDING. MISSIONS ARE TO INFORM HOST GOVERNMENTS THAT COMMODITY DELIVERIES UNDER A FOOD FOR PROGRESS AGREEMENT WILL BE SUSPENDED OR WITHDRAWN WHEN RECIPIENTS FAIL TO SUSTAIN PROGRESS IN CARRYING OUT AGRICULTURAL REFORM, U.S. STRATEGIC AND FOREIGN POLICY INTERESTS NOTWITHSTANDING. WHEN MULTI-YEAR PROGRAMS ARE PROVIDED, FUTURE YEAR TRANCHES WILL BE WITHDRAWN WHERE PROGRESS IS LACKING.

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TO AMEMBASSY DAKAR PRIORITY
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AMEMBASSY NAIROBI
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AMEMBASSY MANILA
AMEMBASSY MOGADISHU
AMEMBASSY PORT LOUIS
AMEMBASSY QUITO
AMEMBASSY RABAT
AMEMBASSY SANTO DOMINGO
AMEMBASSY SAN SALVADOR
AMEMBASSY TUNIS
INFO AMEMBASSY ABIDJAN

4. ESSENTIAL FACTORS: ON NOVEMBER 19, 1986, USDA UNDER SECRETARY OF AGRICULTURE AMSTUTZ NOTED IN THE FOOD AID SUBCOMMITTEE THE FOLLOWING:

UNCLAS STATE 014102

AIDAC, ABIDJAN FOR AGATT, NAIROBI FOR REDSO/EA

E.O. 12356: N/A

TAGS:

SUBJECT: FOOD FOR PROGRESS PROGRAM

REF: 86 STATE 326615

-- OVER THE NEXT SEVERAL YEARS, USDA ANTICIPATES THAT THE COMMODITY CREDIT CORPORATION (CCC) WILL CONTINUE TO OWN LARGE QUANTITIES OF BASIC COMMODITIES: WHEAT, RICE, CORN, SORGHUM, BARLEY AND SOYBEANS (GENERALLY AVAILABLE

1. INTRODUCTION: THE FIRST YEAR OF THE FOOD FOR PROGRESS (FFP) PILOT PROGRAMS IN GUINEA AND MADAGASCAR WHICH WERE ENTERED INTO IN FY 86, IS BEING EVALUATED AND THE DCC HAS AGREED TO CONSIDER PROPOSALS FROM ADDRESSEES FOR PARTICIPATION IN THIS PROGRAM IN FY 87 AND BEYOND. CAREFULLY THOUGHT THROUGH, WELL DOCUMENTED PROPOSALS WILL BE CONSIDERED BY THE INTER-AGENCY DCC WORKING GROUP, BASED ON THE CRITERIA LISTED BELOW. THE 1985 FOOD SECURITY ACT PROVIDES THAT NOT LESS THAN 75,000 MT BE PROVIDED EACH FISCAL YEAR THROUGH SECTION 416 (B) FOR USE UNDER FOOD FOR PROGRESS. A MAXIMUM OF 500,000 MT (WORLDWIDE) CAN BE PROVIDED UNDER FOOD FOR PROGRESS PER FISCAL YEAR. HOWEVER, WE DO NOT ANTICIPATE DOING ANY MORE THAN A FEW FFP PROGRAMS IN EACH REGION, SO COMPETITION WILL BE KEEN. IT IS INTENDED THAT FOOD FOR PROGRESS RESOURCES WILL BE PROVIDED ONLY THROUGH SECTION 416 OUT OF AVAILABLE STOCKS. THEREFORE, PROPOSALS FOR ANY MULTI-YEAR PROGRAM SHOULD BE DRAWN UP WITH THE

FOR HUMAN CONSUMPTION) AS WELL AS DAIRY PRODUCTS, MAINLY NON-FAT DRY MILK. WHILE CCC HAS IN THE PAST OWNED AND MANAGED LARGE STOCKS, A NEW USE OF THESE STOCKS DIRECTLY AFFECTS THE ANTICIPATED FUTURE QUALITY OF THESE STOCKS AVAILABLE FOR FOREIGN DONATION. CCC IS IMPLEMENTING VARIOUS PROGRAMS WITH THE USE OF COMMODITY CERTIFICATES, WHICH ARE REDEEMABLE FOR CCC STOCKS. CONSEQUENTLY, THE HIGHER QUALITY COMMODITIES WILL MOST LIKELY HAVE BEEN REDEEMED WITH CERTIFICATES AND MOVED INTO COMMERCIAL CHANNELS. REMAINING INVENTORIES FOR THE GOVERNMENT PROGRAMS MAY, THEREFORE, BE COMMODITIES OF LOWER QUALITY.

- IN VIEW OF THIS SITUATION, MISSIONS ARE REQUESTED TO ADVISE AID AND USDA OF THE QUALITY OF COMMODITIES THAT MAY BE NEEDED FOR ANY PROPOSED SECTION 416 PROGRAM AS EARLY AS POSSIBLE. THIS WILL ENABLE EARLY REVIEW OF THE FEASIBILITY OF MEETING ANY SPECIFIC COMMODITY NEEDS. SINCE MONETIZATION OF SECTION 416 COMMODITIES IS A

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COMPONENT OF FOOD FOR PROGRESS, THE QUALITY OF THE COMMODITY COULD BE EXPECTED TO BE A MAJOR DETERMINANT IN ACTUALLY IMPLEMENTING A PROGRAM.

AND SUSTAINING AGRICULTURAL REFORMS IN THE FACE OF ECONOMIC AND POLITICAL CHANGE. IN AN ENVIRONMENT IN WHICH THE PRIVATE SECTOR CAN EXIST AND IS ALLOWED TO RESPOND TO AGRICULTURAL REFORM POLICIES AND PROGRAMS.

5. WHILE THE LAW DOES NOT SPEAK TO HOW FOOD FOR PROGRESS LOCAL CURRENCY GENERATIONS ARE TO BE TREATED, FOOD FOR PROGRESS IS BUILT ON THE PREMISE THAT THE ADDITIONAL FINANCIAL RESOURCES ALONE WILL ALLOW THE RECIPIENT TO IMPLEMENT DESIRED AGRICULTURAL POLICY REFORM. THEREFORE, LOCAL CURRENCY PROGRAMMING AND DETAILED DOCUMENTATION WILL NOT BE SOUGHT OR REQUIRED. THE FOLLOWING CONSIDERATIONS SUPPORT THIS REASONING:

-4. EVIDENCE OF POLICIES CONDUCTIVE TO IMPROVEMENTS IN AGRICULTURE MUST BE DEMONSTRATED BY: A) MOVEMENT TOWARD MARKET ORIENTED AGRICULTURE INDICATED BY PHASING OUT GOVERNMENT CONTROL OVER AGRICULTURAL PRICING, DISTRIBUTION AND MARKETING FUNCTIONS. B) OTHER MACRO LEVEL POLICIES WHICH SEND INCENTIVE SIGNALS TO THE

-- A) PROVISION OF COMMODITIES STRENGTHENS U.S. LEVERAGE FOR AGRICULTURAL POLICY REFORMS, (FOCUSING ATTENTION ON THE REFORMS THEMSELVES); B) SINCE THERE IS NO ASSURANCE OF CONTINUED COMMODITY SUPPLY, DEPENDENCY ON EXTERNAL SUPPORT FOR LOCAL CURRENCY PROJECT FINANCING IS ELIMINATED; AND C) FIELD STAFF TIME DEVOTED TO NEGOTIATIONS, IMPLEMENTING AND MONITORING AGREEMENTS CAN BE CONSIDERABLY REDUCED.

AGRICULTURAL SECTOR AND INDUCE MICRO LEVEL POLICY DECISIONS WHICH HAVE A POSITIVE EFFECT ON LOCAL LEVEL INVESTMENT, PRODUCTION AND MARKETING RESPONSES.

CRITERIA OF LOWER IMPORTANCE.

6. COUNTRY SELECTION CRITERIA:

THE FOOD FOR PROGRESS ACT, NSDD 156 AND 167 HAVE BEEN INTEGRATED, BY THE INTERAGENCY FOOD AID WORKING GROUP, TO ENSURE INCLUSION OF RELEVANT COUNTRY SELECTION CRITERIA, E.G., U.S. STRATEGIC AND FOREIGN POLICY INTERESTS MUST BE SERVED BY THE FOOD FOR PROGRESS PROGRAM. ONCE THESE INTERESTS ARE SATISFIED, THE FOLLOWING ADDITIONAL,

- 5. THE POTENTIAL FOR ECONOMIC GROWTH THAT WILL LEAD TO THE COUNTRY'S ABILITY TO PARTICIPATE IN INTERNATIONAL TRADE AND TO IMPORT U.S. COMMODITIES.

- 6. THE POTENTIAL FOR, OR EXISTENCE OF, OTHER DONOR SUPPORT FOR AGRICULTURAL PROGRAMS AND POLICY REFORM (AS INDICATOR OF POTENTIAL FOR CO-FINANCING).

CRITERIA SHOULD BE ASSESSED FOR INDIVIDUAL PROPOSED COUNTRY PROGRAMS.

7. EMBASSY/A.I.D. MISSION CAPACITY TO: NEGOTIATE FOOD FOR PROGRESS AGREEMENT, AND ASSIST HOST GOVERNMENT IN THE DEVELOPMENT, IMPLEMENTATION MONITORING AND EVALUATION. INDICATORS: SIZE, COMPOSITION, AID FOOD AID/PRIVATE SECTOR PROGRAMMING AND POLICY REFORM EXPERIENCE OF MISSION STAFF.

THESE CRITERIA HAVE BEEN RANK ORDERED AS FOLLOWS:

ITEMS 1 THROUGH 6 ABOVE ARE FROM NSDD 167. ITEM 7 IS INCLUDED AS AN OPERATIONAL CRITERION AND SHOULD NOT BE CONSTRUED AS A LIMITING FACTOR, I.E., MISSION CAPACITY, IF LIMITED, COULD BE OUTWEIGHED BY OTHER SELECTION CRITERIA.

CRITERIA OF ABSOLUTE IMPORTANCE:

-1. RECIPIENT POLITICAL COMMITMENTS TO REFORM AND IMPLEMENTATION OF POLICY DECISIONS BASED ON FREE MARKET PRINCIPLES AND PRIVATE SECTOR INVOLVEMENT.

7. ACTION REQUESTED:

INDICATORS: POLITICAL COMMITMENT IS DEFINED AS:

A) SUPPORT FROM NATIONAL LEADERSHIP AND KEY INSTITUTIONS WHICH SUSTAIN EXISTING, BENEFICIAL AGRICULTURAL POLICY REFORMS AND INTEGRALLY RELATED MACRO-POLICY REFORMS (E.G. EXCHANGE RATES); B) WHERE IMF/IBRD ADJUSTMENT PROGRAMS ARE UNDERWAY, THE GRANT SHOULD PROVIDE QUOTE ADDITIONALITY UNQUOTE IN THE SENSE THAT IT EITHER (I) PROVIDES FOR SECTORAL REFORMS IN AGRICULTURE THAT ARE ADDITIONAL TO, BUT CONSISTENT WITH THE HOST GOVERNMENT REFORM EFFORTS SUPPORTED BY THE IMF/IBRD, OR (II) SIGNIFICANTLY IMPROVE THE EFFECTIVENESS OF THE HOST GOVERNMENT'S REFORM EFFORTS IN THE AGRICULTURAL SECTOR; OR (C) U.S. AEP RP (AFRICAN ECONOMIC POLICY REFORM PROGRAM) IN PROGRESS OR UNDER FAVORABLE NEGOTIATIONS.

- A. ADDRESSEES SHOULD CABLE WASHINGTON ASAP COMMENTS/VIEWS AS TO THE DESIRABILITY/FEASIBILITY OF UNDERTAKING A FOOD FOR PROGRESS PROGRAM IN FY-87. FIRST, WASHINGTON WOULD APPRECIATE MISSION VIEWS ON SELECTION OF YOUR COUNTRY FOR THIS IMPORTANT PRESIDENTIAL INITIATIVE. THESE VIEWS SHOULD ADDRESS WHETHER YOU THINK THAT YOUR COUNTRY SATISFIES SELECTION CRITERIA AS DEFINED ABOVE, I.E., EMBASSY/USAID LATEST ANALYSIS OF GENUINE--RATHER THAN QUOTE FOR DONORS ONLY UNQUOTE--EVIDENCE OF POLITICAL COMMITMENT TO SUSTAIN AND/OR IMPLEMENT NEW AGRICULTURAL REFORM POLICIES. (NOTE: BECAUSE OF COMPETITION FOR FOOD FOR PROGRESS RESOURCES AMONG GEOGRAPHIC REGIONS, THE DCC MAY NOT BE ABLE TO APPROVE ALL REQUESTS RECEIVED FROM THE FIELD.)

B. IF FOOD FOR PROGRESS PROGRAM IS FEASIBLE THE FOLLOWING INFORMATION WILL BE REQUIRED:

CRITERIA OF HIGH IMPORTANCE:

2. NEED FOR NON-EMERGENCY FOOD AID. SINCE FOOD FOR PROGRESS COMMODITIES WILL BE ADDITIONAL TO U.S. REGULAR FOOD AID PROGRAMS (PAGE 427 CONFERENCE REPORT), RECIPIENT NEED MUST BE ASSESSED AGAINST RISKS OF DISPLACING COMMERCIAL SALES, CREATING SUBSTANTIAL LOCAL PRODUCTION/MARKETING DISINCENTIVES AND IMPORTING MORE COMMODITIES THAN CAN BE ADEQUATELY STORED. (BELLMON CONSIDERATIONS).

(NOTE: FOOD FOR PROGRESS PROGRAM DOCUMENTATION REQUESTED FROM CONCURRING MISSIONS SHOULD BE BRIEF AND FAR LESS DETAILED THAN THAT REQUIRED FOR PL-480 TITLE 1/111.) * EMBASSY/MISSION ASSESSMENT OF THE MARKET ORIENTED AGRICULTURAL POLICY(S) WHICH IF SUPPORTED OR REFORMED COULD HAVE A POSITIVE EFFECT ON, BUT NOT LIMITED TO, ONE OR MORE OF THE FOLLOWING: AGRICULTURAL PRODUCTION, PRICES, MARKETING, DISTRIBUTION, ETC. THIS ASSESSMENT SHOULD REFLECT, IF AVAILABLE, IBRD/IMF OFFICIAL AND INFORMAL VIEWPOINTS.

-3. IN-COUNTRY CAPACITY TO CARRY-OUT AGRICULTURAL REFORM MUST BE DEMONSTRATED BY: A) PERTINENT PUBLIC SECTOR INSTITUTIONS WITH A DEMONSTRATED CAPACITY FOR MONITORING

-- MISSION SHOULD REQUEST TYPE AND AMOUNT OF COMMODITY

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REQUIRED, WITH CLEAR IDENTIFICATION OF QUALITY REPEAT
QUALITY REQUIREMENTS.

-- SUFFICIENT INFORMATION UPON WHICH USDA CAN MAKE A
BELLMON DETERMINATION. GUIDANCE PROVIDED ON PL-480 TITLE
1/III PROGRAM; FOR THIS DETERMINATION IS AVAILABLE FROM
THE OFFICE OF FOOD FOR PEACE.

-- DATA TO ASSURE THAT ANY FOOD FOR PROGRESS PROGRAM DOES
NOT RESULT IN DISPLACEMENT OF NORMAL COMMERCIAL TRADE.

- A DESCRIPTION OF BENEFICIARIES AND HOW THEY WOULD
BENEFIT.

-- POLICY PERFORMANCE. BENCHMARKS/TIMETABLES AND
MONITORING/EVALUATION PROCEDURES.

- ESTIMATED TIME FRAME FOR COMPLETING NEGOTIATIONS,
SIGNING AGREEMENTS AND COMMODITY SHIPMENTS. SINCE FY87
PROGRAMS ARE EXPECTED TO BE SHIPPED UNDER SECTION 416
AUTHORITY USING AVAILABLE CCC STOCKS, MISSIONS SHOULD
PROVIDE SHIPPING AND HANDLING INFORMATION CONSISTENT WITH
TITLE II COMMODITY SHIPMENT PROCEDURES. TO FACILITATE
OVERALL MANAGEMENT OF THE VARIOUS PROGRAMS CARRIED OUT
UNDER SECTION 416 AUTHORITY, MISSIONS SHOULD ATTEMPT TO
SIGN FY87 AGREEMENTS TO COVER FY-87 SHIPMENTS FROM THE
UNITED STATES. COMMODITIES NEEDED FOR FY-88 SHIPMENTS
SHOULD BE PART OF FY88 AGREEMENTS, WHICH CAN BE
NEGOTIATED AND SIGNED PRIOR TO OCTOBER 1, 1987. IF
USEFUL IN ACHIEVING OVERALL GOAL OF FOOD FOR PROGRESS,
SUGGEST MISSIONS CONSIDER DEVELOPMENT OF AGREEMENTS TO
COVER BOTH FY-87 SUPPLY PERIOD AND AT LEAST EARLY MONTHS
OF FY88. ASSUMING QUALITY OF CCC STOCKS IS ACCEPTABLE,
THE OVERALL SUPPLY OF CCC STOCKS SHOULD BE SUFFICIENT TO
ACCOMMODATE SUCH AGREEMENTS.

8. PROPOSAL SHOULD ARRIVE NO LATER THAN FEBRUARY 28,
1987.

9. EMBASSY/AID MISSIONS ARE INVITED TO COMMENT ON OTHER
SECTIONS OF THIS MESSAGE AS APPROPRIATE.

10. FYI:

- A) COMMODITIES MADE AVAILABLE UNDER SECTION 416 SHALL
BE ON A GRANT BASIS, INCLUDING RELATED OCEAN FREIGHT.

- B) FOOD FOR PROGRESS AUTHORITIES SHALL BE EFFECTIVE
FROM OCTOBER 1, 1985 TO SEPTEMBER 30, 1990.

C) IMPLEMENTING THE FOOD FOR PROGRESS ACT IN FY 1987:

1. WASHINGTON CANNOT APPROVE FOOD FOR PROGRESS PROGRAMS
WHICH SUBSTITUTE FOR PL-480 TITLE I BECAUSE OF THE MORE
ATTRACTIVE SECTION 416 GRANT ELEMENT.

- D) FOR TUNIS, RABAT AND QUITO ONLY: WHEAT WOULD NOT
BE AN APPROPRIATE COMMODITY FOR THIS PROGRAM SINCE WHEAT
IMPORT NEEDS FOR FY 1987 ALREADY COVERED. THEREFORE, FOR
WASHINGTON INTER-AGENCY GROUP CONSIDERATION, YOUR FOOD
FOR PROGRESS PROPOSAL SHOULD BE BASED ON OTHER ELIGIBLE
COMMODITIES.

11. THE CONGRESSIONAL INTENT FOR FOOD FOR PROGRESS IS
THAT IT BE PROVIDED ABOVE AND BEYOND ANY ASSISTANCE
FURNISHED THROUGH TRADITIONAL USG SOURCES. HOWEVER,
MISSIONS NEED TO CAREFULLY ASSESS THE EXTENT TO WHICH
FOOD FOR PROGRESS COMMODITIES CAN BE ABSORBED. UMRS AND
OTHER BELLMON CONSIDERATIONS WILL BE EXTREMELY IMPORTANT
FACTORS IN YOUR ASSESSMENT OF COUNTRY ELIGIBILITY/FOOD
NEED, AND IN DCC APPROVAL OF ANY PROPOSALS. SHULTZ

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DRAFTED BY: AID/FVA/FFP:G. FRAZIER:OMB:RBDSTICK:AM:2108E

APPROVED BY: AID/FVA/FFP: JULIA CHANG BLOCH

USDA/IACP:DANSTUTZ/SOPE TREAS:RYATES

STATE/EB:CRILLO

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TO AMEMBASSY CONAKRY PRIORITY

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AMEMBASSY CAKAR

AMEMBASSY MOSAJISHU

AMEMBASSY KINGJASA

AMEMBASSY LUSAKA

INFO AMEMBASSY ABIDJAN PRIORITY

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AIDAC FOR NAIROBI AND ABIDJAN, REDSO/FFPOS AND AGATTS

E.O. 12356: N/A

TAGS: N/A

SUBJECT: FOOD FOR PROGRESS (FFP) ACT OF 1985

REFS: (A) STATE 025100; (B) FOOD SECURITY ACT OF 1985

SUMMARY: PURPOSE OF THIS MESSAGE FOR MISSIONS SELECTED AS POTENTIAL FOOD FOR PROGRESS RECIPIENTS (GUINEA, KENYA, MADAGASCAR, SENEGAL, SOMALIA, ZAIRE AND ZAMBIA) IS TO:

I. PROVIDE BACKGROUND ON THE NEW FOOD FOR PROGRESS ACT;

II. PRESENT CURRENT WASHINGTON POSITION ON POLICY AND PROGRAMMING GUIDANCE FOR LIMITED FY 1986 PILOT ACTIVITIES INCLUDING DETAILS ON COUNTRY SELECTION CRITERIA.

III. REQUEST MISSION VIEWS ON COUNTRY CANDIDACY AND, IF APPROPRIATE, A PROPOSAL FOR FY 1986 PILOT ACTIVITY. END SUMMARY.

I. BACKGROUND:

- A. THIRD WORLD HUNGER STUDY

1. THIRD WORLD HUNGER STUDY ESTABLISHED THE TERMS OF REFERENCE FOR A STUDY AIMED AT PRODUCING NEW, EFFECTIVE INITIATIVES TO ADDRESS THIRD WORLD HUNGER PROBLEMS.

2. THE STUDY OF LONG-TERM FOOD AID PROBLEMS WAS COMPLETED IN DECEMBER, 1984 AND RECOMMENDED PRESIDENTIAL APPROVAL OF FOOD FOR PROGRESS AS A PRESIDENTIAL INITIATIVE. PRESIDENT REAGAN APPROVED THE FOOD FOR PROGRESS IN SIGNING NSDD-156, WHICH DESCRIBES THE POLICY INTENT OF THE FOOD FOR PROGRESS PROGRAM, AND ANNOUNCED IT ON JANUARY 3, 1985.

3. NSDD 156 STATES, QUOTE THIS INITIATIVE WILL USE AMERICAN FOOD RESOURCES TO SUPPORT KEY THIRD WORLD COUNTRIES WHICH HAVE MADE COMMITMENTS TO AGRICULTURAL POLICY CHANGE IN FOUR BASIC AREAS: AGRICULTURAL PRICE POLICY, MARKETING REFORM AND LIBERALIZATION, INPUT SUPPLY AND DISTRIBUTION POLICY, AND PRIVATE SECTOR INVOLVEMENT UNQUOTE.

4. THE PROGRAMMATIC COMPLEMENT TO NSDD 156 IS NSDD 167 WHICH THE PRESIDENT SIGNED ON APRIL 13, 1985, COVERING FOOD FOR PROGRESS IMPLEMENTATION. THIS NSDD WAS THE BASIS FOR THE ADMINISTRATION'S LEGISLATIVE REQUEST. IT ALSO ESTABLISHES THE ADMINISTRATION'S POSITION ON COUNTRY ELIGIBILITY AND FUNDING.

5. THE INTERAGENCY REVIEW OF THESE TWO NSDDS IN CONJUNCTION WITH THE NEW LEGISLATION HAS PRODUCED THE POLICY AND PROGRAM GUIDANCE CONTAINED IN PART II OF THIS MESSAGE.

- B. THE FOOD SECURITY ACT OF 1985

EARLIER THIS YEAR MISSIONS RECEIVED COPIES OF THE NEWLY ENACTED FARM LAW, FOOD SECURITY ACT OF 1985, AND REF. (A) CIRCULAR OUTLINING REVISIONS TO PL 480 IN THAT ACT. SECTION 1110 OF THE ACT CONTAINS THE FOOD FOR PROGRESS ACT OF 1985, WHICH IS A HOUSE/SENATE/ADMINISTRATION COMPROMISE. FOLLOWING IS A SUMMARY OF MAJOR COMPONENTS OF THE ACT:

1. THE FOOD FOR PROGRESS ACT: THE FOOD FOR PROGRESS ACT AUTHORIZES THE PRESIDENT TO ENTER INTO AGREEMENTS TO PROVIDE FOOD TO COUNTRIES THAT MAKE COMMITMENTS TO PROMOTE THE IMPLEMENTATION OF PRIVATE, FREE ENTERPRISE AGRICULTURAL POLICIES FOR AGRICULTURAL DEVELOPMENT. COMMODITIES PROVIDED UNDER THE ACT WOULD BE INCENTIVES

ABOVE AND BEYOND ANY ASSISTANCE A COUNTRY NORMALLY RECEIVES FROM THE UNITED STATES, AND MAY BE PROVIDED ON A MULTI-YEAR BASIS THROUGH THE AUTHORITY UNDER TITLE I OF PL 480 OR SECTION 416 OF THE AGRICULTURE ACT OF 1949; HOWEVER, THE EFFECT OF OTHER PROVISIONS IN THE NEW FARM LAW COULD CONSTRAIN MULTI-YEAR PROGRAMMING.

2. PRESIDENTIAL DETERMINATION ON FOOD FOR PROGRESS COUNTRY ELIGIBILITY: IN DETERMINING WHETHER TO ENTER INTO A FOOD FOR PROGRESS AGREEMENT, THE QUOTE PRESIDENT SHALL CONSIDER WHETHER A POTENTIAL RECIPIENT COUNTRY IS COMMITTED TO CARRYING OUT, OR IS CARRYING OUT, POLICIES THAT PROMOTE ECONOMIC FREEDOM (PRIVATE, DOMESTIC PRODUCTION OF FOOD COMMODITIES FOR DOMESTIC CONSUMPTION, AND THE CREATION AND EXPANSION OF EFFICIENT DOMESTIC MARKETS FOR THE PURCHASE AND SALE OF SUCH COMMODITIES; UNQUOTE AND AS THE CONFERENCE REPORT STATED, QUOTE WHETHER THE COUNTRY IS ABLE TO USE THE COMMODITIES WITHOUT DISRUPTION OF THE INTERNAL MARKET OF THE COUNTRY FOR DOMESTICALLY PRODUCED AGRICULTURAL COMMODITIES UNQUOTE.

THE INTENT OF THE CONFEREES, SPELLED OUT IN THE CONFERENCE REPORT, IS THAT FOOD FOR PROGRESS COUNTRY ELIGIBILITY CRITERIA FOCUS EXCLUSIVELY ON COMMITMENT TO PRIVATE SECTOR-ORIENTED AGRICULTURAL POLICY REFORM (SEE BELOW).

3. MANDATED FOOD FOR PROGRESS RESOURCES: (A) NOT LESS THAN 75,000 METRIC TONS OF ELIGIBLE COMMODITIES ARE TO BE MADE AVAILABLE ANNUALLY TO CARRY OUT THE FOOD FOR PROGRESS ACT AS REQUIRED BY SECTION 116 (1) (C) OF THE

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AGRICULTURAL ACT OF 1949, UNLESS THE PRESIDENT DETERMINES THERE ARE AN INSUFFICIENT NUMBER OF ELIGIBLE RECIPIENTS, OR THE DISPOSITION WILL REDUCE AMOUNTS OF COMMODITIES TRADITIONALLY MADE AVAILABLE TO DOMESTIC FEEDING PROGRAMS OR AGENCIES OR WILL PREVENT THE FULFILLMENT OF ANY AGREEMENT OF THE SECRETARY OF AGRICULTURE UNDER A PAYMENT IN KIND PROGRAM.

AT PRESENT ONLY GENERAL GUIDANCE ON COMMODITY AVAILABILITY IS POSSIBLE. FOR FY 1986 IT IS EXPECTED THAT FOOD FOR PROGRESS PROGRAMS WILL USE COMMODITIES AVAILABLE IN CCC UNCOMMITTED INVENTORY. CCC HAS ADEQUATE UNCOMMITTED STOCKS OF NONFAT DRY MILK AND CHEESE, PROCESSED AND CHEDDAR, TO MEET ANY REQUESTS. SUFFICIENT STOCKS OF WHEAT ARE ALSO PROJECTED TO BE AVAILABLE FOR ANY FOOD FOR PROGRESS PROGRAMS. LIMITED QUANTITIES OF UNCOMMITTED STOCKS OF RICE, CORN, AND

SORGHUM MAY ALSO BE AVAILABLE FOR FOOD FOR PROGRESS REQUESTS UNDER SECTION 416. ALL COMMODITY REQUESTS WILL BE REVIEWED ON A CASE-BY-CASE BASIS.

THE EXTENT TO WHICH THAT LIST MAY BE EXPANDED FOR FY 1987 HAS NOT BEEN DETERMINED. NOTE THAT THE LEGISLATION REQUIRED THAT THE STORAGE AND DISINCENTIVE (BELLMOM) DETERMINATION REQUIRED OF THE SECRETARY OF AGRICULTURE BY SECTION 401(B) OF PUBLIC LAW 480 WILL ALSO APPLY FOR ALL COMMODITIES FURNISHED TO A DEVELOPING COUNTRY UNDER A FOOD FOR PROGRESS PROGRAM. THUS IN DEVELOPING THEIR COUNTRY PROGRAM PROPOSALS MISSIONS SHOULD INCLUDE: (A) INFORMATION, QUANTIFIED AS MUCH AS POSSIBLE, ON STORAGE AND HANDLING FACILITIES AVAILABLE TO ENSURE THAT THE COMMODITIES CAN BE RECEIVED, STORED, AND DISTRIBUTED WITHOUT SPOILAGE OR WASTE; AND (B) ANALYSIS OF THE POTENTIAL A PROPOSED PROGRAM MAY HAVE FOR CREATING A SUBSTANTIAL DISINCENTIVE TO DOMESTIC PRODUCTION.

(B) AVAILABLE COMMODITIES ARE THOSE DETERMINED BY THE SECRETARY OF AGRICULTURE TO BE AVAILABLE FOR DISPOSITION PURSUANT TO SECTION 401A OF PL 480.

- (4) DISCRETIONARY FOOD FOR PROGRESS RESOURCES:

1. UP TO DOLLARS 30 MILLION IN CCC FUNDS (EXCLUSIVE OF COMMODITY COSTS) MAY BE USED TO CARRY OUT THE FOOD FOR PROGRESS PROGRAM WITH RESPECT TO COMMODITIES MADE AVAILABLE UNDER SECTION 416 OF THE AGRICULTURAL ACT OF 1949. THESE FUNDS WILL LIKELY FINANCE TRANSPORTATION AND PROCESSING COSTS ATTENDANT TO SECTION 416 COMMODITY SHIPMENTS.

2. NOT MORE THAN 500,000 TONS OF COMMODITIES MAY BE PROVIDED UNDER THIS PROGRAM IN ANY YEAR. HOWEVER, THE PRESIDENT IS ENCOURAGED TO UTILIZE THE ENTIRE 500,000 TONS, PROVIDED THERE ARE A SUFFICIENT NUMBER OF QUALIFIED PARTICIPANTS AND THAT REASONABLE STEPS ARE TAKEN TO AVOID DISPLACEMENT OF U.S. COMMERCIAL SALES.

3. PL 430 TITLE I FUNDS MAY BE USED TO CARRY OUT FOOD FOR PROGRESS COMMODITY AGREEMENTS WITH RESPECT TO COMMODITIES MADE AVAILABLE UNDER PL 480.

4. CCC MAY FINANCE THE SALE AND EXPORTATION OF COMMODITIES WITH RESPECT TO COMMODITIES MADE AVAILABLE UNDER TITLE I PL 480 TO CARRY OUT FOOD FOR PROGRESS AGREEMENTS.

5. COMMODITIES MAY BE MADE AVAILABLE BY CCC UNDER TITLE I PL 480 ON A GRANT BASIS AND IN SUCH CASES, SHALL BE SUBJECT TO SECTION 203 OF THAT ACT.

6. COMMODITIES MADE AVAILABLE UNDER SECTION 416 SHALL BE ON A GRANT BASIS.

7. IN CARRYING OUT SECTION 416B, CCC MAY PURCHASE COMMODITIES FOR USE UNDER THE FOOD FOR PROGRESS PROGRAM. IF CCC DOES NOT HOLD STOCKS OF SUCH COMMODITIES, OR IF CCC STOCKS ARE INSUFFICIENT TO SATISFY COMMITMENTS MADE IN FOOD FOR PROGRESS AGREEMENTS.

- C. FFP AUTHORITIES SHALL BE EFFECTIVE FROM OCTOBER 1, 1985 TO SEPTEMBER 30, 1990.

- O. IMPLEMENTING THE FOOD FOR PROGRESS ACT IN FY 1986

- WE UNDERSTAND THAT IT IS RATHER LATE IN THE YEAR TO BEGIN NEW PROGRAMMING EXERCISES, BUT THE FOOD FOR PROGRESS ACT DOES REQUIRE THE PRESIDENT TO PROVIDE NOT LESS THAN 75,000 METRIC TONS OF COMMODITIES AND THEIR PRODUCTS THIS YEAR. THEREFORE, SECTION 416 AUTHORITIES WILL BE USED TO PROVIDE THE ABOVE TONNAGE TO SELECTED MISSIONS.

- SECTION 416 COMMODITIES ARE AUTHORIZED AS ADDITIONAL RESOURCES TO THE LEVEL OF ASSISTANCE PROGRAMED UNDER PL 430. WASHINGTON CANNOT APPROVE FOOD FOR PROGRESS PROGRAMS WHICH SUBSTITUTE FOR TITLE I BECAUSE OF THE MORE ATTRACTIVE SECTION 416 GRANT ELEMENT.

- THE CONGRESSIONAL INTENT, FOR FOOD FOR PROGRESS, IS THAT IT BE PROVIDED ABOVE AND BEYOND ANY ASSISTANCE RECEIVED FROM THE U.S. HOWEVER, MISSIONS NEED TO CAREFULLY ASSESS THE EXTENT TO WHICH FOOD FOR PROGRESS COMMODITIES CAN BE ABSORBED. BELLMOM AND OTHER BELLMOM CONSIDERATIONS WILL BE EXTREMELY IMPORTANT FACTORS IN YOUR ASSESSMENT OF COUNTRY ELIGIBILITY AND FOOD NEED.

II. POLICY AND PROGRAMMING GUIDANCE

- A. POLICY

- 1. NSDD 156 MANDATES THAT, IN CONTRAST WITH OTHER EXISTING AID PROGRAMS WITH COMPREHENSIVE AND MULTIPLE OBJECTIVES, THIS INITIATIVE WILL HAVE AS ITS SOLE OBJECTIVE THE ACHIEVEMENT OF AGRICULTURAL POLICY REFORM IN THIRD WORLD COUNTRIES. WHILE THIS MANDATE WAS

BROADENED BY NSDD 157, LEGISLATIVE LANGUAGE AND INTENT CLEARLY DICTATE ADHERENCE TO THE SINGLE OBJECTIVE. THE ACT FURTHER DELINEATES THAT SUCH POLICY REFORM MAY PROVIDE FOR AMONG OTHER THINGS: (A) ACCESS, ON THE PART OF FARMERS IN THE COUNTRY, TO PRIVATE, COMPETITIVE MARKETS FOR THEIR PRODUCTS; (B) MARKET PRICING OF COMMODITIES TO FOSTER ADEQUATE PRIVATE SECTOR INCENTIVES TO INDIVIDUAL FARMERS TO PRODUCE FOOD ON A REGULAR BASIS FOR THE COUNTRY'S DOMESTIC NEEDS; (C) ESTABLISHMENT OF MARKET-DETERMINED FOREIGN EXCHANGE RATES; (D) TIMELY AVAILABILITY OF PRODUCTION INPUTS (SEED, FERTILIZER, OR PESTICIDES) TO FARMERS; (E) ACCESS TO TECHNOLOGIES APPROPRIATE TO THE LEVEL OF AGRICULTURAL DEVELOPMENT IN THE COUNTRY; AND (F) CONSTRUCTION OF FACILITIES AND DISTRIBUTION SYSTEMS NECESSARY TO HANDLE PERISHABLE PRODUCTS.

- 2. WHILE THIS PROGRAM MUST SERVE U.S. STRATEGIC AND FOREIGN POLICY INTERESTS, FOOD FOR PROGRESS IS NOT, REPEAT NOT TO BE CONSIDERED A NEW, ON-GOING SOURCE FOR COMMODITY FUNDING. MISSIONS ARE TO INFORM HOST GOVERNMENTS THAT FOOD FOR PROGRESS WILL BE SUSPENDED OR WITHDRAWN WHEN RECIPIENTS FAIL TO SUSTAIN PROGRESS IN

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CARRYING OUT AGRICULTURAL REFORM. U.S. STRATEGIC AND FOREIGN POLICY INTERESTS NOTWITHSTANDING, WHEN MULTI-YEAR PROGRAMS ARE PROVIDED, FUTURE YEAR TRanches WILL BE WITHDRAWN WHERE PROGRESS IS LACKING.

- 3. ON JANUARY 29, USDA UNDER SECRETARY OF AGRICULTURE ANSTUTZ STATED IN THE FOOD AID SUBCOMMITTEE THE FOLLOWING:

- (A) 1985 FARM BILL PROVISIONS REQUIRE SUBSTANTIAL DRAYDOWN ON CCC HELD STOCKS AS PAYMENTS TO FARMERS AND EXPORTERS, THEREFORE, (B) CCC INVENTORIES MAY CONTAIN LITTLE IF ANY SURPLUS ABOVE DOMESTIC REQUIREMENTS AND NORMAL FOOD AID AND CARRYOVER FOR THE REST OF THIS DECADE. (C) FOOD FOR PROGRESS MULTI-YEAR COMMITMENTS UNDER SECTION 416 WILL BE ASSESSED AGAINST THE PROJECTED AVAILABILITY OF CCC INVENTORIES (FROM WHICH 416 COMMODITIES ARE OBTAINED).

- 4. CURRENT LAW AND POLICY DO NOT SPEAK TO HOW FOOD FOR PROGRESS LOCAL CURRENCY GENERATIONS ARE TO BE TREATED. WHILE FOOD FOR PROGRESS IS BUILT ON THE PREMISE THAT ADDITIONAL FINANCIAL RESOURCES ALLOW THE RECIPIENT TO IMPLEMENT AGRICULTURAL POLICY REFORM, LOCAL CURRENCY PROGRAMMING AND DOCUMENTATION WILL NOT BE REQUIRED. THE FOLLOWING REASONS SUPPORT THIS DECISION:

(A) STRENGTHENS U.S. LEVERAGE FOR AGRICULTURAL POLICY REFORMS, (FOCUSING ATTENTION ON THE REFORM THEMSELVES). (B) SINCE THERE IS NO ASSURANCE OF CONTINUED COMMODITY SUPPLY, DEPENDENCY ON EXTERNAL SUPPORT FOR LOCAL CURRENCY PROJECT FINANCING IS ELIMINATED, AND (C) FIELD STAFF TIME DEVOTED TO NEGOTIATING, IMPLEMENTING AND MONITORING AGREEMENTS CAN BE CONSIDERABLY REDUCED. THE PRESUMPTION IS THAT COUNTRIES SELECTED FOR FOOD FOR PROGRESS COMMODITIES HAVE A BETTER THAN 50/50 CHANCE OF CARRYING OUT REFORMS.

B. COUNTRY SELECTION CRITERIA:

THE FOOD FOR PROGRESS ACT, NSDD 156 AND 167 HAVE BEEN INTEGRATED, BY THE INTERAGENCY FOOD AID WORKING GROUP, TO ENSURE INCLUSION OF RELEVANT COUNTRY SELECTION CRITERIA.

U.S. STRATEGIC AND FOREIGN POLICY INTERESTS MUST BE SERVED BY THE FOOD FOR PROGRESS PROGRAM. ONCE THESE INTERESTS ARE SATISFIED, THE FOLLOWING, ADDITIONAL, CRITERIA SHOULD BE ASSESSED FOR INDIVIDUAL PROPOSED COUNTRY PROGRAMS.

THESE CRITERIA HAVE BEEN RANK ORDERED AS FOLLOWS:

CRITERIA OF ABSOLUTE IMPORTANCE:

- 1. RECIPIENT POLITICAL COMMITMENTS TO REFORM AND IMPLEMENTATION OF POLICY DECISIONS BASED ON FREE MARKET PRINCIPLES AND PRIVATE SECTOR INVOLVEMENT.

INDICATORS: POLITICAL COMMITMENT IS DEFINED AS:

(A) SUPPORT FROM NATIONAL LEADERSHIP AND KEY INSTITUTIONS WHICH SUSTAIN EXISTING, BENEFICIAL AGRICULTURAL POLICY REFORMS, AND/OR; (B) SUPPORT SUCH NEW REFORMS INDEPENDENTLY OF IMF, IBRD OR OTHER DONOR PROGRAMS.

IN ADDITION TO THE ABOVE INDICATORS, BUT OF MUCH LOWER IMPORTANCE, ARE: (C) IMPLEMENTATION OF IMF STANDBY AND/OR IBRD

STRUCTURAL ADJUSTMENT CONDITIONALITY, WHICH DIRECTLY AND INDIRECTLY AIDS THE PROCESS OF AGRICULTURAL POLICY REFORM. (D) U.S. AFRICAN ECONOMIC POLICY REFORM PROGRAM IN PROGRESS OR UNDER FAVORABLE NEGOTIATIONS.

CRITERIA OF HIGH IMPORTANCE:

- 2. NEED FOR NON-EMERGENCY FOOD AID. SINCE FOOD FOR PROGRESS COMMODITIES WILL BE ADDITIONAL TO U.S. REGULAR FOOD AID PROGRAMS (PAGE 107 CONFERENCE REPORT), RECIPIENT NEED MUST BE ASSESSED AGAINST RISKS OF DISPLACING COMMERCIAL SALES, EXACERBATING LOCAL PRODUCTION/MARKETING DISINCENTIVES AND IMPORTING MORE COMMODITIES THAN CAN BE ADEQUATELY STORED. THEREFORE, NEED IS DEFINED AS THE ADDITIONAL FOOD REQUIRED TO SUPPORT STATUS QUO CONSUMPTION AND WHICH CANNOT BE IMPORTED COMMERCIALY.

FYI: THESE ESTIMATES CAN BE FOUND IN THE MOST RECENT FOOD NEEDS AND AVAILABILITIES (FNA) REPORT WHICH IS COMPILED AND PUBLISHED BY USDA'S ECONOMIC RESEARCH SERVICE AND CLEARED BY ALL FOOD AID AGENCIES (END FYI).

- 3. IN-COUNTRY CAPACITY TO CARRY-OUT AGRICULTURAL REFORM MUST BE DEMONSTRATED BY: (A) PERTINENT PUBLIC SECTOR INSTITUTIONS WITH A DEMONSTRATED CAPACITY FOR MONITORING AND SUSTAINING AGRICULTURAL REFORM IN THE FACE OF ECONOMIC AND POLITICAL CHANGE. (B) AN ENVIRONMENT IN WHICH THE PRIVATE SECTOR CAN EXIST AND IS ALLOWED TO RESPOND TO AGRICULTURAL REFORM POLICIES AND PROGRAMS.

- 4. EVIDENCE OF POLICIES CONDUCTIVE TO IMPROVEMENTS IN AGRICULTURE MUST BE DEMONSTRATED BY: (A) MOVEMENT TOWARD MARKET ORIENTED AGRICULTURE INDICATED BY PHASING OUT GOVERNMENT CONTROL OVER AGRICULTURAL PRICING, DISTRIBUTION AND MARKETING FUNCTIONS. (B) OTHER MACRO LEVEL POLICIES WHICH SEND INCENTIVE SIGNALS TO THE AGRICULTURAL SECTOR AND INDUCE MICRO LEVEL POLICY DECISIONS WHICH HAVE A POSITIVE EFFECT ON LOCAL LEVEL INVESTMENT, PRODUCTION AND MARKETING RESPONSES.

CRITERIA OF LOWER IMPORTANCE:

- 5. THE POTENTIAL FOR ECONOMIC GROWTH THAT WILL LEAD TO THE COUNTRY'S ABILITY TO PARTICIPATE IN INTERNATIONAL TRADE AND TO IMPORT U.S. COMMODITIES

6. THE POTENTIAL FOR, OR EXISTENCE OF, OTHER DONOR SUPPORT FOR AGRICULTURAL PROGRAMS AND POLICY REFORM (AS INDICATOR OF POTENTIAL FOR CO-FINANCING).

- 7. A.I.D. MISSION CAPACITY TO: NEGOTIATE FOOD FOR PROGRESS AGREEMENT, AND ASSIST HOST GOVERNMENT IN THE

DEVELOPMENT, IMPLEMENTATION MONITORING AND EVALUATION. INDICATORS: SIZE, COMPOSITION AND FOOD AID/PRIVATE SECTOR PROGRAMMING AND POLICY REFORM EXPERIENCE OF MISSION STAFF.

ITEMS 1 THROUGH 6 ABOVE ARE FROM NSDD 167. ITEM 7 IS INCLUDED AS AN OPERATIONAL CRITERION AND SHOULD NOT BE CONSTRUED AS A LIMITING FACTOR, I.E., MISSION CAPACITY, IF LIMITED, COULD BE OUTWEIGHED BY OTHER SELECTION CRITERIA.

DETERMINING ELIGIBLE FOOD FOR PROGRESS RECIPIENT COUNTRIES.

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NSDD 156 REQUIRES THAT COUNTRY SELECTION CRITERIA BE BASED, IN PART, ON THE DECISION ANALYSIS METHODOLOGY DEVELOPED BY THE THIRD WORLD HUNGER STUDY, I.E., MULTI-ATTRIBUTE UTILITY THEORY (MAUT); AND THAT THIS METHODOLOGY ALSO BE USED TO HELP DETERMINE THOSE POLICY CHANGES WITHIN A COUNTRY TO WHICH FOOD FOR PROGRESS WILL BE TARGETED AS AN INSTRUMENT FOR CHANGE. A BRIEF SUMMARY OF THE MAUT METHODOLOGY FOLLOWS:

MAUT IS ONE OF SEVERAL TOOLS FOR VALUING ANY SET OF FUTURE OPTIONS. ITS USE TENDS TO BE CONCENTRATED ON SITUATIONS WHERE A SPECIFIC CHOICE IS TO BE MADE AMONG A NUMBER OF USEFUL ALTERNATIVES. THE TOOL IS ALSO A WAY TO EXAMINE THE SAME SITUATION FROM THE PERSPECTIVE OF DIFFERENT ACTORS. FOR EXAMPLE, EXPLICIT U.S. REVIEW OF THE FACTORS CONSIDERED BY DIFFERENT COUNTRIES IN EVALUATING THE IMPLICATIONS OF IMPLEMENTING REFORMS IS OFTEN A SOURCE OF CONSIDERABLE INSIGHT; THE STRENGTH OF OPPOSING GROUPS, POTENTIAL DIVISIVENESS OF ISSUES, AND OTHER TOPICS WHERE DIFFERENTIAL PREFERENCES MATTER, ARE APPROPRIATE FOR THIS TYPE ANALYSIS. THE STRENGTH IS IN DISCOVERING THE PREFERENCES OF VARIOUS ACTORS AND PERMITTING AN INTEGRATED ANALYSIS OF VERY DIFFERENT AND COMPLEX CHOICES.

GIVEN THE MULTIPLICITY OF OBJECTIVES AND PREFERENCES, USING MAUT, IS AN IDEAL STARTING POINT IN THE ANALYSIS OF WHICH COUNTRIES BECOME POTENTIAL FOOD FOR PROGRESS RECIPIENTS.

THE METHODOLOGY BEGINS BY AGENCY AGREEMENT AND ASSIGNMENT OF AN INDEX NUMBER (0-10) TO POTENTIAL FOOD FOR PROGRESS RECIPIENTS. THIS INDEX NUMBER REPRESENTS THE EXTENT TO WHICH AGENCIES BELIEVE A GIVEN COUNTRY MEETS EACH CRITERION LISTED BELOW.

THE INDEX NUMBERS ARE CONVERTED TO PERCENTAGES AND MULTIPLIED BY A WEIGHT, FROM 0-20 PERCENT, ASSIGNED, BY THE INTER-AGENCY GROUP, TO ONE OR MORE CRITERION. AGGREGATING CRITERION PRODUCES, FOR EACH COUNTRY, ITS MAUT RANKING. THE WEIGHTS ARE:

- 20 PERCENT - RECIPIENT POLITICAL COMMITMENT
- 20 PERCENT - NEED FOR NON-EMERGENCY FOOD AID
- 20 PERCENT - IN-COUNTRY CAPACITY TO CARRY OUT AGRICULTURAL REFORM AND MOVEMENT TOWARD MARKET AGRICULTURE.
- 10 PERCENT - POTENTIAL FOR ECONOMIC GROWTH, TRADE AND OTHER DONOR FINANCING.
- 10 PERCENT - A.I.D. MISSION CAPACITY.

ASSIGNING WEIGHTS WILL OF NECESSITY BE A FLEXIBLE PROCESS AS CIRCUMSTANCES CHANGE.

IN ADDITION TO MAUT, POLICY CONSIDERATIONS ALSO INFLUENCED COUNTRY SELECTION.

III. PROGRAM AND ACTION REQUIRED

- A. NEXT STEP FOR THE ADDRESSEE IS TO CABLE WASHINGTON ASAP COMMENTS/VIEWS AS TO THE DESIRABILITY/FEASIBILITY OF UNDERTAKING A FOOD FOR PROGRESS PROGRAM. FIRST, WASHINGTON WOULD APPRECIATE MISSION VIEWS ON SELECTION OF YOUR COUNTRY FOR THIS IMPORTANT PRESIDENTIAL INITIATIVE. THESE VIEWS SHOULD ADDRESS WHETHER YOU AGREE WITH WASHINGTON'S SELECTION OF YOUR COUNTRY AS A POTENTIALLY SUCCESSFUL PERFORMER AND WHETHER YOUR COUNTRY NOW SATISFIES SELECTION CRITERIA AS DEFINED ABOVE, I.E., EMBASSY/USAID LATEST ANALYSIS OF REAL - RATHER THAN QUOTE FOR DONORS ONLY UNQUOTE -

EVIDENCE OF POLITICAL COMMITMENT TO SUSTAIN AND/OR IMPLEMENT NEW AGRICULTURAL REFORM POLICIES.

- B. IF FOOD FOR PROGRESS PROGRAM IS FEASIBLE THE FOLLOWING INFORMATION WILL BE REQUIRED:

- FOOD FOR PROGRESS PROGRAM DEVELOPMENT DOCUMENTATION REQUESTED FROM CONCURRING MISSIONS SHOULD BE BRIEF AND FAR LESS DETAILED THAN THAT REQUIRED FOR TITLE 1/111.

1. MISSION ASSESSMENT OF THE MARKET-ORIENTED AGRICULTURAL POLICY(S) WHICH IF SUPPORTED OR REFORMED COULD HAVE A POSITIVE EFFECT ON, BUT NOT LIMITED TO, ONE OR MORE OF THE FOLLOWING: AGRICULTURAL PRODUCTION,

PRICES, MARKETING, DISTRIBUTION, ETC. THIS ASSESSMENT SHOULD REFLECT, IF AVAILABLE, IBD/INF OFFICIAL AND INFORMAL VIEWPOINTS.

2. MISSION SHOULD REQUEST TYPE AND AMOUNT OF COMMODITY REQUIRED.

--3. BELLMON INFORMATION (SEE PARA. 1.B (3) ABOVE).

--4. A DESCRIPTION OF BENEFICIARIES AND HOW THEY WOULD BENEFIT.

-5. POLICY PERFORMANCE, BENCHMARKS/TIMETABLES AND MONITORING/EVALUATION PROCEDURES.

--6. ESTIMATED TIME FRAME FOR COMPLETING NEGOTIATIONS AND SIGNING AGREEMENT, AND COMMODITY SHIPMENT. SINCE FY 1986 PROGRAMS WILL BE SHIPPED UNDER SECTION 416 OF THE AGRICULTURAL ACT OF 1949, AS AMENDED, CONCURRING MISSIONS MUST PROVIDE SHIPPING AND HANDLING INFORMATION CONSISTENT WITH TITLE 11 COMMODITY SHIPMENT ARRANGEMENTS. GUIDANCE IS FORTHCOMING ON FUTURE YEAR PROGRAMS INVOLVING TITLE 1 PROGRAMMING REQUIREMENTS. AGREEMENTS FOR FOOD FOR PROGRESS PROGRAMS USING SECTION 416 COMMODITIES MUST BE SIGNED PRIOR TO SEPTEMBER 30, BUT UNLIKE PL 430 TITLE 1, COMMODITY SHIPMENTS DO NOT HAVE TO TAKE PLACE BY SEPTEMBER 30.

--7. PROPOSAL SHOULD ARRIVE NLT MARCH 28.

- C. MISSIONS ARE INVITED TO COMMENT ON OTHER SECTIONS OF THIS MESSAGE AS APPROPRIATE SHULTZ

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Dairy Link
(FY 1986, Appropriations Act, Obey Amendment)
FY 1987 Appropriation Act

Intent: This program is intended to fund new projects that use U.S.G. surplus dairy commodities in order to boost milk and dairy products consumption, to help build markets for U.S. dairy products, and to strengthen agricultural development efforts. These funds are available to U.S. and/or local Private Voluntary Organizations (PVOs) and cooperatives, and private enterprises.

Description: Funding - The FY 1986 Continuing Resolution (C.R.) earmarked \$5 million from the Agriculture, Rural Development and Nutrition (Section 103) Account for new development projects which use dairy products. The Gramm-Rudman-Hollings Act reduced this earmark to \$4.785 million. For FY 1987, the C.R. called for the use of up to an additional \$5 million for this purpose of which \$1.5 million has been made available in the Operational Year Budget (OYB).

Uses of funds - These funds may be used for complementary inputs which strengthen the development impact of providing dairy products. Inputs may be provided for projects generally associated with agricultural development. Storage costs, vehicles and other capital inputs, and technical assistance for logistics, administration and nutrition can also be included.

Progress to date - For FY 1986, A.I.D. requested proposals through all its field Missions. Some twenty countries responded with interest and proposals for potential programs are pending. We also requested proposals directly from nine PVOs with experience in Title II or Section 416, as well as from two cooperative groups -- NCBA (the Cooperative League) and Land O'Lakes -- which were singled out for attention by the House Appropriation Committee Report on this legislation.

In FY 1986, a \$2.1 million Cooperative Agreement was concluded with Land O' Lakes to assist indigenous groups develop projects which use surplus dairy products. Under this project, Land O' Lakes has completed four pre-feasibility studies and plans to conduct feasibility studies in seven countries to identify projects which are eligible for further design and eventual implementation. In addition, \$1.5 million was made available for dairy projects in two countries in Central America -- Guatemala and Belize. These projects work with dairy producer cooperatives to expand the use of dairy products. A total of over \$1 million was also made available to PVOs in Mexico and Haiti.

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Procedures - FVA will continue to utilize the Cooperative Agreement with Land O'Lakes to establish a mechanism for providing technical assistance to this dairy development effort. Under this agreement Land O' Lakes, working with the National Cooperative Business Association will serve as a centralized U.S. private sector contact point and source of expertise for pre-feasibility studies, feasibility and design efforts and technical assistance and training for dairy sector development in developing countries. Missions are encouraged to submit concept papers for dairy development programs to AID/FVA. However, linkage with surplus dairy commodities will depend on availability of these commodities. After a preliminary in-house review, we will submit the concept paper to Land O' Lakes for appropriate follow-up. Land O' Lakes will provide the necessary design and technical assistance necessary to implement the project.

Citations: Appropriations Acts of 1986, 1987

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ORIGIN AID-01

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BALANCE AVAILABLE FOR PROGRAMMING WORLDWIDE. THESE FUNDS
REMAIN AVAILABLE FOR OBLIGATION UNTIL SEPTEMBER 30, 1960.

ORIGIN OFFICE FFP-09
INFO AAAF-02 AFCD-02 AFIA-03 AFSA-03 AFFW-04 AFCH-03 AFDP-06
FPA-02 AALA-01 LACI-03 LACA-03 LADP-04 FVA-01 AMAD-01
PPPB-02 GC-01 GCFL-01 C-02 CPP-01 CP-02 C1-01 STAG-02
STHE-01 STN-03 STPD-01 SAST-01 PVC-02 FVPP-01 ES-01
ANME-03 LAB-05 ELO-01 LACA-03 ANEA-02 ANEG-03 ANAA-01
ANSA-02 /889 AB

INFO LOG-00 EUR-00 AF-00 IO-17 NEA-07 ARA-00 EAP-00
/024 R

DRAFTED BY: AID/FVA/FFP/11:MDWYRE:JJ:4010M

APPROVED BY: AID/FVA:JCBLOCH

FVA/FFP/C:TREESE (DRAFT)

FVA/FFP/11:WPEARSON (DRAFT)

FVA/FFP/PPE:LSTAMBERG (DRAFT)

AID/AFR/DP:PFLURET (SUBS)

AID/LAC/DP:PCSELLAR (DRAFT)

AID/AHE/DP:BSUDMAN (DRAFT)

AID/GC:CSTEPHENSON (DRAFT)

PPC/PB:LTAMNER (DRAFT)

AID/ES:GJOE

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E.O. 12356: N/A

TAGS:

SUBJECT: NEW INITIATIVE FOR LINKING DA FUNDS WITH TITLE
11/416 DAIRY PRODUCTS

(1) SUMMARY. AID POSTS ARE INVITED TO SUBMIT PROPOSALS
FOR FINANCING NEW DEVELOPMENT PROJECTS THAT WILL UTILIZE
SURPLUS U.S. DAIRY PRODUCTS IN DEVELOPING COUNTRIES.
THE FY 1986 FOREIGN ASSISTANCE APPROPRIATIONS ACT
PROVIDES THAT NOT LESS THAN 5 MILLION DOLLARS BE USED
FOR THIS PURPOSE. THESE FUNDS ARE APPROPRIATED FOR FY
1986 ONLY. POSTS SHOULD USE THE GUIDELINES CONTAINED IN
THIS CABLE TO DISCUSS POTENTIAL PROJECTS WITH PVO'S,
COOPERATIVES AND LOCAL ENTERPRISES IN THE MOST COUNTRY
AND CABLE PRELIMINARY PROPOSALS BY APRIL 25. END
SUMMARY.

(2) BACKGROUND. THE FY 1986 APPROPRIATIONS ACT
PROVIDES THAT NOT LESS THAN 5,000,000 DOLLARS OF
DEVELOPMENT ASSISTANCE FUNDS BE UTILIZED FOR NEW
DEVELOPMENT PROJECTS OF PRIVATE ENTITIES AND
COOPERATIVES UTILIZING SURPLUS DAIRY PRODUCTS (OBEY
AMENDMENT). THE INTENT OF THE LEGISLATION IS THAT
A.I.D. FUND NEW PROJECTS THAT UTILIZE PL480 AND SECTION
416 DAIRY COMMODITIES TO BOOST MILK AND DAIRY PRODUCT

CONSUMPTION, TO HELP BUILD MARKETS FOR U.S. DAIRY
PRODUCTS, AND TO STRENGTHEN AGRICULTURAL DEVELOPMENT
EFFORTS. THE HOUSE APPROPRIATIONS COMMITTEE REPORT ON
THIS BILL DREW SPECIAL ATTENTION TO THE COOPERATIVE
LEAGUE'S PROJECT WITH THE NATIONAL DAIRY DEVELOPMENT
BOARD IN INDIA AND THE LAND O'LAKES PROJECT WITH THE
JAMAICA AGRICULTURAL DEVELOPMENT FOUNDATION, BOTH OF
WHICH USED DAIRY PRODUCTS UNDER THE PL480 FOOD FOR PEACE
AUTHORITY FOR DAIRY DEVELOPMENT. (INFORMATION ON THESE
PROJECTS IS AVAILABLE FROM FVA/FFP/11). MAKING
ALLOWANCE FOR REQUIRED REDUCTIONS DUE TO THE
GRAMM-RUDMAN-HOLLINGS ACT, THIS EARMARKING IS REDUCED BY
4.3 PERCENT, THEREBY RESULTING IN A MINIMUM AMOUNT OF
4,785,000 DOLLARS. OF THIS AMOUNT, 2,000,000 DOLLARS
HAS BEEN ALLOCATED FOR CENTRAL AMERICA, LEAVING THE

(3) SOURCE OF SURPLUS DAIRY PRODUCTS. DAIRY
COMMODITIES SHOULD BE PROGRAMMED IN ACCORDANCE WITH
ESTABLISHED PROCEDURES FOR PL480 TITLE 11 AND SECTION
416 OF THE AGRICULTURAL ACT OF 1949, AS AMENDED.
SUBSTANTIAL REVISIONS WERE MADE TO THIS LEGISLATION IN
THE RECENTLY PASSED FARM BILL (FOOD SECURITY ACT OF
1985). PENDING ISSUANCE OF REVISED GUIDANCE FOR
PROGRAMMING SURPLUS DAIRY PRODUCTS IN ACCORDANCE WITH
THE NEW LEGISLATIVE PROVISIONS, REGULATION 10 AND OTHER
CURRENT A.I.D. GUIDELINES SHOULD BE USED.

(4) TYPES OF DAIRY COMMODITIES AVAILABLE FOR USE. NON
FAT DRY MILK (NFDM) AND CHEESE GENERALLY CAN BE EXPECTED
TO BE AVAILABLE. LIMITED AMOUNTS OF BUTTER, BUTTEROIL
AND ULTRA-HIGH TEMPERATURE (UHT) MILK ALSO MAY BE
AVAILABLE FROM SURPLUS STOCKS FOR THIS PURPOSE. SINCE
LONG TERM AVAILABILITY OF SURPLUS STOCKS CANNOT BE
GUARANTEED, DELIVERY PROPOSALS SHOULD BE DESIGNED ON A
SHORT TERM BASIS, GENERALLY NOT TO EXCEED ONE YEAR IN
DURATION. MONETIZATION OF THE DAIRY PRODUCTS IN
ASSOCIATION WITH THEIR DELIVERY CAN BE CONSIDERED ON A
CASE-BY-CASE BASIS ONLY.

(5) TYPES OF PROJECTS ENVISAGED. COSTS OF
COMPLEMENTARY INPUTS TO STRENGTHEN THE DEVELOPMENT
IMPACT OF DELIVERING DAIRY PRODUCTS TO NEEDY POPULATIONS
SHOULD BE CONSIDERED FOR FUNDING UNDER THIS EARMARKING.
THIS CAN INCLUDE SCHOOL FEEDING, MOTHER-CHILD HEALTH AND
FOOD FOR WORK PROJECTS IF THEIR OBJECTIVES ARE GENERALLY
FOCUSED ON AGRICULTURAL DEVELOPMENT. STORAGE COSTS,
VEHICLES OR OTHER CAPITAL INPUTS CAN BE CONSIDERED, IF

APPROPRIATE TO OVERALL A.I.D. OBJECTIVES IN THE
COUNTRY. TECHNICAL ASSISTANCE FOR LOGISTICS,
ADMINISTRATION AND NUTRITIONAL ASPECTS CAN BE INCLUDED.

(6) FUNDING. SINCE THE FUNDS ARE FACT CAN BE INCLUDED
YEAR ONLY, PROJECTS SHOULD BE DESIGNED FOR LIFE OF
PROJECT FINANCING. THREE YEARS NORMALLY SHOULD BE THE
MAXIMUM LIFE OF PROJECT ENVISAGED. FINANCING SHOULD BE
LIMITED TO CAPITAL EXPENSES, TECHNICAL ASSISTANCE,
TRAINING AND START-UP COSTS. NO OPERATING COSTS WILL BE
FINANCED BEYOND THE FIRST YEAR. OTHER SOURCES OF
FINANCING RECURRING OPERATING COSTS SHOULD BE IDENTIFIED.
SHOULD BE IDENTIFIED

(7) BENEFICIARIES. THERE MUST BE DEMONSTRABLE
POSITIVE AND LASTING EFFECT, PREFERABLY IN TERMS OF BOTH
INCREASED INCOME AND NUTRITION, ON A SIGNIFICANT NUMBER
OF POOR RECIPIENTS.

(8) PRIVATE ENTITIES. U.S. AND/OR LOCAL PRIVATE AND
VOLUNTARY AGENCIES, COOPERATIVES AND PRIVATE ENTERPRISES
SHOULD BE CONSIDERED AS IMPLEMENTING AGENTS. FVA BUREAU
WILL BE PROVIDING THESE GUIDELINES TO SELECTED U.S.
PRIVATE AND VOLUNTARY AGENCIES AND COOPERATIVES TO
SOLICIT THEIR PROJECT PROPOSALS. FIELD POSTS SHOULD
CONSULT WITH LOCAL REPRESENTATIVE OF U.S. ORGANIZATIONS
AND WITH LOCAL ENTITIES AS DEEMED APPROPRIATE.

(9) ACTION. POSTS SHOULD CABLE PRELIMINARY PROPOSALS
SLUGGED FOR FVA/FFP AND REGIONAL BUREAUS AS SOON AS
PROSPECTIVE PROJECTS ARE IDENTIFIED, BUT IN NO CASE
LATER THAN APRIL 25. REGIONAL BUREAUS AND FVA/FFP WILL
PROVIDE ADDITIONAL GUIDANCE REGARDING PROJECT
DOCUMENTATION REQUIREMENTS, AS NEEDED, TO ENSURE THAT
SOUND PROPOSALS RECEIVE FULL CONSIDERATION FOR FY1986
FUNDING. WHITENHEAD

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FARMER TO FARMER PROGRAM
P L 480, Section 406

Intent: To send U.S. farmers to selected developing countries to share technical information and forge personal contacts.

Description: Section 1107 of the Food Security Bill (Bereuter Amendment) earmarks one tenth of one percent of the PL 480 budget for Farmer-to-Farmer technical assistance.

The project objectives are: to provide direct technical assistance to Third World Farmers in improved farming techniques and to improve purchasing power and the quality of life in rural communities.

The PRE Bureau sponsored a pilot program which was successfully administered by VOCA (Volunteers in Overseas Cooperative Assistance). FVA will sponsor the next stage of the program and VOCA will continue to administer it. Overseas organizations are to submit requests for technical assistance to VOCA which will then recruit volunteer American farmers through existing farm organizations.

A.I.D. Missions are not expected to play a direct role in this program. However, FVA will send out information on the program periodically and encourages Missions's suggestions or comments. VOCA representatives will be requesting permission to visit selected countries and will welcome discussions with interested Missions.

Citations: Food Security Act, 1985, Section 1107;
Agricultural Trade Development and Assistance Act
of 1954, Section 406.

JUL 7 1986

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, FVA

FROM : FFP/C, Thomas H. Reese, III

SUBJECT: Project Authorization for the Farmer-to-Farmer Program

Problem: The pilot farmer-to-farmer project, which has been funded with Development Assistance appropriations and administered by the Bureau for Private Enterprise, is currently in its phase-down stage. Your authorization is required for a new project, to be administered by FVA under P.L. 480 funding authority.

Legislative Background: Section 406 of The Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) created the farmer-to-farmer program, with the objective of sending U.S. farmers as volunteers to developing countries for short-term assignments. In Fiscal Year 1985, A.I.D. financed a pilot project with \$400,000 from the Development Assistance account and administered it through the Bureau for Private Enterprise (PRE). With the passage of The Food Security Act of 1985, funding was earmarked under the P.L. 480 budget. Section 1107 of the Act stipulates that not less than one-tenth of one percent of the funds available from the P.L. 480 budget will be utilized in each of Fiscal Years 1986 and 1987. To meet this requirement, \$1,747,000 in P.L. 480 funds will be provided in Fiscal Year 1986 for the program. Under current budget projections, another \$1,544,000 will be allocated in FY 1987 to meet the minimum level. On June 16, 1986, the Administrator signed a report to Congress, a copy of which is attached to this memorandum, on implementation of the program.

Discussion: In July of 1985, PRE signed a cooperative agreement with Volunteers in Overseas Cooperative Assistance (VOCA) to implement the DA-financed pilot project. VOCA, a Washington based, non-profit organization, was selected as manager of the project because of its extensive experience in sending cooperative business executives, as volunteers, to give managerial advice and assistance to cooperatives in Third World countries.

The volunteers' primary mission under the project will be to assist farmers and farmer organizations with immediate agricultural problems to improve their purchasing power and the quality of life in rural communities. Improvements are sought in all areas of farming, including animal care and health, field crop cultivation, fruit and vegetable growing, poultry and fish operations, agricultural education, farm credit, marketing, farm inputs, etc. A secondary goal of the project is to develop friendships that might provide continuing contacts between Americans and host farmers. The volunteers furnish their time and advice without compensation, but all of their travel and living expenses are covered under the project.

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The pilot project, which focuses on Latin America and the Caribbean, has run successfully. According to the first quarter's status report (copy attached), 53% of the projected number of volunteers had traveled to their respective host countries and returned home since the field phase started in January. Additionally, later reports (also attached) indicate that even more farmer-to-farmer candidates have been identified to carry the project to its completion.

The funds earmarked under the Food Security Act for the new project are sufficient to expand its scope to include other regions of the world. Given the amount of available funding, it is expected that approximately 350 persons can be sent as volunteers, with an average assignment of four to twelve weeks. Extensions of up to twelve weeks are envisaged, where feasible, to encourage more effective follow-up on promising initiatives made by the volunteers.

VOCA has stated its desire to carry out the new program and has submitted an unsolicited proposal, currently under review by FVA. The Bureau review indicates that VOCA should continue as the lead grantee for the first year of the project, based upon its demonstrated management capability and experience with the pilot project. The new project will employ a grant, a less management-intensive instrument than the cooperative agreement governing the pilot project. However, FVA will explore the use of other organizations with respect to the second year, depending upon VOCA's success in implementing the first year expansion. Your approval of Recommendation 2 below will constitute a specific approval to consider only this entity, VOCA, for this assistance, in accordance with Handbook 13, 1B - 2.e. (3) and (4).

In response to requests from overseas organizations, proposals will be selected and will emphasize practical projects which make the best use of the farm teams' experience and knowledge. Recruiting will be done through existing U.S. farm groups, cooperatives, commodity organizations, universities, extension services, church groups, etc. In addition to normal program monitoring, FVA will review the application procedures for proposals as well as the method of approval. The Bureau (in conjunction with the U.S. Department of Agriculture and the Peace Corps) will also establish program criteria and country selection priorities.

Funds for the farmer-to-farmer program will be used for direct costs in support of U.S. farmers to carry out volunteer activities involved in development projects. These costs may include travel, training, transportation, recruitment and necessary logistic support. Payments to sub-recipient organizations, incurred either in the U.S. or overseas, will be allowable provided they are in accordance with project criteria. Funds may also cover administrative costs, such as additional staff, telephone lines, secretarial support, mailing, etc. As usual, the implementing organization(s) will be required to submit periodic progress reports on activities funded under the agreement.

Wp

Recommendation 1: that you authorize the project.

Approved: _____

Disapproved: _____

Date: _____

Recommendation 2: that you approve the selection of
Volunteers in Overseas Cooperative Assistance for the first
year of the project based upon their demonstrated management
capability and experience in implementing the pilot
farmer-to-farmer project.

Approved: _____

Disapproved: _____

Date: _____

Attachments:

- A) Project Data Sheet
- B) Report to Congress
- C) VOCA Status Reports - Pilot Project

drafted by: FVA/FFP/II: K. Bishop; docid #3212Q; 6/16/86

Clearances: FVA/FFP/II : M. Dwyre ^{MD 7/1}
FVA/FFP/II : W. Pearson ^{WP 7/2}
FVA/FFP/POD: J. Markunas ^{JM 7/2}
FVA/DD/PPE : L. Stamber ^{LS 7/7}
PPC/PB/CPA : L. Tanner (draft) 7/7
GC/CP : C. Stephenson(draft) 7/3

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PL 480 LEGISLATION ON IMMUNIZATIONS

Section 1112 of the Food Security Act of 1985

Intent: The intent of the new PL 480 legislation supporting immunization is to make additional resources available to improve child health and survival in developing countries.

Description: Health measures under Titles I and III are already considered legitimate self-help activities. This new legislation gives additional weight to these activities and gives special attention to immunizations as essential health measures.

Based on this legislation, A.I.D. is encouraging USAIDs to inform counterpart government institutions and PVOs that 1) immunization programs are considered major Title I/Title III self-help activities within the health sector; and 2) 206 Title II currencies generated can be used to support health programs and projects including immunizations. In addition, in order to increase immunization coverage, USAIDs may want to consider negotiating the use of Title I and Title III proceeds to support immunization activities, to the extent uses are consistent with approved country strategies.

Proposals for these uses of PL 480 resources should be submitted by PVOs, host governments, and USAIDs as part of the normal documents/agreements submitted for these programs.

A report on immunizations is now required as part of A.I.D.'s annual report to Congress (Section 634 of the Foreign Assistance Act). This will include information on contributions from Titles I, II and III to immunization programs and the estimated number of children immunized under these programs on a yearly basis.

Citations: State cable 232058;
Food Security Act of 1985: Section 1112
Title I: Section 109, Paragraph 11
Title II: Section 206 (7 USC 1926)
Title III: Section 301

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DRAFTED BY: AID/FVA/PPE:H. SUKIM:AW:2208E

APPROVED BY: AID/FVA/PPE:L STAMBERG

AID/GC:R LESTER (SUBS)

AID/FVA/FFP:S FRENCH (DRAFT)

AID/FVA/FFP:T REECE (DRAFT)

AID/FVA/FFP:W PEARSON (DRAFT)

AID/PPC/EA: J MUDGE (PHONE)

AID/ES: G JOE

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SUBJECT: PL 480 NEW LEGISLATION ON IMMUNIZATIONS

REF: A) STATE 099765, B) STATE 391920

SUMMARY: NEW PL 480 LEGISLATION EMPHASIZES IMMUNIZATION PROGRAMS UNDER TITLE I AND III HEALTH SELF-HELP MEASURES AND ALSO ADDS HEALTH PROGRAMS AND PROJECTS INCLUDING IMMUNIZATION FOR TITLE I) 206 CURRENCY SUPPORT. THIS MESSAGE DISCUSSES RECOMMENDED FOLLOW-UP TO AND REPORTING REQUIREMENTS FOR THIS NEW LEGISLATION.

1. THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954 HAS BEEN AMENDED TO INCLUDE:

A) SECTION 1112 OF THE FOOD SECURITY ACT OF 1985 READS: ...QUOTE IN THE IMPLEMENTATION OF HEALTH PROGRAMS UNDERTAKEN IN RELATION TO ASSISTANCE PROVIDED UNDER THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954, IT SHALL BE THE GOAL OF THE ORGANIZATIONS AND AGENCIES INVOLVED TO PROVIDE AS MANY ADDITIONAL IMMUNIZATIONS OF CHILDREN AS POSSIBLE. SUCH INCREASED IMMUNIZATION ACTIVITIES SHOULD BE TAKEN IN COORDINATION WITH SIMILAR EFFORTS OF OTHER ORGANIZATIONS AND IN

KEEPING WITH ANY NATIONAL PLANS FOR EXPANDED PROGRAMS OF IMMUNIZATION. THE PRESIDENT SHALL INCLUDE INFORMATION CONCERNING SUCH IMMUNIZATION ACTIVITIES IN THE ANNUAL REPORTS REQUIRED BY SECTION 634 OF THE FOREIGN ASSISTANCE ACT OF 1961, INCLUDING A REPORT ON THE ESTIMATED NUMBER OF IMMUNIZATIONS PROVIDED EACH YEAR PURSUANT TO THIS SUBSECTION. UNQUOTE.

B) SECTION 109, (PARAGRAPH 11) TITLE I SELF HELP MEASURES: QUOTE INCLUDING IMMUNIZATIONS UNQUOTE IS

ADDED TO THE 11TH SELFHELP MEASURE WHICH SHOULD NOW READ QUOTE CARRYING OUT PROGRAMS TO IMPROVE THE HEALTH OF THE RURAL POOR INCLUDING IMMUNIZATIONS UNQUOTE.

C) SECTION 206 (7 USC 1726) TITLE II: QUOTE HEALTH PROGRAMS AND PROJECTS INCLUDING IMMUNIZATION OF CHILDREN UNQUOTE IS ADDED AS C) UNDER THE SECTION DESCRIBING THE USES OF CURRENCIES GENERATED.

D) SECTION 301 (B) TITLE III: IN THE SECTION DESCRIBING USES OF THIS ASSISTANCE QUOTE INCLUDING IMMUNIZATION OF CHILDREN UNQUOTE IS ADDED AFTER HEALTH SERVICES. THE SENTENCE SHOULD READ QUOTE ASSISTANCE UNDER THIS TITLE SHOULD BE USED FOR PROGRAMS OF ...HEALTH SERVICES (INCLUDING IMMUNIZATIONS OF CHILDREN)...UNQUOTE.

2. BASED ON THESE AMENDMENTS, AID/W ENCOURAGES USAIDS TO INFORM COUNTERPART GOVERNMENT AND PRIVATE ORGANIZATIONS THAT (1) IMMUNIZATION PROGRAMS ARE CONSIDERED IMPORTANT TITLE I/TITLE III SELF-HELP ACTIVITIES WITHIN THE HEALTH SECTOR; (2) 206 TITLE I CURRENCIES GENERATED CAN BE USED TO SUPPORT HEALTH PROGRAMS AND PROJECTS INCLUDING IMMUNIZATIONS. IN ADDITION, IN ORDER TO INCREASE IMMUNIZATION COVERAGE PER REF. A, USAIDS MAY WANT TO CONSIDER USING TITLE AND TITLE III PROCEEDS TO SUPPORT IMMUNIZATION ACTIVITIES, TO THE EXTENT USES ARE CONSISTENT WITH APPROVED COUNTRY STRATEGIES.

3. REF. B DISCUSSES SPECIFICALLY WAYS THAT PL 480 RESOURCES AND PROGRAMS CAN BE LINKED TO CHILD SURVIVAL ACTIVITIES. GIVEN THE NEW LEGISLATION, WE ENCOURAGE WHENEVER POSSIBLE, THAT HEALTH PROGRAMS SUPPORTED WITH PL 480 RESOURCES INCLUDE IMMUNIZATION ACTIVITIES I.E., DPT, MEASLES, TETANUS TOXOID.

4. FOR BASELINE AND PLANNING PURPOSES, AID/W REQUESTS THAT USAIDS USING PL 480 RESOURCES FOR IMMUNIZATIONS ADVISE NO LATER THAN AUGUST 1 ON (1) FY 86 SELF-HELP

MEASURES UNDER TITLE I AND III SUPPORTING IMMUNIZATIONS, (2) LEVELS OF GENERATED CURRENCIES UNDER TITLES I, II (206) AND III IN FY 86 GOING INTO IMMUNIZATION ACTIVITIES. INFORMATION SHOULD INCLUDE TITLE OF PROJECT, LEVEL OF FUNDING, PROJECT OBJECTIVES INCLUDING TARGET POPULATION TO BE IMMUNIZED; (3) TITLE III ACTIVITIES LINKED TO IMMUNIZATIONS, I.E., LOGISTICS SUPPORT INITIATIVES. INFORMATION SHOULD INCLUDE DESCRIPTION OF PROGRAM AND ROLE OF TITLE I, (4) IN ADDITION TO INFORMATION ON PL 480 IMMUNIZATION SUPPORT, PLEASE ADVISE ON PL 480 SUPPORT TO OTHER CHILD SURVIVAL PROGRAMS, PER REF A, I.E., ORT, FOCUSED NUTRITION PACKAGE INCLUDING GROWTH MONITORING AND EDUCATION ON PROPER MATERNAL AND CHILD FEEDING PRACTICES, AND BIRTH SPACING. INFORMATION SHOULD INCLUDE: TITLE OF PROJECT, PROJECT OBJECTIVE, DESCRIPTION OF PL 480 SUPPORT AND FUNDING CONTRIBUTION. THIS IS A ONE TIME ONLY REPORT FOR PLANNING AND BASELINE PURPOSES.

B. FOR FUTURE YEARS, AID/W PLANS TO INCORPORATE REPORTING INFORMATION REQUIRED BY THE NEW LEGISLATION INTO AID ONGOING REPORTING SYSTEMS. AID IS REQUESTED TO REPORT ANNUALLY TO CONGRESS ON PL 480 TITLES I, II AND III CONTRIBUTIONS SPECIFICALLY TO IMMUNIZATION PROGRAMS AND ESTIMATED NUMBER OF CHILDREN IMMUNIZED UNDER THESE PROGRAMS ON A YEARLY BASIS. AID/W WILL TRY TO INCORPORATE THIS REGULAR REPORTING REQUIREMENT INTO ONGOING AGENCY INFORMATION SYSTEMS, I.E., CHILD SURVIVAL REPORTING SYSTEM, HEALTH PROJECT DATA BASE OR ABS SO AS TO REDUCE DUPLICATION AND EFFORT FOR USAIDS. WILL

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NOTIFY USAIDS ASAP ABOUT SPECIFIC INSTRUCTIONS.

5. TECHNICAL ASSISTANCE MECHANISMS ARE AVAILABLE UNDER
S AND T/H, PRITECH AND REACH PROJECTS TO ASSIST WITH
DEVELOPMENT AND DESIGN OF PL 480 RELATED CHILD SURVIVAL
AND IMMUNIZATION ACTIVITIES. SHULTZ

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INTERNAL TRANSPORT

Intent: To defray the high costs of transport and storage of grant food aid -- both emergency and regular -- in regions where these costs are prohibitively expensive.

Description: Background: During the African Emergency all participants came to realize that the high cost of transporting food overland and food storage were the most important obstacles to distributing food to the needy. No one organization or country can carry these costs alone -- not any one donor, the participating PVO, nor the host governments.

Because of the special budget supplemental during the emergency, the U.S. was able to cover a large share of these costs. Now in the face of budget cuts and higher minimum tonnage requirements for Title II (which creates the need to program more commodities and fewer dollars), we must find other sources of funding.

The problem does not stop with emergency food aid alone. Regular project food aid will be severely handicapped, if not impossible to implement in the least developed areas of the world unless viable ways to cover these costs are found. For example, PVOs have indicated that initiation of selected projects in Africa will be impossible without this funding.

Funding Options: Several possible funding options exist and are listed below. The need for extraordinary coverage of internal transport and storage costs in a specific country should be identified and all funding options explored to determine the best solution for that situation. Preferred sources of funding are host government and PVO contributions. Missions should exhaust these possibilities as well as the use of other local currency generations before submitting requests for either cash grants or monetization.

- o Host government contributions to include proceeds from Title I/III, Title II Section 206 and Commodity Import Programs;
- o PVO Resources - both public and private;
- o AID/OFDA Emergency Cash Grants - these resources will be extremely scarce in the future;
- o Monetization - some portion of grant commodities can be sold and the proceeds used for internal transport and storage.

Procedure: PVOs or A.I.D. Mission requests (for government-to-government programs) for internal transport funds should be submitted to AID/W for review and approval by the DCC. Requests must include detailed justifications. These will be reviewed on the basis of need, resource availability, and viability of the program.

Citations: Congressional Continuing Resolution, 1985

Doc. 2783E

LOCAL CURRENCY LENDING PROGRAM

Section 106/108/Title I; Section 1111 Food Security Act of 1985

INTENT:

Section 106:

To set aside a minimum of 10 percent of the aggregate value of Title I sales contracts for repayment in local currency. These U.S.-owned local currencies are then to be used to capitalize a loan fund. This fund is drawn upon by intermediate financial institutions (IFIs) who, in turn, lend it to the private sector.

Section 108:

To set aside an additional 15 percent of the aggregate value of Title I sales contracts for use in loan funds similar to Section 106 above. Unlike Section 106, Section 108 refers to host-government-owned proceeds generated by Title I sales which are jointly programmed (U.S. and host government) for exactly the same types of activities as described in Section 106 above.

Description: The DCC agreed that this program would be administered in the field by A.I.D. and that ultimate decisions would be made by an In-Country Policy Group (IPG) which would be composed of members of the country team. The law specifically states that the U.S. has to use intermediaries to run this program; the IPG, in short, cannot be the project bankers in this program. Instead, this will be a two step process: the U.S. makes loans to an IFI and the IFI, in turn, takes the credit risk and makes the subloans to private sector organizations according to criteria set by the legislation. Reflows of the loan may be used for further lending. The funds can also be used for agricultural technical assistance, to increase markets for U.S. products, and for Currency Use Payments (CUP) type of activities. If we use the funds this latter way, however, we have to count it as a new appropriation.

In practice, the way the program works is as follows: each year, a Mission, as part of its Title I planning exercise, makes an estimate of how much 106/108 activity it is likely to have. The Mission then asks Washington for authority to negotiate such an agreement. Washington takes into consideration all these requests and allocates the world-wide 108 budget accordingly. In short, the running of the program is given over almost entirely in the field.

A major point of additional interest: PVOs and co-ops 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 the capitalization of a loan fund. Also, PVOs and co-ops must pay market rates for the money they borrow.

The guidelines also point out that preference will be given to IFIs that lend in the agriculture private sector. For Section 108 programs, the IFIs must be privately owned, and have "significant local" ownership.

Citations: State cable 369870; State cable 259310;
State cable 25314; State cable 2531231;
Food Security Act, 1985; Section 1111
Policy Determinations 71 9/13/86
Policy Determination 15 6/12/78

Doc. 2783E



LOCAL CURRENCY LENDING PROGRAMS (SECTION 106/108) ONGOING OR
PLANNED -- FY 1986-87

Fiscal Year 1986 Funding

Country: Tunisia

Amount: \$1 million

Status of funds: Funds reserved in last FY 86 amendment to Title I sales contract. Per Tunis 0448, funds to be deposited in U.S. Embassy interest-bearing account in Societe Tunisienne de Banque (STB). Section 108 amendment must be signed and funds must be deposited no later than January 23 to meet deadline set a September 4 exchange of notes. Specifically, the current agreement calls for development of an amendment to cover Section 108 activities on or before January 23.

IFI's thus far identified: Credit Foncier et Commercial de Tunisie (CFCT) and Banque de Tunisie (BT)--both of which are 100% privately owned. CFCT is wholly Tunisian-owned; BT has 45% non-Tunisian participation. Focus of sublending: small agricultural co-ops and agro-businesses.

Comments: One major issue remains unresolved, i.e., the exclusion of lending under this program for agricultural commodities competitive with U.S. producers. Resolution needed prior to January 23 signing deadline.

Also, given prototypical nature of this agreement and procedures agreed to when funds were reserved in August 1986, full DCC Working Group approval will be required on the specifics of this agreement.

Fiscal Year 1987 Funding

Country: Sri Lanka

Amount: \$1.2 million

Status of Funds: Current plans call for establishment of U.S. Embassy interest-bearing account around March 31, 1987 (but no later than 120 days after lifting of commodities shipped under FY 1987 agreement). IPG indicates that American Express and Citibank have branches in Sri Lanka.

Sri Lanka (continued)

IFI's thus far identified: none

Comments: Funds reserved in FY 1987 basic Title I agreement. Section 108 allocation amounts to 10% of \$12 million FY 87 sales contract for wheat. Uses for local currency under Section 108 to be developed by In-Country-Policy Group. Ideas thus far advanced in cable from IPG (Colombo 7820) include lending for leasing of heavy construction equipment and land development. IPG is currently reviewing program with consultant.

Country: Jamaica

Amount: \$7 million

Status of Funds: Funds reserved in FY 1987 agreement, signed January 15, 1987. Deposit expected to occur around mid-May 1987 at the earliest, but no later than 120 days after lifting of commodities under this agreement. IPG indicated US depository bank is Citibank/Kingston

IFI's thus far identified: IPG has discussed matter informally with Jamaican Agricultural Development Foundation. No formal action has been taken, IPG process still in planning phase.

Comments: Section 108 local currency funds amount to slightly more than 25% of \$27.6 million FY 1987 Title I amendment to sales agreement.

Country: Costa Rica

Amount: \$4.8 million

Status of Funds: Funds reserved in FY 1987 agreement, signed January 14, 1987. Deposit expected to occur around mid May-1987 at the earliest, but no later than 120 days after the lifting of commodities under this agreement.

IFI's thus far identified: None.

Comments: Local currency funds reserved for Section 108 activities amount to 30 percent of total FY 87 Title I program. IPG expects to lend to IFIs that support non-traditional export activities and light industry. NOTE: to the extent that these export activities involve

Costa Rica (continued)

agricultural commodities, DCC decision on commodity prohibition will be critical. For purposes of IPG strategy, traditional Costa Rican exports include the following: bananas, unrefined sugar, raw coffee and beef.

Country: Peru

Amount: Currently being negotiated

Status of Funds: N/A

IFIs Thus Far Identified: None

Comments: At IPG request, DCC currently is considering issuance of FY 87 Title I negotiating instructions which could call for a Section 108 program amounting to up to 25% of the total FY87 agreement.

NOTE: US/Peru have considerable recent experience in working with private sector IFIs. E.G., local currency fund for industrial reactivation has provided over \$7 million in local currency to private firms through IFIs. IPG also looking into possible use of PVOs in lending program.

Country: Dominican Republic

Amount: Undetermined

Status of Funds: N/A

IFIs Thus far Identified: IPG is reviewing preliminary, unsolicited proposal from private banking group in Santo Domingo. No decisions made.

Comments: Section 108 program, if requested by IPG and agreed to by DCC, would be part of an FY 87 program amendment which is still being developed and Santo Domingo and Washington. This amendment, for approximately \$12.9 million, would bring the Dominican Republic allocation to the USDA-announced level of \$30 million. NOTE: the USG/DR have jointly programmed over \$200 million in local currency in the last few years. (CBI authorizing legislation required 80% joint funding of Economic Support Fund generations). Thus concepts of Sections 106/108 are well-understood.

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Country: Philippines

Amount: \$3 million - \$5 million (estimate)

Status of Funds: N/A

IFI's Identified: None

Comments: IPG has indicated a general interest in doing a Section 108 program as part of a thus-far unallocated FY 87 Title I program. The IPG's initial reaction has been somewhat cautious and appears to be based on a judgement that there is substantial excess local currency liquidity in the Philippine commercial banking sector. As a result it is looking into the possibility of setting up new corporation--PAIDCOR--for lending to high risk agro-business. Corporation would seek Section 108 funds and equity participation by US corporations doing business in Philippines. Washington has suggested that interested US banks, PVOs and co-ops with interest in operating a Section 106/108 activity in the Philippines develop proposals and discuss them directly with the IPG in Manila.

Country: Indonesia

Amount: 10% to 25% of final FY 87 Title I allocation. (The USDA-announced FY 87 allocation is \$15 million; additional funding for this year is under consideration).

Status of Funds: N/A

IFIs Thus Far Identified: Formally, none. Discussions to this point, however, have included consideration of Section 106/108 funding for existing co-ops which US has been funding under Title I self-help.

Comments: IPG has expressed serious reservations regarding the attractiveness of the Section 106/108 program to the Indonesians (Jakarta 1084), and has asked Washington for a reading of several technical issues regarding the relationship of 106/108 payments to the down payment and currency use payment.

Country: Guyana

Amount: Undetermined. FY 87 Title I program level currently at \$600,000. DCC is working on amendment which, if agreement is reached, could add significantly to total.

Guyana (continued)

Section 108 may be considered for a portion of supplemental amount.

Status of Funds: N/A

Comments: IPG indicates (Georgetown 4825) that Government of Guyana has expressed interest in participating in this program, particularly on the Section 106 side. IPG has suggested possible role for foreign banks, credit unions and building associations. NOTE: all domestic banks are state-owned, thus limiting their participation to Section 106. IPG also indicated that PVOs have evidenced interest in participating.

Country: Pakistan

Amount: To be determined. NOTE: Current FY 87 Title I allocation is \$50 million, but agreement has not been reached on program. IPG has indicated strong interest in meeting 10% Section 108 target; is less enthusiastic regarding prospects for large 106 effort.

Status of Funds: N/A

Comment: IPG anticipates that four American banks in Pakistan will be participants; IPG also investigating potential PVO involvement, particularly role of building societies.

Country: Kenya

Amount: To Be determined; FY 87 Title I allocation is \$8 million, but agreement has not been worked out.

Status of Funds: N/A

Comment: IPG concerned that Section 108 negotiations may delay signing of regular FY 87 agreement. As a result, US Embassy and Government of Kenya presently discussing options: a) hold off FY 87 regular program until Section 108 language can be developed; b) attempt to fund Section 108 program out of a potential supplemental from FY 87 Title I reserve; c) defer decision of Section 108 until FY 88 program.

Country: Morocco

Amount: To be determined; negotiating instructions have been sent to Rabat for a \$40 million program which does not anticipate--but which does not preclude--a Section 106/108 program. If such a program is undertaken this year, it will be funded from a supplemental.

Status of Funds: N/A

Comments: The IPG in Morocco is extremely interested in undertaking a Section 108 program, as soon as possible. To this end, they have funded a feasibility study to investigate potential uses and operational procedures. This study is still in the drafting stage.

Country:Yeman

Amount: To be determined

Status of Funds: N/A

Comments: Yeman is interested in doing a Section 108 program. There is only one wholly-private bank, the International Bank of Yeman (20% Bank of America). V>P> Bush mentioned this program as part of his official remarks in an April 1986 visit to Yeman. IPG estimates that \$5 million program is a strong possibility.

COMMENTS REGARDING OTHER TITLE I COUNTRIES

Bolivia, Bangladesh and Haiti...the IPG in each country has express a general interest in the Section 106/ 108 concept, but, since their FY 87 programs are entirely grant (Title III), and the local currencies therefore are largely spoken for, this interest is somewhat academic.

Guatemala, Egypt, El Salvador, Honduras, Senegal, Madagascar...IPG or Washington counterparts informally have expressed a general interest in the concept, but this has not yet led to the development of concrete proposals.

Ghana, Zaire...IPGs are in agreement with general aims of Section 106/108 program, but feels that program, as currently constituted, is not workable in either country. IPG representatives expect to discuss this topic in Washington in February.

Guinea...IPG indicates possible interest in FY88; nothing this year.

Sierra Leone...Section 106 program operational; Section 108 not seen as likely this year.

Liberia, Somalia, Sudan, Zambia...have not commented on involvement in Section 106/10. Need to follow-up.

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DRAFTED BY: AID/GC/PRE:MGKITAY:LNG

APPROVED BY: AID/AA/FVA:JCBLOCH

AID/PPC:ABHERRICK

UMB:RBOSTICK (DRAFT)

TREASURY:RZECHTER (DRAFT)

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1. FOOD SECURITY ACT OF 1985 CONTAINS SIGNIFICANT AMENDMENTS TO TITLE I OF P.L. 480. SECTION 1111 OF THE ACT SEEKS TO PROMOTE THE PRIVATE SECTOR AS ECONOMIC DEVELOPMENT VEHICLE BY PERMITTING TITLE I RECIPIENTS TO PURCHASE TITLE I COMMODITIES WITH LOCAL CURRENCY AND BY ALLOWING THESE CURRENCIES TO BE USED FOR PRIVATE ENTERPRISE PROMOTION. THE CONGRESS VIEWS THIS AS AN IMPORTANT PIECE OF LEGISLATION AND SETS IMPLEMENTATION TARGETS WHICH THE ADMINISTRATION IS REQUIRED TO MEET. IN VIEW OF INCREASING SCARCITY OF DEVELOPMENT RESOURCES FOR PRIVATE SECTOR PROGRAMS, SENIOR OFFICIALS OF THE FOOD AID SUBCOMMITTEE ALSO VIEW THIS AS AN IMPORTANT INITIATIVE AND URGE YOUR OVERALL SUPPORT.

2. BELOW ARE DRAFT GUIDELINES DEVELOPED BY RESPONSIBLE INTERAGENCY TASK FORCE FOR THIS NEW INITIATIVE. NOTE

THESE GUIDELINES DECENTRALIZE DECISION-MAKING TO THE FIELD THROUGH AN EXPANDED COUNTRY TEAM, THE IN-COUNTRY POLICY GROUP (IPG) WHICH INCLUDES AID MISSION DIRECTOR, AGRICULTURAL COUNSELOR OR ATTACHE, ECONOMIC COUNSELOR AND OTHER EMBASSY REPRESENTATIVES FROM THE DCC AGENCIES AND DEPARTMENTS.

3. ACTION REQUESTED: WOULD APPRECIATE EXPANDED COUNTRY TEAM REVIEW OF THESE DRAFT GUIDELINES. ANY QUESTIONS AND/OR COMMENTS WOULD BE APPRECIATED BY END JUNE.

4. INTERAGENCY TASK FORCE WILL PROVIDE FINAL GUIDELINES TO FIELD BY MID JULY.

5. THE GUIDELINES ARE AS FOLLOWS:

- DRAFT (6/10/86)
- GUIDELINES
- FOR
- SALES FOR LOCAL CURRENCIES
- PRIVATE ENTERPRISE PROMOTION
- UNDER PL 480 TITLE I

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I. INTRODUCTION AND SUMMARY

ON DECEMBER 23, 1985, THE PRESIDENT SIGNED INTO LAW H.R. 2100, THE FOOD SECURITY ACT OF 1985 (THE QUOTE ACT UNQUOTE) (PL 99-198). SECTION 1111 OF THE ACT, TITLED QUOTE SALES FOR LOCAL CURRENCY; PRIVATE ENTERPRISE PROMOTION UNQUOTE, CONTAINS A NUMBER OF AMENDMENTS TO TITLE I, PL 480. THESE AMENDMENTS ARE VIEWED BY THE EXECUTIVE BRANCH AS A MAJOR INITIATIVE TO STIMULATE PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES TO PROMOTE

ECONOMIC GROWTH AND DEVELOPMENT. SECTION 1111 CREATES AN INNOVATIVE PROGRAM THAT GOES BEYOND NORMAL PL 480 OPERATIONS AND PROVIDES NEW RESOURCES FOR SUPPORT OF PRIVATE SECTOR ACTIVITIES NOT CURRENTLY BENEFITTING FROM USG RESOURCES.

- THE AMENDMENTS TO TITLE I OF PL 480, ARE DESCRIBED IN DETAIL BELOW. THE PURPOSE OF THESE GUIDELINES IS TO DESCRIBE THE POLICIES AND PROCEDURES WHICH WILL BE USED BY THE EXECUTIVE BRANCH TO IMPLEMENT THESE AMENDMENTS.

II. THE AMENDMENTS

A. GENERAL DESCRIPTION. SECTION 1111 OF THE ACT AMENDS PL 480 TITLE I BY (A) DIRECTING THAT CERTAIN AMOUNTS OF TITLE I COMMODITIES EACH YEAR SHALL BE SOLD FOR LOCAL CURRENCY, AND (B) REQUIRING THAT SUCH LOCAL CURRENCY BE USED, WITHOUT FURTHER APPROPRIATIONS, FOR PRIVATE ENTERPRISE LENDING IN DEVELOPING COUNTRIES. ALSO, SECTION 106 IS AMENDED TO PROVIDE THAT HOST

COUNTRY-OWNED LOCAL CURRENCY GENERATED IN CUSTOMARY TITLE I SALES ON DOLLAR CREDIT TERMS BE JOINTLY PROGRAMMED FOR THE SAME PURPOSES.

ALL SUCH LOANS ARE TO BE MADE AND REPAYED IN LOCAL CURRENCY AND SHALL BE MADE TO INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) IN THE DEVELOPING COUNTRIES. THE IFIS, IN TURN, WILL RELEND THE LOCAL CURRENCY TO ELIGIBLE PRIVATELY-OWNED ENTERPRISES OR PRIVATE CITIZENS FOR CERTAIN PRIVATE ENTERPRISE PROJECTS OR ACTIVITIES. FUNDS LOANED BY IFIS ARE NOT TO BE USED TO FINANCE STATE-OWNED OR PUBLIC SECTOR ENTERPRISES. NOR ARE THE RESOURCES TO BE DIRECTED TO ENTERPRISES THAT PRODUCE AGRICULTURE PRODUCTS IN COMPETITION WITH U.S. PRODUCTS.

- THE STATUTE SEPARATES THE LOCAL CURRENCY LENDING AUTHORITIES INTO TWO CATEGORIES: (A) PL 480, SECTION 106, WHICH DEALS WITH HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED FROM THE COUNTRY'S RESALE OF TITLE I COMMODITIES, AND (B) PL 480, SECTION 108, APPLYING TO LOCAL CURRENCY RECEIVED BY THE U.S. IN FULL OR PART PAYMENT FOR THE TITLE I SALE AND DEPOSITED TO AN INTEREST EARNING U.S.-OWNED ACCOUNT, IN CASH, WHEN OR SHORTLY AFTER THE TITLE I COMMODITIES ARE DELIVERED.

- FOR EACH OF THE FISCAL YEARS 1986 THROUGH 1990, THE PRESIDENT IS ENCOURAGED TO CHANNEL LOCAL CURRENCIES, IN AN AMOUNT EQUIVALENT TO A TOTAL OF 25 PERCENT OF THE VALUE OF TITLE I COMMODITIES, FOR PRIVATE SECTOR LENDING

UNDER SECTIONS 106 AND 108, TO THE EXTENT THAT THERE ARE APPROPRIATE PROPOSALS FOR SUCH USE. SECTION 101, AS AMENDED, MANDATES THAT AT LEAST 10 PERCENT OF THE ANNUAL VALUE OF TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR PRIVATE SECTOR LENDING UNDER SECTION 103.

- IN PROVIDING FOR THESE NEW AUTHORITIES, THE CONFERENCE REPORT RECOGNIZED THE WILL OF CONGRESS TO DIRECT FOREIGN ASSISTANCE MORE TOWARD THE PRIVATE SECTOR. FURTHERMORE, THE CONFEREES STATE THAT THEY INTEND TO JUDGE THE PERFORMANCE OF THE ADMINISTRATION OF THESE AUTHORITIES ON THE QUALITY OF INVESTMENTS MADE UNDER THE PROGRAM, AND NOT UPON THE VOLUME OF FUNDS DIRECTED TO IFIS. THE CONFEREES STATE THAT THEY INTEND THAT THE PERFORMANCE OF THESE AND OTHER PROGRAMS WITH MANDATORY MINIMUMS OR TARGETS BE EXAMINED THOROUGHLY DURING THE NEXT REAUTHORIZATION OF PL 480 IN 1990.

B. HOST COUNTRY-OWNED LOCAL CURRENCIES (SECTION 106)

SECTION 106 OF PL 480 PROVIDES FOR PRIVATE ENTERPRISE PROMOTION ACTIVITIES UNDER SALES OF AGRICULTURAL COMMODITIES FOR DOLLARS ON CREDIT TERMS. LOCAL CURRENCY PROCEEDS FROM THE SALES OF THESE COMMODITIES ARE PLACED IN QUOTE JOINTLY PROGRAMMED ACCOUNTS UNQUOTE AND THEREAFTER LOANED TO IFIS FOR RELENDING TO ELIGIBLE PRIVATE ENTERPRISES. IN THE CASE OF A COOPERATIVE OR PRIVATE AND VOLUNTARY ORGANIZATION LOCAL CURRENCY PROCEEDS MAY BE GRANTED TO DEFRAY THE STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

C. U.S.-OWNED LOCAL CURRENCIES (SECTION 108)

- UNDER SECTION 108, THE MAJOR PORTION OF THIS NEW INITIATIVE, THE PRESIDENT IS AUTHORIZED TO ENTER INTO AGREEMENTS FOR THE SALE OF TITLE I COMMODITIES FOR LOCAL CURRENCIES. THE LOCAL CURRENCIES SHALL BE PAID INTO A U.S.-OWNED DEPOSITORY ACCOUNT. THEREAFTER, DISBURSEMENTS FROM THIS ACCOUNT SHALL BE MADE TO IFIS PURSUANT TO THE TERMS OF LOAN AGREEMENTS BETWEEN THE U.S. AND IFIS.

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- FOR EACH OF FISCAL YEARS 1986 THROUGH 1990, THE ACT PROVIDES THAT NO LESS THAN 10 PERCENT OF THE AGGREGATE VALUE OF PL 480 TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR SECTION 108 PURPOSES, PROVIDED THAT THIS REQUIREMENT MAY BE WAIVED IN ANY YEAR IN WHICH MEETING THE MINIMUM WOULD RESULT IN A SIGNIFICANT REDUCTION IN THE VOLUME OF COMMODITIES FURNISHED UNDER TITLE I.

- INCLUDED IN THE TITLE I SALES AGREEMENTS SHALL BE A SCHEDULE PERMITTING THE EVENTUAL CONVERSION OF THESE SECTION 108 CURRENCIES TO DOLLARS OVER AN INTENDED 10 TO 30 YEAR PERIOD FOLLOWING DELIVERY OF THE COMMODITIES. THE RATES OF EXCHANGE FOR THE CONVERSIONS WILL BE THOSE IN EFFECT AT THE TIME EACH CONVERSION TAKES PLACE. THE CONFERENCE REPORT EXPRESSLY RECOGNIZES THAT THE U.S. GOVERNMENT MAY BEAR SOME OF THE FOREIGN EXCHANGE RISK.

- LOANS TO IFIS ARE TO BE MADE AT REASONABLE INTEREST RATES AS DETERMINED BY THE PRESIDENT. GENERALLY, THESE WILL BE CONSISTENT WITH BUSINESS PRACTICES. HOWEVER, PREFERENTIAL RATES OF INTEREST MAY BE PROVIDED TO COOPERATIVES AND PRIVATE VOLUNTARY ORGANIZATIONS FOR STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY. LOCAL CURRENCY GRANTS ARE ALSO AUTHORIZED TO THE FOREGOING TO HELP DEFRAY STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

- ONCE THE FINANCIAL INTERMEDIARIES BEGIN TO MAKE REPAYMENTS OF THEIR LOANS TO THE UNITED STATES-OWNED DEPOSITORY ACCOUNT, THESE REFLWS MAY BE: (A) RELOANED TO IFIS TO FINANCE ADDITIONAL PRIVATE INVESTMENT, (B) USED FOR AGRICULTURAL MARKET DEVELOPMENT, (C) USED, SUBJECT TO APPROPRIATIONS, TO PAY ANY U.S. OBLIGATIONS WITHIN THE RECIPIENT COUNTRY, OR (D) CONVERTED TO DOLLARS.

- TO THE MAXIMUM EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE LOCAL CURRENCIES DEPOSITED IN THE UNITED STATES-OWNED DEPOSITORY ACCOUNTS SHALL BE USED TO PROVIDE AGRICULTURAL TECHNICAL ASSISTANCE, INCLUDING THE FUNDING OF MARKET DEVELOPMENT ACTIVITIES. (ADDITIONAL GUIDANCE FORTHCOMING.)

- PROCUREMENT AND OTHER CONTRACTING REQUIREMENTS NORMALLY APPLICABLE TO APPROPRIATED FUNDS SHALL NOT APPLY TO SECTION 108 LOCAL CURRENCY USED FOR PRIVATE ENTERPRISE LENDING.

- STATUTORY HISTORY STATES THAT THE PROGRAM IS NOT INTENDED TO AFFECT EXISTING CURRENCY USE PAYMENTS.

III. HOST COUNTRY SELECTION AND SUITABILITY

- A. GENERAL POLICY. TO MEET THE DEVELOPMENT PURPOSES OF THE STATUTE, IT IS EXECUTIVE BRANCH POLICY TO ACTIVELY PROMOTE SECTION 106 AND SECTION 108 LENDING PROGRAMS IN AS MANY TITLE I COUNTRIES AS MAY BE

PRACTICABLE.

- B. COUNTRY ALLOCATIONS. TO FACILITATE EXECUTIVE BRANCH COMPLIANCE WITH ANNUAL STATUTORY LENDING TARGETS AND (IF NECESSARY) FIRM UP A MORE RATIONAL ALLOCATION OF SECTION 108 SALES-FOR-LOCAL-CURRENCY AUTHORITY, EACH COUNTRY TEAM WILL BE REQUESTED, ANNUALLY, TO ESTIMATE THE ABILITY AND WILLINGNESS OF THE COOPERATING COUNTRY TO NEGOTIATE SECTIONS 106 AND 108 PRIVATE SECTOR LENDING PROVISIONS IN THE FOLLOWING YEAR'S TITLE I SALES AGREEMENTS. REQUESTS FOR SUCH ESTIMATES WILL HELP

DETERMINE WHETHER A COUNTRY CAN BE EXPECTED TO MEET OR EXCEED THE 25 PERCENT COMBINED SECTIONS 106 AND 108 STATUTORY LENDING TARGET, BASED ON THE MOST CURRENT TITLE I COUNTRY BUDGET LEVELS, AND WHETHER A COUNTRY CAN MEET OR EXCEED THE 10 PERCENT SECTION 108 LENDING TARGET.

- COUNTRY TEAM KNOWLEDGE OF LOCAL IFI ABSORPTIVE CAPACITY FOR LOCAL CURRENCY AS WELL AS COOPERATING COUNTRY ATTITUDES TOWARD THIS PRIVATE SECTOR LENDING PROGRAM WILL BE IMPORTANT IN RESPONDING TO SUCH ANNUAL REQUESTS. HOWEVER, EVERY EFFORT SHOULD BE MADE TO AVOID UNWISLY RAISING PRIVATE SECTOR OR COUNTRY EXPECTATIONS FOR SECTION 108 PROGRAMS, DUE TO THE UNCERTAINTY OF THE OVERALL LEVEL OF SECTION 106 PROGRAMMING.

- IT SHOULD BE NOTED THAT THE 25 PERCENT AND 10 PERCENT STATUTORY TARGETS ARE AGGREGATE TARGET LEVELS; INDIVIDUAL COUNTRY LEVELS MAY BE HIGHER OR LOWER. HOWEVER, COUNTRY TEAMS ARE ENCOURAGED TO SEEK WAYS TO USE THIS PRIVATE SECTOR APPROACH TO DEVELOPMENT.

- C. ELIGIBLE COUNTRIES. ALL COUNTRIES PARTICIPATING IN TITLE I SALES PROGRAMS ARE ELIGIBLE FOR THIS PROGRAM. PROGRAMS SHOULD BE DESIGNED IN A MANNER WHICH ENSURES CONSISTENCY WITH OR DOES NOT UNDERCUT EFFORTS OF THE U.S. GOVERNMENT OR INTERNATIONAL FINANCIAL INSTITUTIONS TO PROMOTE FINANCIAL SECTOR POLICY REFORM.

IV. PROGRAM DEVELOPMENT, REVIEW, AND APPROVAL PROCEDURES.

- A. USES OF SECTION 106 AND 108 RESOURCES. SECTION 106 OR 108 PRIVATE ENTERPRISE PROMOTION PROGRAMS SHALL BE DEVELOPED AND IMPLEMENTED BY RESIDENT AID MISSIONS. THIS WILL BE IN THE CONTEXT OF THESE GUIDELINES AND GUIDELINES FOR THE TERMS OF THE LOANS TO IFIS ESTABLISHED BY THE IN COUNTRY POLICY GROUP (IPG), CONSISTING OF THE AID MISSION DIRECTOR, AGRICULTURE ATTACHE, ECONOMIC COUNSELOR, AND OTHER EMBASSY REPRESENTATIVES FROM THE OTHER JOCC AGENCIES

AND DEPARTMENTS. THE IPG ALSO HAS THE AUTHORITY FOR THE FINAL SELECTION OF THE IFI OR IFI'S. AID IS RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFIS. ON OPIC-RELATED PROJECTS, OPIC WILL BE RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFIS.

- IN THOSE COUNTRIES WHERE OPIC HAS RELEVANT EXPERIENCE AND COMPETENCE, THE IPGS ARE INSTRUCTED TO TAKE THIS EXPERIENCE AND COMPETENCE INTO ACCOUNT FULLY. OPIC SHALL BE ADVISED IN A TIMELY MANNER OF TITLE I NEGOTIATIONS SO IT CAN MAKE PROPOSALS FOR IPG APPROVAL.

- PRIOR TO THE COMMENCEMENT OF THE TITLE I NEGOTIATIONS, THE INTERAGENCY GROUP IN WASHINGTON SHALL APPROVE THE LOCAL CURRENCY RESOURCES REQUESTED FOR SECTION 106 AND 108 USES, INCLUDING AMOUNTS TO BE ALLOCATED ON A GRANT BASIS.

- B. USES OF REFLWS UNDER SECTION 108. LOCAL CURRENCY REPAYED BY IFIS TO THE U.S. MAY BE REUSED FOR ADDITIONAL PRIVATE ENTERPRISE LENDING TO IFIS, THE DEVELOPMENT OF NEW MARKETS FOR US AGRICULTURAL COMMODITIES, THE REPAYMENT OF U.S. OBLIGATIONS (SUBJECT TO APPROPRIATIONS), OR CONVERSION TO DOLLARS. THE INTERAGENCY GROUP SHALL CONSIDER, AND APPROVE AS MAY BE NECESSARY, PROPOSALS FOR THE USE OF REFLWS ON THE RECOMMENDATIONS OF THE IPGS.

V. PROGRAM IMPLEMENTATION PROCEDURES

A. AGREEMENTS. AS PROVIDED FOR IN NEGOTIATING

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INSTRUCTIONS, TITLE I SALES AGREEMENTS WILL SECURE COOPERATING COUNTRY SUPPORT IN GENERAL FOR PLANNED OR ANTICIPATED SECTION 106 AND 108 ACTIVITIES.

THROUGH PRIVATE SECTOR IFIS, THE COUNTRY TEAM PROPOSING THIS SHALL ASSURE THAT NOTWITHSTANDING THE PUBLIC SECTOR OWNERSHIP OF THE IFI, ITS LENDING ACTIVITIES ARE CONDUCTED ON PRIVATE MARKET BASED PRINCIPLES.

ONCE A SECTION 108 DESIGNATED DEPOSITORY ACCOUNT IS ESTABLISHED IN A COUNTRY, SEPARATE LOAN AGREEMENTS, CONTRACTS, AND GRANT AGREEMENTS ARE REQUIRED BY LAW TO OBLIGATE THE U.S.-OWNED CURRENCIES FOR SECTION 108 PURPOSES. AID (AND, AS APPROPRIATE, OPIC) SHALL BE THE IMPLEMENTING AGENCIES FOR LOANS AND GRANTS TO IFIS. USDA SHALL BE THE IMPLEMENTING AGENCY FOR TECHNICAL ASSISTANCE ACTIVITIES TO INCREASE MARKETS FOR U.S. AGRICULTURAL COMMODITIES.

HOWEVER FOR SECTION 108 LENDING PURPOSES, IT IS EXECUTIVE BRANCH POLICY THAT ONLY PRIVATELY OWNED IFIS, WITH NO PUBLIC SECTOR OWNERSHIP, SHALL BE ELIGIBLE TO RECEIVE LOANS.

- B. METHOD FOR HOST COUNTRY DEPOSITS OF LOCAL CURRENCY INTO THE SECTION 108 USG-OWNED ACCOUNT. THE TITLE I AGREEMENT PAYMENT TERMS MAY BE EXPRESSED IN LOCAL CURRENCY TERMS, OR IN A COMBINATION OF DOLLAR CREDIT AND

- B. LOAN TERMS TO IFIS. THE INTEREST RATE CHARGED IFIS FOR BOTH SECTION 106 AND SECTION 108 SHOULD NORMALLY APPROXIMATE THE COST OF OBTAINING LENDABLE RESOURCES OF COMPARABLE MATURITIES FROM THE FREE PRIVATE CAPITAL MARKET IN THE INDIVIDUAL COOPERATING COUNTRY. IF INTEREST RATES WITHIN THAT COUNTRY ARE HELD DOWN ARTIFICIALLY BY GOVERNMENT POLICIES, THE RATE CHARGED THE IFIS SHOULD BE SET WITHIN THE CONTEXT OF US EFFORTS TO ENCOURAGE OVERALL POLICY REFORMS.

LOCAL CURRENCY TERMS. IN THE LATTER CASE, A SPECIFIED PORTION OF THE COMMODITIES SHALL BE PURCHASED FOR DOLLARS ON CREDIT TERMS AND A PORTION SHALL BE PURCHASED FOR LOCAL CURRENCY ON CASH TERMS. THE LOCAL CURRENCY SHALL BE PAYABLE WITHIN SIXTY (60) DAYS AFTER THE DATE OF DISBURSEMENT BY THE U.S. BANK TO THE US EXPORTER (I.E. APPROXIMATELY 60 DAYS AFTER DELIVERY OF THE COMMODITIES TO VESSELS AT US PORTS WHEN TITLE SHIFTS TO THE IMPORTING COUNTRY.) THE LOCAL CURRENCIES SHALL BE DEPOSITED IN INTEREST EARNING BANK ACCOUNTS.

- WHILE THE STATUTE PERMITS LOWER INTEREST RATES TO BE CHARGED PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVES FOR STARTUP COSTS OF BECOMING IFIS, IT IS EXECUTIVE BRANCH POLICY TO PROVIDE LOCAL CURRENCY FOR THESE PURPOSES ON A GRANT BASIS.

VI. ELIGIBLE INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) AND LOAN TERMS

- ALL USG LOANS TO IFIS SHALL TRANSFER THE FULL CREDIT RISK TO THE IFI. THE USG SHALL NOT SHARE THE CREDIT RISK OF IFI SUBLOANS.

- THESE GUIDELINES ARE APPLICABLE EQUALLY TO SECTION 106 AND SECTION 108 LENDING PROGRAMS UNLESS OTHERWISE INDICATED.

- THE MAXIMUM LOAN MATURITY TO AN IFI SHALL BE 10 YEARS. EFFORTS SHALL BE MADE HOWEVER TO MAKE LOAN MATURITIES CONFORM TO LOCAL CREDIT MARKET CONDITIONS.

- A. ELIGIBLE IFIS. AN ELIGIBLE IFI IS A BANK, FINANCIAL INSTITUTION, COOPERATIVE, NONPROFIT VOLUNTARY AGENCY, OR OTHER ORGANIZATION DETERMINED BY THE PRESIDENT TO HAVE THE CAPABILITY TO MAKE AND SERVICE A LOAN IN ACCORDANCE WITH THIS STATUTE.

- FIXED OR FLOATING RATE TERMS ARE ACCEPTABLE, SUBJECT TO LOCAL MARKET CONDITIONS.

- AN IFI SHALL BE LOCATED IN OR OPERATE IN THE HOST COUNTRY. IT SHALL BE ORGANIZED UNDER THE LAWS OF THE HOST COUNTRY, OR IF ORGANIZED ELSEWHERE, BE DULY LICENSED TO OPERATE WITHIN THE HOST COUNTRY. THE IFI SHALL HAVE FULL LEGAL AUTHORITY TO BORROW FROM THE USG (AS WELL AS FROM THE HOST GOVERNMENT UNDER SECTION 106) AND ENGAGE IN RELENDING AS CONTEMPLATED.

VII. ELIGIBLE PRIVATE ENTERPRISES AND LOAN TERMS

- GENERALLY, (EXCEPT FOR CERTAIN PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVE PROPOSALS ENCOURAGED UNDER THE STATUTE) IFIS SHALL BE SOUND, GOING, FINANCIAL CONCERNS, WITH A HISTORY OF STABILITY, FINANCIAL STRENGTH, AND EXPERIENCE. THE SELECTION OF A SPECIFIC IFI SHALL BE BASED UPON A CONCLUSION THAT IN THE EVENT OF A DEFAULT, THE USG WOULD BE ABLE TO COMMENCE LEGAL ACTION FOR DAMAGES AND COLLECT UPON ANY JUDGEMENT RENDERED IN FAVOR OF THE U.S.

- A. ELIGIBLE SUBBORROWERS. SUBBORROWERS MAY BE INDIVIDUALS, PRIVATE AND VOLUNTARY ORGANIZATIONS, COOPERATIVES, CORPORATIONS, OR OTHER ENTITIES FORMED OR OPERATING SUBSTANTIALLY WITHIN THE COOPERATING COUNTRY

- (A) NATIONALITY. TO BE ELIGIBLE TO RECEIVE A SUBLOAN FROM AN IFI, AN INDIVIDUAL SHALL BE A NATIONAL OF THE COOPERATING COUNTRY OR OF ANY OTHER FRIENDLY LESS DEVELOPED COUNTRY. FIRMS OR OTHER ENTITIES AS

FOR SECTION 106 LENDING PURPOSES ONLY, STRONG PREFERENCE SHALL BE GIVEN TO WHOLLY PRIVATELY-OWNED AND CONTROLLED IFIS WHOSE OWNERSHIP IS SUBSTANTIALLY IN THE CONTROL OF NATIONALS OR FIRMS OF THE COOPERATING COUNTRY, THE U.S., OR OTHER FRIENDLY LESS-DEVELOPED COUNTRIES. WHERE THERE IS A CHOICE, THE USG AND THE COOPERATING COUNTRY SHOULD SELECT PRIVATE SECTOR IFIS. WHERE

SUBBORROWERS MUST BE OWNED DIRECTLY OR INDIRECTLY BY FIRMS OR NATIONALS OF THE COOPERATING COUNTRY OR THOSE OF ANY OTHER COUNTRY ELIGIBLE FOR TITLE I SALES; PROVIDED THAT UP TO 49 PERCENT OF SUCH OWNERSHIP MAY BE HELD BY CITIZENS OF THE U.S.; AND PROVIDED FURTHER THAT IF OWNERSHIP IS HELD BY NATIONALS OF THIRD COUNTRIES, SUBSTANTIAL OWNERSHIP AND CONTROL SHALL BE VESTED IN NATIONALS OF FRIENDLY LESS DEVELOPED COUNTRIES. THE LOAN AGREEMENT WITH IFIS SHALL REQUIRE THE IFI TO ASSURE THE ELIGIBILITY OF SUBBORROWERS.

CONDITIONS MAKE IT NOT POSSIBLE TO CHANNEL THE RESOURCES

(B) PRIVATE SECTOR. SUBBORROWERS SHALL NOT BE OWNED OR CONTROLLED, IN WHOLE OR IN PART, BY THE PUBLIC SECTOR OR BY ANY GOVERNMENTAL DIVISION, AUTHORITY, OR SUBDIVISION OF THE COOPERATING COUNTRY. INTERNATIONAL ORGANIZATIONS, MUNICIPAL AUTHORITIES, PARASTATALS OR OTHER ENTITIES NOT WHOLLY OWNED AND CONTROLLED BY PRIVATE FIRMS OR INDIVIDUALS ARE NOT ELIGIBLE SUBBORROWERS. THE STATUTE IS CLEAR IN ITS INTENTION THAT THE SUBLOANS BE MADE TO WHOLLY PRIVATE FIRMS AND INDIVIDUALS, NOT SUBJECT TO GOVERNMENT CONTROL.

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- B. ELIGIBLE SUBLOAN PURPOSES. THE STATUTE (SECTION 108) PROVIDES THAT IFI SUBLOANS SHALL BE MADE FOR THE PURPOSE OF FINANCING:
 - QUOTE (A) PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT WITHIN SUCH COUNTRY, INCLUDING SUCH INVESTMENT IN PROJECTS CARRIED OUT BY COOPERATIVES, NONPROFIT VOLUNTARY ORGANIZATIONS, AND OTHER ENTITIES FOUND TO BE QUALIFIED BY THE PRESIDENT;
 - (B) PRIVATE ENTERPRISE FACILITIES FOR AIDING THE UTILIZATION AND DISTRIBUTION, AND INCREASING THE CONSUMPTION OF AND MARKETS FOR, UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF; OR
 - (C) PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS. UNQUOTE
- THE IFI LOAN AGREEMENT SHALL REQUIRE AN IFI, TO THE MAXIMUM EXTENT FEASIBLE, TO GIVE PREFERENCE TO THE FINANCING OF AGRICULTURAL RELATED PRIVATE ENTERPRISE WITH THE FUNDS PROVIDED UNDER THIS SECTION.
- SECTION 106 REFERS MORE GENERALLY TO QUOTE PRIVATE SECTOR DEVELOPMENT ACTIVITIES UNQUOTE WITHOUT REFERENCE TO A PREFERENCE FOR AGRICULTURAL PURPOSES. NEVERTHELESS, THE PERMISSIBLE PURPOSES OF SECTION 106 AND 108 SHALL BE READ TOGETHER AND READ BROADLY TO INCLUDE A WIDE VARIETY OF LOAN PURPOSES AND A PREFERENCE FOR AGRICULTURAL-RELATED ACTIVITIES. TO THE EXTENT PRACTICABLE, SECTION 106 AND 108 FUNDED IFI LOAN AGREEMENTS SHALL BE SIMILAR IN THEIR TERMS AND PURPOSES.
- PROGRAMS OF IFI LENDING PROPOSED FOR SECTION 106 AND 108 MAY PERMIT LENDING FOR A BROAD, UNDIFFERENTIATED, RANGE OF ELIGIBLE SUBLOAN PURPOSES OR MAY PROPOSE ONLY SPECIFIC LENDING PURPOSES, E.G., FOR SMALL SCALE FARM ENTERPRISES OR SELF-HELP HOME IMPROVEMENT LOANS. THE PURPOSES OF THE LENDING PROGRAM SHALL BE CONSISTENT WITH THE US DEVELOPMENT POLICY IN THE RECIPIENT COUNTRY.
- C. SUBLOAN TERMS. USG POLICY IS THAT INTEREST RATES FOR PRIVATE BORROWERS SHOULD NOT BE LESS THAN PREVAILING FREE MARKET INTEREST RATES OR A RATE WHICH APPROXIMATES THE OPPORTUNITY COST OF CAPITAL IN THE INDIVIDUAL DEVELOPING COUNTRY. THE INTEREST RATE CHARGED TO THE SUBBORROWERS BY THE IFI SHOULD COVER COSTS OF LENDING IN A MANNER CONSISTENT WITH COMMERCIAL PRACTICE.
- IN MANY OF THE DEVELOPING COUNTRIES PREVAILING RATES ARE DISTORTED BY LOW LEGAL CEILINGS ON INTEREST RATES, OTHER DIRECT INTERVENTIONS IN THE LOCAL CAPITAL MARKET BY THE GOVERNMENT, OR INAPPROPRIATE FISCAL AND CREDIT POLICIES. IN SUCH COUNTRIES, INTEREST RATES TO BE CHARGED TO PRIVATE ENTERPRISES SHOULD BE SET WITHIN THE CONTEXT OF EFFORTS TO ENCOURAGE THE GOVERNMENT TO PROGRESSIVELY REMOVE THE IMPEDIMENTS TO A FREE CAPITAL MARKET.
- D. OTHER TERMS. PROCUREMENT REGULATIONS APPLICABLE UNDER THE FOREIGN ASSISTANCE ACT AND OTHER USG STATUTES INCLUDING, BUT NOT LIMITED TO, RULES FOR COMPETITIVE PROCUREMENT AND THE QUOTE BUY AMERICA UNQUOTE PROVISIONS ARE NOT APPLICABLE TO PRIVATE ENTERPRISE PROCUREMENT WITH US-OWNED CURRENCIES LOANED BY IFIS.

VIII. USE AND DISPOSITION OF IFI LOAN REPAYMENTS

- A. SECTION 106. THE TITLE I SALES AGREEMENT WILL PROVIDE FOR A JOINTLY PROGRAMMED ACCOUNT FOR SECTION 106 LOCAL CURRENCY LOAN USES. CONSIDERATION SHOULD BE MADE TO NEGOTIATE A FIXED LIFE OF THIS ACCOUNT, DURING WHICH DEBT SERVICE REPAYMENTS BY IFIS WILL BE MADE TO THE ACCOUNT RATHER THAN TO OTHER HOST COUNTRY ACCOUNTS. AFTER THE ACCOUNT IS TERMINATED, DEBT SERVICE PAYMENTS WILL BE MADE DIRECTLY TO THE COOPERATING COUNTRY.
- B. SECTION 108. ALL THE SECTION 108 USES OF REFLows ARE AVAILABLE WITHOUT CHARGING AN APPROPRIATE EXCEPT USE FOR PAYMENT OF U.S. OBLIGATIONS. SEE SECTION 108 (D) (2) AND (3). THE TITLE I SALES AGREEMENTS CONTAINING PROVISIONS WHICH PROVIDE FOR SECTION 108-RELATED ACCOUNTS SHALL PROVIDE, TO THE EXTENT PRACTICABLE, THAT THE U.S. SHALL BE ENTITLED, AT ITS OWN OPTION, TO USE REFLows FOR ALL OF THE FOUR PURPOSES AUTHORIZED BY THE STATUTE.

IX. SPECIAL STATUTORY PROVISIONS

A. PUBLICITY REQUIREMENTS. THE STATUTE CONTAINS TWO REFERENCES TO PUBLICITY: SECTION 108 (A) (2) AND 108 (C) (7). THE FORMER PROVIDES THAT PRIOR TO LENDING THE LOCAL CURRENCY, THE PRESIDENT SHALL TAKE SUCH STEPS AS ARE NECESSARY TO ASSURE THAT THE AVAILABILITY OF LOCAL CURRENCIES TO FINANCIAL INTERMEDIARIES IS ADEQUATE / PUBLICIZED WITHIN THE PURCHASING COUNTRY. GENERAL PRESS GUIDANCE ON THE FOOD SECURITY ACT OF 1985 RELEASED IN THE USG IN 1986 AND PUBLISHED BY THE FOREIGN PRESS WILL MEET SOME OF THE REQUIREMENTS OF THIS SECTION. THE PREFERRED METHOD FOR FURTHER COMPLIANCE IS TO MAKE THIS INFORMATION KNOWN IN PRESS RELEASES WHICH ANNOUNCE THE EXECUTION OF THE TITLE I AGREEMENT CONTAINING PRIVATE ENTERPRISE LENDING PROVISIONS.

- THE SECOND PUBLICITY PROVISION RELATES TO II BORROWERS PUBLICIZING THE AVAILABILITY OF LOCAL CURRENCY RESOURCES FOR THE PRIVATE SECTOR. STANDARD LANGUAGE IN THE FORM OF LOAN AGREEMENT BETWEEN THE USG AND AN IFI CALLING FOR IFIS TO PUBLISH FACTS ABOUT THE PROGRAM II LOCAL NEWSPAPERS WILL ALLOW THIS REQUIREMENT TO BE MET.

- EFFORTS SHALL BE MADE TO INCLUDE SIMILAR PUBLICITY REQUIREMENTS IN SECTION 106 PROGRAMS.

B. MANDATORY CONVERSIONS OF LOCAL CURRENCY TO DOLLARS. SECTION 103 (M), AS AMENDED, PROVIDES THAT FOREIGN CURRENCIES TO BE USED UNDER SECTION 108 QUOTE ACQUIRED UNDER AN AGREEMENT FOR THE SALE OF COMMODITIES UNQUOTE BE CONVERTIBLE TO DOLLARS DURING THE PERIOD BEGINNING NOT LATER THAN 10 YEARS AFTER THE DATE OF THE LAST DELIVERY OF COMMODITIES AND ENDING 30 YEARS THEREAFTER. THE SALES AGREEMENT SHALL ESTABLISH A SCHEDULE FOR THE CONVERSION. THE EXCHANGE RATE FOR EACH CONVERSION SHALL BE THE HIGHEST RATE, YIELDING THE MOST DOLLARS, APPLICABLE IN THE COOPERATING COUNTRY ON THE

DATE OF EACH CONVERSION.

- STANDARD NEGOTIATING INSTRUCTIONS FOR TITLE I AGREEMENTS WILL PROVIDE THAT AN AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF LOCAL CURRENCY INITIALLY DEPOSITED IN THE SECTION 108 ACCOUNT SHALL BE SUBJECT TO THIS HOST COUNTRY PROMISE OF CONVERTIBILITY. THIS SUM SHALL BE FIXED WHEN FULL INITIAL DEPOSIT INTO THE SECTION 108 ACCOUNT HAS OCCURRED. IT IS INTENDED THAT THIS SUM WILL BE GRADUALLY CONVERTED TO DOLLARS OVER A TIME PERIOD NEGOTIATED IN THE TITLE I SALES AGREEMENT AND REPAYMENTED TO THE C.C.C. IN ITS REQUEST FOR A SECTION 108 PROGRAM,

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THE COUNTRY TEAM SHALL PROPOSE TERMS FOR THIS CONVERSION
AND RECEIVE INSTRUCTIONS FROM THE INTERAGENCY GROUP.

- THIS SECTION 108 CONVERSION RIGHT SHALL BE IN
ADDITION TO ALL OTHER CONVERSION RIGHTS OTHERWISE
AVAILABLE TO THE USG IN THE RESPECTIVE COOPERATING
COUNTRIES.

- C. COMPETITION WITH U.S. AGRICULTURAL COMMODITIES
IN WORLD MARKETS. SECTION 106 (B) (4) (B) AND SECTION
108 (C) (5) OPERATE TO PROHIBIT SUBLOANS WHICH WOULD
PROMOTE THE PRODUCTION OF COMMODITIES OR THE PRODUCTS
THEREOF THAT THE PRESIDENT DETERMINES WILL COMPETE IN
WORLD MARKETS WITH SIMILAR ITEMS PRODUCED IN THE U.S.
THIS REQUIREMENT IS OPERABLE ONLY WITH RESPECT TO
EXPORTS, NOT LOCAL CONSUMPTION. FOR PROPOSED IFI
SUBLOANS INVOLVING AGRICULTURAL EXPORTS THE IFI LOAN
AGREEMENTS SHALL REQUIRE THE PRIOR APPROVAL OF A
DESIGNATED U.S. OFFICIAL.

- D. HOST COUNTRY GUARANTEES. SECTION 108 (C) (6)
PROVIDES THAT THE PRESIDENT MAY NOT REQUIRE A DEVELOPING
COUNTRY TO GUARANTY AN IFI'S REPAYMENT OF A SECTION 108
LOAN. THE USG SHALL TAKE THE CREDIT RISK ON EACH IFI
LOAN.

E. AGRICULTURAL TECHNICAL ASSISTANCE AND FOREIGN
MARKET DEVELOPMENT. SECTION 108 (D) (2) (B), RE-USE OF
REFLOWS ON CURRENCIES REPAYED BY IFIS, CALLS FOR THE USE
OF LOCAL CURRENCY TO DEVELOP NEW MARKETS FOR U.S.
AGRICULTURAL COMMODITIES.

SECTION 108 (F) ALSO ALLOWS THE PRESIDENT TO
PROVIDE QUOTE AGRICULTURAL TECHNICAL ASSISTANCE UNQUOTE
TO FURTHER THE PURPOSES OF SECTION 108, INCLUDING THE
FUNDING OF MARKET DEVELOPMENT ACTIVITIES. TO THE MAXIMUM
EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE SECTION 108

DESIGNATED LOCAL CURRENCIES SHALL BE USED TO CARRY OUT
SUCH ASSISTANCE.

X. REPORTS AUDIT AND FINANCIAL MANAGEMENT

- A. REPORTS. SECTION 108 (E) (2) CALLS FOR REPORTS TO
BE SUBMITTED BY THE PRESIDENT TO THE CONGRESS 180 DAYS
AFTER THE CLOSE OF EACH FISCAL YEAR. THIS REPORT SHALL
BE PART OF THE PL 480 ANNUAL REPORT TO THE CONGRESS.
GUIDANCE ON HOW THIS DATA IS TO BE SUMMARIZED AND
REPORTED WILL BE SUPPLIED LATER.

- B. AUDIT. LOAN AND GRANT AGREEMENTS WITH IFIS
(FORMS FOR SUCH AGREEMENTS TO BE SUPPLIED LATER) WILL
CONTAIN NORMAL USG AUDIT PROVISIONS ALLOWING USG AUDITORS
TO CARRY-OUT THEIR NORMAL FUNCTIONS. IN ADDITION, EACH
AGREEMENT WILL REQUIRE THE IFI'S OWN INDEPENDENT AUDITORS
TO AUDIT EACH SECTION 108 LOAN AND REQUIRE THE RESULTS OF
SUCH ANNUAL AUDITS TO BE ROUTINELY FORWARDED TO THE
ADMINISTERING AGENCY.

C. FINANCIAL MANAGEMENT. FINANCIAL MANAGEMENT
SERVICES FOR SECTION 108 LOANS AND GRANTS SHALL BE
PROVIDED TO THE COMMODITY CREDIT CORPORATION BY AID IN
ACCORDANCE WITH PROCEDURES MUTUALLY AGREED UPON BY THE
FOOD AID SUBCOMMITTEE. END TEXT. SHULTZ

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OMB:RBOSTICK
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AMEMBASSY BAMAKO
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AMEMBASSY MANILA
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AMEMBASSY COLOMBO
AMEMBASSY TUNIS
AMEMBASSY SANAA
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AMEMBASSY SAN JOSE
AMEMBASSY SANTO DOMINGO
AMEMBASSY QUITO
AMEMBASSY GEORGETOWN
AMEMBASSY SAN SALVADOR
AMEMBASSY GUATEMALA
AMEMBASSY PORT AU PRINCE
AMEMBASSY TEGUCIGALPA
AMEMBASSY KINGSTON
AMEMBASSY LIMA
AMEMBASSY MBABANE

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SUBJECT: PI 480, TITLE I SECTION 106/108 GUIDELINES ON
LOCAL CURRENCY LENDING FOR PRIVATE ENTERPRISE

1. THE FOLLOWING REVISED GUIDELINES, APPROVED BY THE
FOOD AID SUBCOMMITTEE OF THE OCC, ARE BASED UPON FIELD
COMMENTS TO REFTEL AND COMMENTS FROM OTHER INTERESTED
ORGANIZATIONS. THE REVISIONS TO THE GUIDELINES TOGETHER
WITH FURTHER EXPLANATORY INFORMATION TO BE SENT SEPARATELY IN
THE FORM OF QUESTIONS AND ANSWERS WILL HELP WITH SOME OF
THE QUESTIONS SURROUNDING THE SUBJECT. NO DOUBT FURTHER
GUIDANCE WILL BE NEEDED FROM TIME TO TIME. HOWEVER THE
FIELD IS GIVEN BROAD AUTHORITY IN THE GUIDELINES TO ASST.

2. THE APPROVED GUIDELINES ARE AS FOLLOWS.

GUIDELINES

FOR

SALES FOR LOCAL CURRENCIES

PRIVATE ENTERPRISE PROMOTION

UNDER PL 480 TITLE I

AUGUST 1, 1986

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I. INTRODUCTION AND SUMMARY

- ON DECEMBER 23, 1985, THE PRESIDENT SIGNED INTO LAW

H.R. 2100, THE FOOD SECURITY ACT OF 1985 (THE QUOTE ACT UNQUOTE) (PL 99-198). SECTION 1111 OF THE ACT, TITLED QUOTE SALES FOR LOCAL CURRENCY; PRIVATE ENTERPRISE PROMOTION UNQUOTE, CONTAINS A NUMBER OF AMENDMENTS TO TITLE I, PL 480. THESE AMENDMENTS ARE VIEWED BY THE EXECUTIVE BRANCH AS A MAJOR INITIATIVE TO STIMULATE PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES TO PROMOTE ECONOMIC GROWTH AND DEVELOPMENT. SECTION 1111 CREATES AN INNOVATIVE PROGRAM THAT GOES BEYOND NORMAL PL 480 OPERATIONS AND PROVIDES NEW RESOURCES FOR SUPPORT OF PRIVATE SECTOR ACTIVITIES NOT CURRENTLY BENEFITTING FROM USG RESOURCES.

- THE AMENDMENTS TO TITLE I OF PL 480, ARE DESCRIBED IN DETAIL BELOW. THE PURPOSE OF THESE GUIDELINES IS TO DESCRIBE THE POLICIES AND PROCEDURES WHICH WILL BE USED BY THE EXECUTIVE BRANCH TO IMPLEMENT THESE AMENDMENTS. AS WE GAIN EXPERIENCE WITH THIS PROGRAM, THESE GUIDELINES WILL BE AMENDED AND CLARIFIED.

II. THE AMENDMENTS

- A. GENERAL DESCRIPTION. SECTION 1111 OF THE ACT AMENDS PL 480 TITLE I BY (A) DIRECTING THAT CERTAIN AMOUNTS OF TITLE I COMMODITIES EACH YEAR SHALL BE SOLD FOR LOCAL CURRENCY, AND (B) REQUIRING THAT SUCH LOCAL CURRENCY BE USED, WITHOUT FURTHER APPROPRIATIONS, FOR PRIVATE ENTERPRISE LENDING IN DEVELOPING COUNTRIES. ALSO, SECTION 106 IS AMENDED TO PROVIDE THAT HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED IN CUSTOMARY TITLE I SALES ON DOLLAR CREDIT TERMS BE JOINTLY PROGRAMMED FOR THE SAME PURPOSES.

- ALL SUCH LOANS ARE TO BE MADE AND repaid IN LOCAL CURRENCY AND SHALL BE MADE TO INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) IN THE DEVELOPING COUNTRIES. THE IFIS, IN TURN, WILL RELEND THE LOCAL CURRENCY TO ELIGIBLE PRIVATELY-OWNED ENTERPRISES OR PRIVATE CITIZENS FOR

CERTAIN PRIVATE ENTERPRISE PROJECTS OR ACTIVITIES. FUNDS LOANED BY IFIS ARE NOT TO BE USED TO FINANCE STATE-OWNED OR PUBLIC SECTOR ENTERPRISES. NOR ARE THE RESOURCES TO BE DIRECTED TO ENTERPRISES THAT PRODUCE AGRICULTURE PRODUCTS IN COMPETITION WITH U.S. PRODUCTS.

- THE STATUTE SEPARATES THE LOCAL CURRENCY LENDING AUTHORITIES INTO TWO CATEGORIES: (A) PL 480, SECTION 106, WHICH DEALS WITH HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED FROM THE COUNTRY'S RESALE OF TITLE I COMMODITIES, AND (B) PL 480, SECTION 108, APPLYING TO

LOCAL CURRENCY RECEIVED BY THE U.S. IN FULL OR PART PAYMENT FOR THE TITLE I SALE AND DEPOSITED TO AN INTEREST EARNING U.S. OWNED (FT) ACCOUNT, IN CASH, WHEN OR SHORTLY AFTER THE TITLE I COMMODITIES ARE DELIVERED.

FOR EACH OF THE FISCAL YEARS 1986 THROUGH 1990, THE PRESIDENT IS ENCOURAGED TO CHANNEL LOCAL CURRENCIES, IN AN AMOUNT EQUIVALENT TO A TOTAL OF 25 PERCENT OF THE VALUE OF TITLE I COMMODITIES, FOR PRIVATE SECTOR LENDING UNDER SECTIONS 106 AND 108, TO THE EXTENT THAT THERE ARE APPROPRIATE PROPOSALS FOR SUCH USE. THE STATUTE MANDATES THAT AT LEAST 10 PERCENT OF THE ANNUAL VALUE OF TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR PRIVATE SECTOR LENDING UNDER SECTION 108.

IN PROVIDING FOR THESE NEW AUTHORITIES, THE CONFERENCE REPORT RECOGNIZES THE WILL OF CONGRESS TO DIRECT FOREIGN ASSISTANCE MORE TOWARD THE PRIVATE SECTOR. FURTHERMORE, THE CONFEREES STATE THAT THEY INTEND TO JUDGE THE PERFORMANCE OF THE ADMINISTRATION OF THESE AUTHORITIES ON THE QUALITY OF INVESTMENTS MADE UNDER THE PROGRAM, AND NOT UPON THE VOLUME OF FUNDS DIRECTED TO IFIS. THE CONFEREES STATE THAT THEY INTEND THAT THE PERFORMANCE OF THESE AND OTHER PROGRAMS WITH MANDATORY MINIMUM TARGETS BE EXAMINED THOROUGHLY DURING THE NEXT REAUTHORIZATION OF PL 480 IN 1990.

B. HOST COUNTRY OWNED LOCAL CURRENCIES (SECTION 106)

- SECTION 106 OF PL 480 PROVIDES FOR PRIVATE ENTERPRISE PROMOTION ACTIVITIES UNDER SALES OF AGRICULTURAL COMMODITIES FOR DOLLARS ON CREDIT TERMS. LOCAL CURRENCY PROCEEDS FROM THE SALES OF THESE COMMODITIES ARE PLACED IN QUOTE JOINTLY PROGRAMMED ACCOUNTS UNQUOTE AND THEREAFTER LOANED TO IFIS FOR RELENDING TO ELIGIBLE PRIVATE ENTERPRISES. IN THE CASE OF A COOPERATIVE OR PRIVATE AND VOLUNTARY ORGANIZATION, LOCAL CURRENCY PROCEEDS MAY BE GRANTED TO DEFRAY THE STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

C. U.S.-OWNED LOCAL CURRENCIES (SECTION 108)

- UNDER SECTION 108, THE MAJOR PORTION OF THIS NEW INITIATIVE, THE PRESIDENT IS AUTHORIZED TO ENTER INTO AGREEMENTS FOR THE SALE OF TITLE I COMMODITIES FOR LOCAL CURRENCIES. THE LOCAL CURRENCIES SHALL BE PAID INTO A U.S. OWNED (FT) DEPOSITORY ACCOUNT. THEREAFTER, DISBURSEMENTS FROM THIS ACCOUNT SHALL BE MADE TO IFIS PURSUANT TO THE TERMS OF LOAN AGREEMENTS BETWEEN THE U.S. AND IFIS.

- FOR EACH OF FISCAL YEARS 1986 THROUGH 1990, THE ACT PROVIDES THAT NO LESS THAN 10 PERCENT OF THE AGGREGATE VALUE OF PL 480 TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR SECTION 108 PURPOSES, PROVIDED THAT THIS REQUIREMENT MAY BE WAIVED IN ANY YEAR IN WHICH MEETING THE MINIMUM WOULD RESULT IN A SIGNIFICANT REDUCTION IN THE VOLUME OF COMMODITIES

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- INCLUDED IN THE TITLE I SALES AGREEMENTS SHALL BE A SCHEDULE PERMITTING THE EVENTUAL CONVERSION OF THESE SECTION 108 CURRENCIES TO DOLLARS OVER AN INTENDED 10 TO 30 YEAR PERIOD FOLLOWING DELIVERY OF THE COMMODITIES. THE RATES OF EXCHANGE FOR THE CONVERSIONS WILL BE THOSE IN EFFECT AT THE TIME EACH CONVERSION TAKES PLACE. THE CONFERENCE REPORT EXPRESSLY RECOGNIZES THAT THE U.S. GOVERNMENT MAY BEAR SOME OF THE FOREIGN EXCHANGE RISK.

- LOANS TO IFIS ARE TO BE MADE AT REASONABLE INTEREST RATES AS DETERMINED BY THE PRESIDENT. GENERALLY, THESE WILL BE CONSISTENT WITH BUSINESS PRACTICES. HOWEVER, PREFERENTIAL RATES OF INTEREST ARE AUTHORIZED FOR COOPERATIVES AND PRIVATE VOLUNTARY ORGANIZATIONS FOR STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY. LOCAL CURRENCY GRANTS ARE ALSO AUTHORIZED TO THE FOREGOING TO HELP DEFRAY STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

ONCE THE FINANCIAL INTERMEDIARIES BEGIN TO MAKE REPAYMENTS OF THEIR LOANS TO THE UNITED STATES-OWNED DEPOSITORY ACCOUNT, THESE REFLOWS MAY BE: (A) RELOANED TO IFIS TO FINANCE ADDITIONAL PRIVATE INVESTMENT (B) USED FOR AGRICULTURAL MARKET DEVELOPMENT, (C) USED, SUBJECT TO APPROPRIATIONS, TO PAY ANY U.S. OBLIGATIONS WITHIN THE RECIPIENT COUNTRY, OR (D) CONVERTED TO DOLLARS.

TO THE MAXIMUM EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE LOCAL CURRENCIES DEPOSITED IN THE UNITED STATES-OWNED DEPOSITORY ACCOUNTS SHALL BE USED TO PROVIDE AGRICULTURAL TECHNICAL ASSISTANCE, INCLUDING THE FUNDING OF MARKET DEVELOPMENT ACTIVITIES.

PROCUREMENT AND OTHER CONTRACTING REQUIREMENTS NORMALLY APPLICABLE TO APPROPRIATED FUNDS SHALL NOT APPLY TO SECTION 108 LOCAL CURRENCY USED FOR PRIVATE ENTERPRISE LENDING.

STATUTORY HISTORY STATES THAT THE PROGRAM IS NOT

INTENDED TO AFFECT EXISTING CURRENCY USE PAYMENTS.

III. HOST COUNTRY SELECTION AND SUITABILITY

- A. GENERAL POLICY. TO MEET THE DEVELOPMENT PURPOSES OF THE STATUTE, IT IS EXECUTIVE BRANCH POLICY TO ACTIVELY PROMOTE SECTION 106 AND SECTION 108 LENDING PROGRAMS IN AS MANY TITLE I COUNTRIES AS MAY BE PRACTICABLE.

- B. COUNTRY ALLOCATIONS. TO FACILITATE EXECUTIVE BRANCH COMPLIANCE WITH ANNUAL STATUTORY LENDING TARGETS AND (IF NECESSARY) PERMIT A MORE RATIONAL ALLOCATION OF SECTION 108 SALES-FOR-LOCAL-CURRENCY AUTHORITY, EACH IN COUNTRY POLICY GROUP (QUOTE IPG UNQUOTE AS LATER DEFINED) WILL BE REQUESTED, ANNUALLY, TO ESTIMATE THE ABILITY AND WILLINGNESS OF THE COOPERATING COUNTRY TO NEGOTIATE SECTIONS 106 AND 108 PRIVATE SECTOR LENDING PROVISIONS IN THE FOLLOWING YEAR'S TITLE I SALES AGREEMENTS. REQUESTS FOR SUCH ESTIMATES WILL HELP DETERMINE WHETHER ON A GLOBAL BASIS TITLE I COUNTRIES CAN BE EXPECTED TO MEET OR EXCEED THE 25 PERCENT COMBINED SECTIONS 106 AND 108 STATUTORY LENDING TARGET, BASED ON THE MOST CURRENT TITLE I COUNTRY BUDGET LEVELS, AND WHETHER ANY ONE COUNTRY CAN MEET OR EXCEED THE 10 PERCENT SECTION 108 LENDING TARGET. TO THE EXTENT PRACTICABLE, THESE ANNUAL ESTIMATES WILL INCLUDE AMOUNTS INTENDED TO BE ALLOCATED TO PVOS AND CO-OPS ON A GRANT BASIS FOR START UP COSTS.

IPG KNOWLEDGE OF LOCAL IFI ABSORPTIVE CAPACITY FOR LOCAL CURRENCY AS WELL AS COOPERATING COUNTRY ATTITUDE TOWARD THIS PRIVATE SECTOR LENDING PROGRAM WILL BE IMPORTANT IN RESPONDING TO SUCH ANNUAL REQUESTS. ANALYSIS OF THE SUM OF THESE FIELD RESPONSES WILL GIVE THE DCC'S FOOD AID SUBCOMMITTEE AN EARLY QUOTE SNAPSHOT UNQUOTE OF WHETHER THE EXECUTIVE BRANCH WILL BE ABLE TO MEET OR EXCEED THE STATUTORY TARGETS.

- IT SHOULD BE NOTED THAT THE 25 PERCENT AND 10 PERCENT STATUTORY TARGETS ARE AGGREGATE TARGET LEVELS. INDIVIDUAL COUNTRY LEVELS MAY BE HIGHER OR LOWER. HOWEVER, IPGS ARE ENCOURAGED TO SEEK WAYS TO USE THIS PRIVATE SECTOR APPROACH TO DEVELOPMENT.

- C. ELIGIBLE COUNTRIES. ALL COUNTRIES PARTICIPATING IN TITLE I SALES PROGRAMS ARE ELIGIBLE FOR THIS PROGRAM. PROGRAMS SHOULD BE DESIGNED IN A MANNER WHICH ENSURES CONSISTENCY WITH OR DOES NOT UNDERCUT EFFORTS OF THE U.S. GOVERNMENT OR INTERNATIONAL FINANCIAL INSTITUTIONS TO PROMOTE FINANCIAL SECTOR POLICY REFORM.

IV. PROGRAM DEVELOPMENT, REVIEW, AND APPROVAL PROCEDURES

- A. USES OF SECTION 106 AND 108 RESOURCES. THESE GUIDELINES AND GUIDANCE ON LOAN AND GRANT TERMS SHALL BE ADMINISTERED BY IN COUNTRY POLICY GROUPS (IPG), CHAIRED BY THE AMBASSADOR OR DESIGNEE AND CONSISTING OF THE (A) MISSION DIRECTOR, AGRICULTURE ATTACHE, ECONOMIC COUNSELOR, AND OTHER EMBASSY REPRESENTATIVES FROM THE OTHER DCC AGENCIES AND DEPARTMENTS OR THEIR DESIGNEES. THE IPG ALSO HAS THE AUTHORITY FOR THE FINAL SELECTION OF THE IFI OR IFI'S. SPECIFIC SECTION 106 AND 108 PROGRAMS SHALL BE DEVELOPED AND ADMINISTERED BY RESIDENT AID MISSIONS. AID IS RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFI'S. ON OPIC-RELATED PROJECTS OPIC WILL BE RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFIS.

- IN THOSE COUNTRIES WHERE OPIC HAS RELEVANT EXPERIENCE AND COMPETENCE, THE IPGS ARE INSTRUCTED TO TAKE THIS EXPERIENCE AND COMPETENCE INTO ACCOUNT FULLY. OPIC SHALL BE ADVISED IN A TIMELY MANNER OF TITLE I NEGOTIATIONS SO IT CAN MAKE PROPOSALS FOR IPG APPROVAL.

- PRIOR TO THE COMMENCEMENT OF THE TITLE I NEGOTIATIONS, THE INTERAGENCY GROUP IN WASHINGTON SHALL EXERCISE CENTRAL BUDGET CONTROL, AND ALLOCATE FUNDING LEVELS REQUESTED FOR SECTION 106 AND 108 USES, INCLUDING AMOUNTS TO BE ALLOCATED ON A GRANT BASIS.

- B. USES OF REFLOWS UNDER SECTION 108. LOCAL CURRENCY REPAYED BY IFI TO THE U.S. MAY BE REUSED FOR ADDITIONAL PRIVATE ENTERPRISE LENDING TO IFIS, THE DEVELOPMENT OF NEW MARKETS FOR US AGRICULTURAL COMMODITIES, THE REPAYMENT OF U.S. OBLIGATIONS (SUBJECT TO APPROPRIATIONS), OR CONVERSION TO DOLLARS. THE INTERAGENCY GROUP SHALL CONSIDER, AND APPROVE AS MAY BE NECESSARY, PROPOSALS FOR THE USE OF REFLOWS ON THE RECOMMENDATIONS OF THE IPGS.

V. PROGRAM IMPLEMENTATION PROCEDURES

- A. AGREEMENTS PROVIDED FOR IN NEGOTIATING INSTRUCTIONS, TITLE I SALES AGREEMENTS WILL INCLUDE SECTION 108 CURRENCY PAYMENT TERMS AND SECURE COOPERATING COUNTRY SUPPORT IN GENERAL FOR PLANNED OR ANTICIPATED SECTION 106 AND 108 ACTIVITIES.

- ONCE A SECTION 108 DESIGNATED DEPOSITORY ACCOUNT

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IS ESTABLISHED IN A COUNTRY, SEPARATE LOAN AGREEMENTS, CONTRACTS, AND GRANT AGREEMENTS ARE REQUIRED BY LAW TO OBLIGATE THE U.S.-OWNED CURRENCIES FOR SECTION 108 PURPOSES. AID, AND AS APPROPRIATE, OPIC SHALL BE THE IMPLEMENTING AGENCIES FOR LOANS AND GRANTS TO IFIS. USDA, USING NORMAL CONTRACTING PROCEDURES, SHALL BE THE IMPLEMENTING AGENCY FOR TECHNICAL ASSISTANCE ACTIVITIES TO INCREASE MARKETS FOR U.S. AGRICULTURAL COMMODITIES.

- B. METHOD FOR HOST COUNTRY DEPOSITS OF LOCAL CURRENCY INTO THE SECTION 108 USG-OWNED ACCOUNT. THE TITLE I AGREEMENT PAYMENT TERMS MAY BE EXPRESSED IN LOCAL CURRENCY TERMS, OR IN A COMBINATION OF DOLLAR CREDIT AND LOCAL CURRENCY TERMS. IN THE LATTER CASE, A SPECIFIED PORTION OF THE COMMODITIES SHALL BE PURCHASED FOR DOLLARS ON CREDIT TERMS AND A PORTION SHALL BE PURCHASED FOR LOCAL CURRENCY ON CASH TERMS. THE LOCAL CURRENCY SHALL BE PAYABLE WITHIN ONE HUNDRED TWENTY (120) DAYS AFTER THE DATE OF DISBURSEMENT BY THE U.S. BANK TO THE US EXPORTER (I.E. APPROXIMATELY 120 DAYS AFTER DELIVERY OF THE COMMODITIES TO VESSELS AT U.S. PORTS WHEN TITLE SHIFTS TO THE IMPORTING COUNTRY.) THE LOCAL CURRENCIES SHALL BE DEPOSITED IN INTEREST EARNING BANK ACCOUNTS.

C. DEPOSIT INTO A SECTION 106 (COUNTRY - OWNED) ACCOUNT. PREFERABLY, THE SECTION 106 ACCOUNT WILL BE A SEPARATE ACCOUNT. HOWEVER, THE IPG MAY PERMIT SECTION 106 FUNDS TO BE COMMINGLED WITH OTHER SELF-HELP FUNDS AND/OR HANDLED IN ACCORDANCE WITH LOCAL CUSTOM FOR THE DEPOSIT OF PL 488 COUNTERPART FUNDS. PROVISION SHALL BE MADE TO SECURE AUDIT REPORTS ON THE USE OF SECTION 106 FUNDS.

VI. ELIGIBLE INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) AND LOAN TERMS

THESE GUIDELINES ARE APPLICABLE EQUALLY TO SECTION 106 AND SECTION 108 LENDING PROGRAMS UNLESS OTHERWISE INDICATED.

- A. ELIGIBLE IFIS. AN ELIGIBLE IFI IS A BANK, FINANCIAL INSTITUTION, COOPERATIVE, NONPROFIT VOLUNTARY AGENCY, OR OTHER ORGANIZATION DETERMINED BY THE PRESIDENT TO HAVE THE CAPABILITY TO MAKE AND SERVICE A LOAN IN ACCORDANCE WITH THIS STATUTE. NON BANK FINANCIAL INSTITUTIONS SUCH AS EXPORT FINANCE COMPANIES ALSO MAY BE INCLUDED AT THE DISCRETION OF THE IPG. INDIGENOUS PVO'S AND CO-OPS MAY BE ELIGIBLE IFI'S

MAY BE LOCATED IN OR OPERATE IN THE HOST COUNTRY. IT SHALL BE ORGANIZED UNDER THE LAWS OF THE HOST COUNTRY, OR IF ORGANIZED ELSEWHERE, BE DULY LICENSED TO OPERATE WITHIN THE HOST COUNTRY. THE IFI SHALL HAVE FULL LEGAL AUTHORITY TO BORROW FROM THE USG (AS WELL AS FROM THE HOST GOVERNMENT UNDER SECTION 106) AND ENGAGE IN RELENDING AS CONTEMPLATED.

- GENERALLY, (EXCEPT FOR CERTAIN PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVE PROPOSALS ENCOURAGED UNDER THE STATUTE) IFIS SHALL BE SOUND, GOING, FINANCIAL CONCERNS, WITH A HISTORY OF STABILITY, FINANCIAL STRENGTH, AND EXPERIENCE. THE SELECTION OF A SPECIFIC IFI SHALL BE BASED UPON A CONCLUSION THAT IN THE EVENT OF A DEFAULT, THE US WOULD BE ABLE TO COMMENCE LEGAL ACTION FOR DAMAGES AND COLLECT UPON ANY JUDGEMENT RENDERED IN FAVOR OF THE U.S.

FOR SECTION 106 LENDING PURPOSES ONLY, STRONG PREFERENCE SHALL BE GIVEN TO WHOLLY PRIVATELY-OWNED AND

CONTROLLED IFIS WHOSE OWNERSHIP IS SUBSTANTIALLY IN THE CONTROL OF NATIONALS OR FIRMS OF THE COOPERATING COUNTRY, THE U.S., OR OTHER FRIENDLY LESS-DEVELOPED COUNTRIES. WHERE THERE IS A CHOICE, THE USG AND THE COOPERATING COUNTRY SHOULD SELECT PRIVATE SECTOR IFIS, THE IMPLEMENTING AGENCY SHALL ASSURE THAT NOTWITHSTANDING THE PUBLIC SECTOR OWNERSHIP OF THE IFI, ITS LENDING ACTIVITIES ARE CONDUCTED ON PRIVATE MARKET BASED PRINCIPLES.

- HOWEVER FOR SECTION 108 LENDING PURPOSES, IT IS EXECUTIVE BRANCH POLICY THAT ONLY PRIVATELY-OWNED IFIS, WITH NO PUBLIC SECTOR OWNERSHIP, SHALL BE ELIGIBLE TO RECEIVE LOANS.

- B. LOAN TERMS TO IFIS. IN LOAN AGREEMENTS BETWEEN THE USG AND IFIS, THE INTEREST RATE CHARGED IFIS FOR BOTH SECTION 106 AND SECTION 108 SHOULD NORMALLY APPROXIMATE THE COST OF OBTAINING LENDABLE RESOURCES OF COMPARABLE MATURITIES FROM THE FREE PRIVATE CAPITAL MARKET IN THE INDIVIDUAL COOPERATING COUNTRY. IF INTEREST RATES WITHIN THAT COUNTRY ARE HELD DOWN ARTIFICIALLY BY GOVERNMENT POLICIES, THE RATE CHARGED THE IFIS SHOULD BE SET WITHIN THE CONTEXT OF US EFFORTS TO ENCOURAGE OVERALL POLICY REFORMS.

- WHILE THE STATUTE PERMITS LOWER INTEREST RATES TO BE CHARGED PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVES FOR STARTUP COSTS OF BECOMING IFIS, IT IS

EXECUTIVE BRANCH POLICY TO PROVIDE LOCAL CURRENCY FOR THESE PURPOSES ON A GRANT BASIS.

- ALL USG LOANS TO IFIS SHALL TRANSFER THE FULL CREDIT RISK TO THE IFI. THE USG SHALL NOT SHARE THE CREDIT RISK OF IFI SUBLOANS.

- THE MAXIMUM LOAN MATURITY TO AN IFI SHALL BE NEGOTIABLE. EFFORTS SHALL BE MADE HOWEVER TO MAKE LOAN MATURITIES CONFORM TO LOCAL CREDIT MARKET CONDITIONS.

- THE IMPLEMENTING AGENCIES SHALL NEGOTIATE LOAN TERMS WITH IFIS SUBJECT TO THESE GUIDELINES AND POLICIES SET BY THE IPG. FIXED OR FLOATING RATE TERMS ARE ACCEPTABLE, SUBJECT TO LOCAL MARKET CONDITIONS.

C. FORM OF LOAN AND GRANT AGREEMENTS. SAMPLE LOAN AND GRANT AGREEMENTS BETWEEN THE USG AND IFIS SHALL BE SUPPLIED TOGETHER WITH ANNOTATIONS INDICATING WHICH CLAUSES ARE MANDATORY. LOAN AGREEMENTS BETWEEN IFIS AND SUBBORROWERS SHALL FOLLOW THE IFI'S STANDARD PRACTICE.

VII. ELIGIBLE PRIVATE ENTERPRISES AND LOAN TERMS

- A. ELIGIBLE SUBBORROWERS. SUBBORROWERS MAY BE INDIVIDUALS, PRIVATE AND VOLUNTARY ORGANIZATIONS, COOPERATIVES, CORPORATIONS, OR OTHER ENTITIES FORMED OR OPERATING SUBSTANTIALLY WITHIN THE COOPERATING COUNTRY.

- (A) NATIONALITY. TO BE ELIGIBLE TO RECEIVE A SUBLOAN FROM AN IFI, AN INDIVIDUAL SHALL BE A NATIONAL OF THE COOPERATING COUNTRY OR OF ANY OTHER FRIENDLY LESS DEVELOPED COUNTRY. FIRMS OR OTHER ENTITIES AS SUBBORROWERS MUST BE OWNED DIRECTLY OR INDIRECTLY BY FIRMS OR NATIONALS OF THE COOPERATING COUNTRY OR THOSE OF ANY OTHER COUNTRY ELIGIBLE FOR TITLE I SALES; PROVIDED THAT UP TO 49 PERCENT OF SUCH OWNERSHIP MAY BE HELD BY CITIZENS OF THE U.S.; AND PROVIDED FURTHER THAT IF OWNERSHIP IS HELD BY NATIONALS OF THIRD COUNTRIES, SUBSTANTIAL OWNERSHIP AND CONTROL SHALL BE VESTED IN

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NATIONALS OF FRIENDLY LESS DEVELOPED COUNTRIES. THE LOAN AGREEMENT WITH IFIS SHALL REQUIRE THE IFI TO ASSURE THE ELIGIBILITY OF SUBBORROWERS.

INCLUDING, BUT NOT LIMITED TO, RULES FOR COMPETITIVE PROCUREMENT AND THE QUOTE BUY AMERICA UNQUOTE PROVISIONS ARE NOT APPLICABLE TO PRIVATE ENTERPRISE PROCUREMENT WITH US-OWNED CURRENCIES LOANED BY IFIS.

- (B) PRIVATE SECTOR. SUBBORROWERS SHALL NOT BE OWNED OR CONTROLLED, IN WHOLE OR IN PART, BY THE PUBLIC SECTOR OR BY ANY GOVERNMENTAL DIVISION, AUTHORITY, OR

VIII. USE AND DISPOSITION OF IFI LOAN REPAYMENTS

SUBDIVISION OF THE COOPERATING COUNTRY. INTERNATIONAL ORGANIZATIONS, MUNICIPAL AUTHORITIES, PARASTATALS OR OTHER ENTITIES NOT WHOLLY OWNED AND CONTROLLED BY PRIVATE FIRMS OR INDIVIDUALS ARE NOT ELIGIBLE SUBBORROWERS. THE STATUTE IS CLEAR IN ITS INTENTION THAT THE SUBLOANS BE MADE TO WHOLLY PRIVATE FIRMS AND INDIVIDUALS, NOT SUBJECT TO GOVERNMENT CONTROL.

- A. SECTION 106. THE TITLE I SALES AGREEMENT WILL PROVIDE FOR A JOINTLY PROGRAMMED ACCOUNT FOR SECTION 106 LOCAL CURRENCY LOAN USES. CONSIDERATION SHOULD BE MADE TO NEGOTIATE A FIXED LIFE OF THIS ACCOUNT, DURING WHICH DEBT SERVICE REPAYMENTS BY IFIS WILL BE MADE TO THE ACCOUNT RATHER THAN TO OTHER HOST COUNTRY ACCOUNTS. AFTER THE ACCOUNT IS TERMINATED, DEBT SERVICE PAYMENTS WILL BE MADE DIRECTLY TO THE COOPERATING COUNTRY.

B. ELIGIBLE SUBLOAN PURPOSES. THE STATUTE (SECTION 108) PROVIDES THAT IFI SUBLOANS SHALL BE MADE FOR THE PURPOSE OF FINANCING:

- B. SECTION 108. ALL THE SECTION 108 USES OF REFLWS ARE AVAILABLE WITHOUT CHARGING AN APPROPRIATION EXCEPT USE FOR PAYMENT OF U.S. OBLIGATIONS. SEE SECTION 108 (D) (2) AND (3). THE TITLE I SALES AGREEMENTS CONTAINING PROVISIONS WHICH PROVIDE FOR SECTION 108-RELATED ACCOUNTS SHALL PROVIDE, TO THE EXTENT PRACTICABLE, THAT THE U.S. SHALL BE ENTITLED, AT ITS OWN OPTION, TO USE REFLWS FOR ALL OF THE FOUR PURPOSES AUTHORIZED BY THE STATUTE. BECAUSE OF THE NEED FOR SOME CENTRAL BUDGET CONTROL, THE FOOD AID SUBCOMMITTEE SHALL ALLOCATE LOCAL CURRENCY REFLWS TO POTENTIALLY COMPETING REQUESTS FOR SUCH CURRENCIES. ANNUAL FIELD REQUESTS FOR

- QUOTE (A) PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT WITHIN SUCH COUNTRY, INCLUDING SUCH INVESTMENT IN PROJECTS CARRIED OUT BY COOPERATIVES, NONPROFIT VOLUNTARY ORGANIZATIONS, AND OTHER ENTITIES FOUND TO BE QUALIFIED BY THE PRESIDENT;

(B) PRIVATE ENTERPRISE FACILITIES FOR AIDING THE UTILIZATION AND DISTRIBUTION, AND INCREASING THE CONSUMPTION OF AND MARKETS FOR, UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF; OR

SECTION 108 AUTHORITY SHALL INCLUDE, AS APPROPRIATE, REQUESTS FOR THE REUSE OF REFLWS.

- (C) PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS. UNQUOTE

IX. SPECIAL STATUTORY PROVISIONS

* THE IFI LOAN AGREEMENT SHALL REQUIRE AN IFI, TO THE MAXIMUM EXTENT FEASIBLE, TO GIVE PREFERENCE TO THE FINANCING OF AGRICULTURAL RELATED PRIVATE ENTERPRISE WITH THE FUNDS PROVIDED UNDER THIS SECTION.

- A. PUBLICITY REQUIREMENTS. THE STATUTE CONTAINS TWO REFERENCES TO PUBLICITY: SECTION 108 (A) (2) AND 108 (C) (7). THE FORMER PROVIDES THAT PRIOR TO LENDING THE LOCAL CURRENCY, THE PRESIDENT SHALL TAKE SUCH STEPS AS ARE NECESSARY TO ASSURE THAT THE AVAILABILITY OF LOCAL CURRENCIES TO FINANCIAL INTERMEDIARIES IS ADEQUATELY PUBLICIZED WITHIN THE PURCHASING COUNTRY. GENERAL PRESS GUIDANCE ON THE FOOD SECURITY ACT OF 1985 RELEASED BY THE USG IN 1986 AND PUBLISHED BY THE FOREIGN PRESS WILL MEET SOME OF THE REQUIREMENTS OF THIS SECTION. THE PREFERRED METHOD FOR FURTHER COMPLIANCE IS TO MAKE THIS INFORMATION KNOWN IN PRESS RELEASES WHICH ANNOUNCE THE EXECUTION OF THE TITLE I AGREEMENT CONTAINING PRIVATE ENTERPRISE LENDING PROVISIONS. SUCH PRESS RELEASES WILL ALSO SOLICIT PROPOSALS FROM IFIS WHO DESIRE TO PARTICIPATE IN THE PROGRAM.

SECTION 106 REFERS MORE GENERALLY TO QUOTE PRIVATE SECTOR DEVELOPMENT ACTIVITIES UNQUOTE WITHOUT REFERENCE TO A PREFERENCE FOR AGRICULTURAL PURPOSES. NEVERTHELESS, AS A MATTER OF POLICY, THE PERMISSIBLE PURPOSES OF SECTION 106 AND 108 SHALL BE READ TOGETHER AND READ BROADLY TO INCLUDE A WIDE VARIETY OF LOAN PURPOSES AND A PREFERENCE FOR AGRICULTURAL RELATED ACTIVITIES. TO THE EXTENT PRACTICABLE, SECTION 106 AND 108 FUNDED IFI LOAN AGREEMENTS SHALL BE SIMILAR IN THEIR TERMS AND PURPOSES.

THE SECOND PUBLICITY PROVISION RELATES TO IFI BORROWERS PUBLICIZING THE AVAILABILITY OF LOCAL CURRENCY RESOURCES FOR THE PRIVATE SECTOR. STANDARD LANGUAGE IN THE FORM OF LOAN AGREEMENT BETWEEN THE USG AND AN IFI CALLING FOR IFIS TO PUBLISH FACTS ABOUT THE PROGRAM IN LOCAL NEWSPAPERS WILL ALLOW THIS REQUIREMENT TO BE MET.

C. SUBLOAN TERMS. USG POLICY IS THAT INTEREST RATES FOR PRIVATE BORROWERS SHOULD NOT BE LESS THAN PREVAILING FREE MARKET INTEREST RATES OR A RATE WHICH APPROXIMATES THE OPPORTUNITY COST OF CAPITAL IN THE INDIVIDUAL DEVELOPING COUNTRY. THE INTEREST RATE CHARGED TO THE SUBBORROWERS BY THE IFI SHOULD COVER COSTS OF LENDING IN A MANNER CONSISTENT WITH COMMERCIAL PRACTICE.

EFFORTS SHALL BE MADE TO INCLUDE SIMILAR PUBLICITY REQUIREMENTS IN SECTION 106 PROGRAMS.

- IN MANY OF THE DEVELOPING COUNTRIES PREVAILING RATES ARE DISTORTED BY LOW LEGAL CEILINGS ON INTEREST RATES, OTHER DIRECT INTERVENTIONS IN THE LOCAL CAPITAL MARKET BY THE GOVERNMENT, OR INAPPROPRIATE FISCAL AND CREDIT POLICIES. IN SUCH COUNTRIES, INTEREST RATES TO BE CHARGED TO PRIVATE ENTERPRISES SHOULD BE SET WITHIN THE CONTEXT OF EFFORTS TO ENCOURAGE THE GOVERNMENT TO PROGRESSIVELY REMOVE THE IMPEDIMENTS TO A FREE CAPITAL MARKET.

B. MANDATORY CONVERSIONS OF LOCAL CURRENCY TO DOLLARS. SECTION 103 (M), AS AMENDED, PROVIDES THAT FOREIGN CURRENCIES TO BE USED UNDER SECTION 108 QUOTE: ACQUIRED UNDER AN AGREEMENT FOR THE SALE OF COMMODITIES UNQUOTE BE CONVERTIBLE TO DOLLARS DURING THE PERIOD BEGINNING NOT LATER THAN 10 YEARS AFTER THE DATE OF THE LAST DELIVERY OF COMMODITIES AND ENDING 30 YEARS THEREAFTER. THE SALES AGREEMENT SHALL ESTABLISH A SCHEDULE FOR THE CONVERSION. THE EXCHANGE RATE FOR EACH

- D. OTHER TERMS. PROCUREMENT REGULATIONS APPLICABLE UNDER THE FOREIGN ASSISTANCE ACT AND OTHER USG STATUTES

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CONVERSION SHALL BE THE HIGHEST RATE, YIELDING THE MOST DOLLARS, APPLICABLE IN THE COOPERATING COUNTRY ON THE DATE OF EACH CONVERSION.

- STANDARD NEGOTIATING INSTRUCTIONS FOR TITLE I AGREEMENTS WILL PROVIDE THAT AN AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF LOCAL CURRENCY INITIALLY DEPOSITED IN THE SECTION 108 ACCOUNT SHALL BE SUBJECT TO THIS HOST

COUNTRY PROMISE OF CONVERTIBILITY. THIS SUM SHALL BE FIXED WHEN FULL INITIAL DEPOSIT INTO THE SECTION 108 ACCOUNT HAS OCCURRED. IT IS INTENDED THAT THIS LOCAL CURRENCY SUM WILL BE GRADUALLY CONVERTED TO DOLLARS OVER A TIME PERIOD NEGOTIATED IN THE TITLE I SALES AGREEMENT AND REPATRIATED TO THE C.C.C. IN ITS REQUEST FOR A SECTION 108 PROGRAM, THE IPG SHALL PROPOSE TERMS FOR THIS CONVERSION AND RECEIVE INSTRUCTIONS FROM THE INTERAGENCY GROUP.

- THIS SECTION 108 CONVERSION RIGHT SHALL BE IN ADDITION TO ALL OTHER CONVERSION RIGHTS OTHERWISE AVAILABLE TO THE USG IN THE RESPECTIVE COOPERATING COUNTRIES.

C. COMPETITION WITH U.S. AGRICULTURAL COMMODITIES IN WORLD MARKETS. SECTION 106 (B) (4) (B) AND SECTION 108 (C) (5) OPERATE TO PROHIBIT SUBLOANS WHICH WOULD PROMOTE THE PRODUCTION OF COMMODITIES OR THE PRODUCTS THEREOF THAT THE PRESIDENT DETERMINES WILL COMPETE IN WORLD MARKETS WITH SIMILAR ITEMS PRODUCED IN THE U.S. THIS REQUIREMENT IS OPERABLE ONLY WITH RESPECT TO EXPORTS, NOT LOCAL CONSUMPTION. FOR PROPOSED IFI SUBLOANS INVOLVING AGRICULTURAL EXPORTS THE IFI LOAN AGREEMENTS SHALL REQUIRE THE PRIOR APPROVAL OF A DESIGNATED U.S. OFFICIAL IN THE FIELD. A LIST OF SUCH COMMODITIES WILL BE PROVIDED UNDER SEPARATE COVER. USDA/FAS WILL PROVIDE ADDITIONAL GUIDANCE FROM TIME TO TIME.

- D. HOST COUNTRY GUARANTEES. SECTION 108 (C) (6) PROVIDES THAT THE PRESIDENT MAY NOT REQUIRE A DEVELOPING COUNTRY TO GUARANTEE AN IFI'S REPAYMENT OF A SECTION 108 LOAN. THE USG SHALL TAKE THE CREDIT RISK ON EACH LOAN TO AN IFI.

E. AGRICULTURAL TECHNICAL ASSISTANCE AND FOREIGN MARKET DEVELOPMENT. SECTION 108 (D) (2) (B), RE-USE OF REFLOWS ON CURRENCIES REPAYED BY IFIS, CALLS FOR THE USE OF LOCAL CURRENCY TO DEVELOP NEW MARKETS FOR U.S. AGRICULTURAL COMMODITIES.

- SECTION 108 (F) ALSO ALLOWS THE PRESIDENT TO PROVIDE QUOTE AGRICULTURAL TECHNICAL ASSISTANCE UNQUOTE TO FURTHER THE PURPOSES OF SECTION 108, INCLUDING THE FUNDING OF MARKET DEVELOPMENT ACTIVITIES. TO THE MAXIMUM EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE SECTION 108 DESIGNATED LOCAL CURRENCIES SHALL BE USED TO CARRY OUT SUCH ASSISTANCE. IPG RECOMMENDATIONS ON THIS PROVISION

ARE REQUESTED. SPECIFICALLY IPG RECOMMENDATIONS OF ANY MARKET DEVELOPMENT ASSISTANCE NEEDS, INCLUDING USE OF IN-COUNTRY COOPERATORS, SHOULD BE IDENTIFIED. USDA/FAS WILL ALSO CONSIDER MARKET DEVELOPMENT PROPOSALS THAT PROVIDE SUPPORT FOR IMPROVED HANDLING AND DISTRIBUTION AND INCREASED CONSUMPTION OF AGRICULTURAL COMMODITIES WHICH ARE PRESENTED DIRECTLY TO FAS. IPG ADVICE ON ANY SUCH DIRECT PROPOSALS WILL BE SOUGHT TO FACILITATE WASHINGTON DECISION ON THESE USES. THESE FUNDS, HOWEVER, CANNOT BE USED FOR GENERAL OPERATING AND ADMINISTRATIVE EXPENSES OF THE PROGRAM.

X. REPORTS, AUDIT AND FINANCIAL MANAGEMENT

A. REPORTS. SECTION 108 (E) (2) CALLS FOR REPORTS TO BE SUBMITTED BY THE PRESIDENT TO THE CONGRESS 180 DAYS AFTER THE CLOSE OF EACH FISCAL YEAR. THIS REPORT SHALL BE PART OF THE PL 480 ANNUAL REPORT TO THE CONGRESS. GUIDANCE ON HOW THIS DATA IS TO BE SUMMARIZED AND REPORTED WILL BE SUPPLIED LATER.

- B. AUDIT. LOAN AND GRANT AGREEMENTS WITH IFIS (FORMS FOR SUCH AGREEMENTS TO BE SUPPLIED LATER) WILL CONTAIN NORMAL USG AUDIT PROVISIONS ALLOWING USG AUDITORS TO CARRY-OUT THEIR NORMAL FUNCTIONS. IN ADDITION, EACH AGREEMENT WILL REQUIRE THE IFI'S OWN INDEPENDENT AUDITORS TO AUDIT EACH SECTION 108 LOAN AND REQUIRE THE RESULTS OF SUCH ANNUAL AUDITS TO BE ROUTINELY FORWARDED TO THE ADMINISTERING AGENCY WHICH, IN TURN WILL FORWARD THESE TO THE DCC.

- C. FINANCIAL MANAGEMENT. FINANCIAL MANAGEMENT SERVICES FOR SECTION 108 LOANS AND GRANTS SHALL BE PROVIDED BY AID IN ACCORDANCE WITH PROCEDURES MUTUALLY AGREED UPON BY THE FOOD AID SUBCOMMITTEE. ENO TEXT. WHITEHEAD

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SPECIAL CHARGES

AID/GC/PRE:MIKITAY:JT

08/13/86 EXT. 78235

AID/AA/FVA/FFP:JBLOCK

OMB:RBOSTICK

TREASURY:RZECHTER

USDA/FAS:MCAMBLISS

USDA:CPOPE

STATE/EB/EPG:PBURCE

OPIC/D:GTUEST

AID/AA/PPC:BSEVERN

ROUTINE ACCRA, CONAKRY, NAIROBI, MONROVIA, ANTANANARIVO, NAPUTO,
DAKAR, FREETOWN, MOGADISHU, KHARTOUM, KINSHASA, LUSAKA, ABIDJAN,

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: PL 480 SEC 106/108 LOCAL CURRENCY LENDING FOR
PRIVATE ENTERPRISE: FURTHER GUIDANCE IN THE FORM OF QS
AND AS.

REF: (A) STATE
(B) STATE 189038

THE FOLLOWING QS AND AS WILL ANSWER MOST OF THE ISSUES
RAISED IN RESPONSE TO REF (B). PLEASE ADDRESS FURTHER
QUESTIONS TO AID/GC/PRE, MICHAEL KITAY WHO WILL ARRANGE
FOR AN INTERAGENCY RESPONSE.

1. Q: WHAT ARE THE ADVANTAGES OF SECTION 108 PROGRAMS
FOR RECIPIENTS WHEN COMPARED WITH CURRENT TITLE I
AGREEMENTS?

A: IN REAL TERMS THE BALANCE-OF-PAYMENTS SUPPORT IS
SIGNIFICANTLY GREATER SINCE THE RECIPIENT HAS NO FOREIGN
EXCHANGE COSTS FOR COMMODITIES PURCHASED WITH ITS LOCAL
CURRENCY DURING THE FIRST TEN YEARS. THEREAFTER,
GRADUALLY, OVER A 20-YEAR PERIOD, THE RECIPIENT MUST

JB MK
HGK MK
RB MK
RZ MK
MC MK
CP
PB
GTW
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ASSURE CONVERTIBILITY OF THE ORIGINAL COMMODITY VALUE, BUT NOT EARNINGS, TO DOLLARS FOR REPAYMENT TO THE U.S. THE FOREIGN EXCHANGE COST AT THAT TIME CANNOT NOW BE DETERMINED BUT IT WILL BE AT THE THEN PREVAILING EXCHANGE RATES.

- FOR RECIPIENTS WITH TANGIBLE COMMITMENTS TO OPENING UP THE PRIVATE SECTOR, SECTION 108 AGREEMENTS CLEARLY SUPPORT THOSE EFFORTS. RECIPIENT ACCESS TO PVO LOAN FINANCING MAY BE MORE LIBERALIZED THAN COMMERCIAL BANK FINANCING AND LESS COSTLY THAN FINANCING THROUGH AND FROM PUBLIC SOURCES.

- IT IS LIKELY THAT AS ACCESS TO LOCAL CURRENCY LENDING EXPANDS, FOREIGN INVESTMENT MAY ALSO GROW TO SATISFY DOMESTIC IMPORT NEEDS AND/OR NEWLY DEVELOPED EXPORT MARKETS. OVER THE PAST THREE YEARS EXPERIENCE IN KENYAN AND SOMALIA DEMONSTRATE THIS EFFECT.

2. Q: WHAT IF EXCESS BANK LIQUIDITY IN THE RECIPIENT COUNTRY, IMF RESTRAINTS, ETC., MAKE SECTION 108 NOT APPROPRIATE FOR A COUNTRY?

- A: THE IPG, IFIS, AND THE RECIPIENT COUNTRY SHOULD UNDERSTAND THE IMPLICATIONS FOR SECTION 108 GIVEN SUCH CONSTRAINTS AND ACT ACCORDINGLY. ADMINISTRATION POLICY SUPPORTS IMF AND OTHER AGREEMENTS TO RATIONALIZE RECIPIENT DOMESTIC AND EXTERNAL MONETARY CONDITIONS.

3. Q: WHAT IS THE IPG? WHO ESTABLISHES THE IPG AND HOW WILL IT OPERATE? HOW IS IT DIFFERENT FROM THE COUNTRY TEAM?

- A: THE TERM COUNTRY TEAM DOES NOT INCLUDE, FOR ALL MISSIONS, ALL RELEVANT EXECUTIVE BRANCH AGENCIES HAVING AN INTEREST IN SECTION 108 PROGRAMS: THE IN-COUNTRY POLICY GROUP (IPG) WAS CREATED TO INCLUDE THOSE AGENCIES AND OR PERSONNEL.

- THE IPG WILL BE ESTABLISHED BY AND RESPONSIBLE TO THE AMBASSADOR OR DESIGNEE. IT WILL INCLUDE THE SENIOR STAFF IN THE MISSION WITH RESPONSIBILITY FOR COMMERCIAL LIAISON, FOOD ASSISTANCE PROGRAMMING/EVALUATION AND LOAN/GRANT NEGOTIATIONS.

- THE IPG HAS AUTHORITY FOR DEVELOPING SELECTION CRITERIA AND DETERMINING ELIGIBLE AND PARTICIPATING IFIS. AID AS THE IMPLEMENTING AGENCY IS RESPONSIBLE FOR NEGOTIATING LOAN AND GRANT AGREEMENTS BETWEEN THE U.S.

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AND IFI. OPIC WILL BE RESPONSIBLE FOR SIMILAR LOAN/GRANT NEGOTIATIONS FOR SECTION 108 PROGRAMS THAT IT DEVELOPS. IFIS WILL IMPLEMENT THE SECTION 106/108 PROGRAMS. WHILE SECTION 106 CALLS FOR JOINT PROGRAMMING OF FUNDS IT IS EXPECTED THAT IFIS AND POTENTIAL IFIS WILL TAKE THE LEAD IN FORWARDING PROPOSALS TO RECIPIENT AND IPG OFFICIALS.

4. Q: WHAT IS INTENDED BY THE PHRASE IMPLEMENTING AGENCY?

- A: THE IMPLEMENTING AGENCY IS THE AGENCY RESPONSIBLE FOR NEGOTIATING LOAN AND GRANT AGREEMENTS BETWEEN THE U.S. AND IFIS FOR TITLE I, SECTION 106 AND 108 PROGRAMS. THESE GUIDELINES AND FORTHCOMING GUIDANCE ON LOAN/GRANT TERMS WILL BE ADMINISTERED BY THE IMPLEMENTING AGENCY IN CONJUNCTION WITH GUIDANCE FROM THE IN-COUNTRY POLICY GROUP.

- THE IPG WILL DETERMINE WHICH IFIS PARTICIPATE IN THE PROGRAM. THESE SELECTION DECISIONS WILL NEED TO REFLECT A BALANCE BETWEEN COMMERCIAL BANKS AND PVOS.

5. Q: IS THERE ANY WAY THAT THE FIELD CAN EASE THE BURDEN OF ADMINISTERING THIS PROGRAM?

- A: THIS PROGRAM HAS RECEIVED A GREAT DEAL OF ATTENTION, BOTH WITHIN THE ADMINISTRATION AND ON THE HILL. FOR THIS REASON, THE FIELD HAS BEEN ASKED TO ACCORD IT THE PRIORITY NEEDED TO ALLOW IT TO SUCCEED. THAT SAID, THERE ARE SEVERAL WAYS THAT DEMANDS ON STAFF AND RESOURCES CAN BE MINIMIZED.

- AID/PRE OFFICIALS AND ITS CONTRACTORS (PRIVATE BANKERS AND FINANCIAL EXPERTS) AND THE PRIVATE SECTOR OFFICES IN AID'S REGIONAL BUREAUS CAN BE CALLED UPON TO HELP ESTABLISH LENDING PROGRAMS;

- ALL OR A PORTION OF A COUNTRY'S PROGRAM MIGHT BE USED BY OPIC IN THE SAME FASHION THAT OPIC HANDLES ITS NORMAL BUSINESS. (SEE Q AND A NUMBER NINE) (CONTACT OPIC DIRECTLY TO DETERMINE LENDING CAPACITY);

- A PORTION OF A COUNTRY'S PROGRAM CAN BE HANDLED DIRECTLY BY USDA AND THE FAS FOR MARKET DEVELOPMENT (CONTACT FAS DIRECTLY TO DETERMINE CAPACITY);

6. Q: WHO SETS THE INTEREST RATE AND LOAN TERMS ON THE USG LOAN TO THE IFI?

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- A: THE INTEREST AND LOAN TERMS ARE NEGOTIABLE. THIS GUIDANCE AND FLEXIBLE POLICIES DEVELOPED BY IPGS SHOULD FORM THE BASIS FOR NEGOTIATING LOAN AND GRANT TERMS WITH IFIS.

7. Q: WHO SETS THE INTEREST RATE AND TERMS ON IFI SUBLOANS.

- A: THE IFI, IN ACCORDANCE WITH ITS ORDINARY AND USUAL BUSINESS PRACTICE.

8. Q: ARE IFI SUBLOANS SUBJECT TO AID OR IPG APPROVAL?

- A: NO, EXCEPT IF THE SUBLOAN IS DIRECTED TOWARD THE PRODUCTION AND EXPORT OF AGRICULTURE COMMODITIES WHICH COMPETE AGAINST U.S. PRODUCTS IN WORLD MARKETS. IN SUCH CASE USDA/FAS WILL GIVE GUIDANCE.

9. Q: WHAT IS OPIC'S ROLE IN SECTION 108? HOW DOES THIS DIFFER FROM AID'S ROLE.

- A: OPIC INTENDS TO USE SEC 108 FUNDS AS PART OF ITS ORDINARY COURSE OF BUSINESS TO PROMOTE SPECIFIC U.S. INVESTMENT IN LDCS. ~~IN COUNTRIES WHERE OPIC INTENDS TO PROMOTE DIRECT LOAN OR GUARANTEE ACTIVITIES, OR WHERE SUCH ACTIVITIES ARE UNDERWAY, OPIC WILL SEEK A COMMITMENT FROM THE IPG FOR A SHARE OF THE SEC 108 RESOURCES. OPIC WILL ANALYZE EACH END USER ACTIVITY, I.E., THE LOCAL FIRM OR ENTERPRISE, AND IF THE PROJECT CAN BENEFIT FROM SECTION 108 RESOURCES, OPIC AND THE PROPOSED SUBBORROWER WILL FIND AN IFI WHICH WILL BE A CONDUIT FOR THE FUNDS. THE IFI WILL BORROW THE FUNDS FROM THE USG AND RELEND TO THE PROJECT DESIGNATED BY OPIC.~~

- AID, IN CONTRAST, WILL ACT AS A SECRETARIAT AND IMPLEMENTING AGENCY TO THE IPG IN THE CONTEXT OF LOAN/GRANT NEGOTIATIONS. AID WILL, AS AN IPG PARTICIPANT ASSIST IN THE SELECTION OF IFIS. IFIS ARE THE ONLY ENTITIES AUTHORIZED TO SELECT SUBBORROWERS (WITH THE EXCEPTION OF OPIC).

10. Q: WHO NEGOTIATES THE SEC 106/108 PROGRAM AND WHEN IS THIS DONE?

- A: SEC 106/108 PROGRAMS ARE INCORPORATED IN TITLE I AGREEMENTS. THE RECIPIENT GOVERNMENT AND THE IPG REPRESENTATIVES PARTICIPATE IN TITLE I NEGOTIATIONS. NEGOTIATIONS WILL BE CONDUCTED BY AND AT THE TIME

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SPECIFIED BY MUTUAL AGREEMENT BETWEEN THE RECIPIENT AND THE U-S. IFIS, IF IDENTIFIED IN ADVANCE, MAY ASSIST INFORMALLY IN THESE GOVERNMENT-TO-GOVERNMENT NEGOTIATIONS

11. Q: WHO SELECTS THE ACCOUNT INTO WHICH THE LOCAL CURRENCY IS DEPOSITED? HOW IS THIS DONE?

- A: THE DEPOSITORY BANK WILL BE A BANK SELECTED BY THE TREASURY AND THE ACCOUNT WILL BE A TREASURY ACCOUNT. WHEN NEGOTIATING INSTRUCTIONS FOR A TITLE I AGREEMENT ARE SENT, INCLUDED IN SUCH INSTRUCTIONS WILL BE INFORMATION ABOUT THE DEPOSITORY BANK.

12. Q: MAY THE DEPOSITORY BANK ALSO BE AN IFI BORROWER?

- A: YES. BUT THE DEPOSIT AND LENDING TRANSACTIONS SHOULD BE HANDLED AS SEPARATE TRANSACTIONS.

13. Q: MUST THE SECTION 106 (COUNTRY-OWNED) ACCOUNT BE A SEPARATE ACCOUNT?

- A: A SEPARATE ACCOUNT IS PREFERABLE. BUT THE IPG IS FREE TO CONFORM SECTION 106 ACCOUNT PROCEDURES TO OTHER PL 480 COUNTRY-OWNED COUNTERPART PROCEDURES IF THIS IS NECESSARY.

14. Q: HOW ARE DISBURSEMENTS TO IFIS TO BE HANDLED? A SINGLE BULLET DISBURSEMENT IN ADVANCE? DISBURSEMENTS ONLY AGAINST EVIDENCE OF AN IFI HAVING ORIGINATED OR MADE COMMITMENTS FOR ELIGIBLE SUBLOANS?

- A: GENERAL USG DISBURSEMENT POLICY IS THAT DISBURSEMENTS SHOULD BEAR A RELATION TO THE NEEDS OF THE PROJECT. THIS ASPECT IS NEGOTIABLE BETWEEN IPGS AND IFIS. SEE ANSWER TO QUESTION NO. 6.

15. Q: WHAT ARE INCLUDED IN QUOTE START UP UNQUOTE COSTS OF PVOs AND CO-OPS FOR WHICH GRANTS MAY BE GIVEN? HOW LONG IS A PVO OR CO-OP DEEMED TO BE IN A QUOTE START UP UNQUOTE MODE?

- A: START UP COSTS MAY INCLUDE OPERATING EXPENSES, SALARIES, OFFICE SPACE, EQUIPMENT AND SIMILAR ITEMS. HOWEVER, ~~LENDABLE RESOURCES ARE NOT INCLUDED.~~ THE IMPLEMENTING AGENCY (SUBJECT TO IPG POLICY AND DCC REVIEW) DECIDES WHEN AN IFI IN THIS CATEGORY GRADUATES OUT OF THE START UP MODE. THERE IS A PRESUMPTION THAT IPGS WILL NOT MAKE GRANTS FOR MULTIYEAR PERIODS.

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16. Q: MAY A PVO OR CO-OP IN A START-UP MODE QUALIFY FOR LOWER INTEREST RATE LOANS IF GRANT FUNDS ARE NOT AVAILABLE OR NOT DESIRED?

- A: IT IS USG POLICY TO FUND THESE USES ON A GRANT BASIS. IF GRANT FUNDS ARE NOT AVAILABLE IN THE CURRENT YEAR, HIGHLY UNLIKELY IF PVO NEEDS ARE INCLUDED IN THE QUOTE SNAPSHOT UNQUOTE. PVOs MAY HAVE TO WAIT FOR THE NEXT ANNUAL ALLOCATION CYCLE.

17. Q: MAY NONBANK INSTITUTIONS SUCH AS E.G., FINANCE COMPANIES, QUALIFY AS AN IFI?

- A: YES, IF THEY OTHERWISE MEET THE CRITERIA OF THE GUIDELINES.

18. Q: WHAT IF IN COUNTRY X (AN IMPORTING COUNTRY UNDER TITLE I), A FIRM IS OWNED 10 PERCENT BY LEBANESE NATIONALS, 20 PERCENT BY SPANISH NATIONALS, AND 70 PERCENT BY COUNTRY X NATIONALS? IS IT ELIGIBLE?

- A: YES. UNDER ARTICLE VII, THE FIRM IS SUBSTANTIALLY OWNED BY NATIONALS OF FRIENDLY LDCs. SPANISH OWNERSHIP DOES NOT DISQUALIFY THE FIRM SINCE THEORETICALLY SPAIN IS ELIGIBLE TO RECEIVE TITLE I ASSISTANCE.

19. Q: WHAT IS MEANT BY PROGRAM EVALUATION OF THE QUOTE QUALITY UNQUOTE OF LOANS? DOES THIS REQUIRE USG REVIEW OF IFI SUBLOANS?

- A: IT IS NOT INTENDED THAT IFI SUBLOANS BE SUBJECT TO THE APPROVAL OF THE IMPLEMENTING AGENCIES. CARE IN IFI SELECTION SHOULD BE EXERCISED. OVER TIME, SOME IDEAS ABOUT THE QUOTE QUALITY UNQUOTE ISSUE MAY EMERGE.

20. Q: WHAT IF AN IPG CANNOT PREDICT COUNTRY INTEREST IN SECTION 106 AND 108 AT THE TIME THE ANNUAL QUOTE SNAPSHOT UNQUOTE IS TAKEN. DOES THIS MEAN A LATER DEVELOPING PROGRAM WILL NOT BE CONSIDERED?

- A: IPGS ARE ENCOURAGED TO PRESS FOR SEC 106/108 PROGRAMS AT ALL TIMES. TITLE I AGREEMENTS SIGNED AFTER DECEMBER 1985 MAY BE SUBSEQUENTLY AMENDED TO INCLUDE SECTION 106/108 PROGRAMS.

21. Q: WHAT ABOUT JOINT VENTURES WITH QUOTE SUBSTANTIAL UNQUOTE HOST COUNTRY OWNERSHIP BUT EUROPEAN OWNERSHIP. ARE THESE ELIGIBLE?

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- A: TECHNICALLY YES. A COUNTRY'S PL 480 TITLE I ELIGIBILITY SETS THE STANDARD FOR OWNERSHIP INTERESTS OF CITIZENS. NON COMMUNIST, DEVELOPED COUNTRIES ARE ELIGIBLE FOR PL 480 TITLE I SALES. SO LONG AS THERE IS QUOTE SUBSTANTIAL UNQUOTE LDC OWNERSHIP, I.E. MAJORITY OWNERSHIP, THE JOINT VENTURE IS ELIGIBLE UNDER SECTION 108. THE FOREGOING APPLIES WHERE THERE IS NO GOVERNMENT OWNERSHIP OF CONTROL AND SUCH OWNERSHIP AND CONTROL OF THIRD COUNTRY PARTICIPANTS IS SOLELY BY CITIZENS AND NOT THEIR GOVERNMENTS.

22. Q: COULD A SUBLOAN TO A PRIVATE INDIVIDUAL QUALIFY IN THE CATEGORY OF QUOTE PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS UNQUOTE? WHAT IS INCLUDED IN THIS TERM?

- A: SUBLOANS TO PRIVATE CITIZENS CAN QUALIFY. SOME GUIDANCE ON TYPES OF SELF HELP MEASURES MAY BE FOUND IN PL 480 SEC 106. SUBLOANS TO INDIVIDUALS FOR THE PURCHASE OF LUXURY ITEMS OR FOR CONSUMPTION AS OPPOSED TO PRODUCTIVE ACTIVITIES ARE NOT INTENDED. 44

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CABLEROOH PLEASE ADD ROUTINE ACTION PRECEDENCE:

YAOUNDE
DHAKA
CAIRO
JAKARTA
BAMAKO
RADAT
MANILA
ISLAHABAD
COLOMBO
TUNIS
SANAA
LA PAZ
SAN JOSE
SANTO DOMINGO
QUITO
GEORGETOWN
SAN SALVADOR
GUATEMALA
PORT AU PRINCE
TEGUCIGALPA
KINGSTON
LIMA
NBABANE

State

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18 August 86

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SPECIAL CHARACTERS			
AID/GC/PRE:MKITAY:JT			
08/13/86 EXT. 78235			
AID/AA/FVA/FFP:JBLOCK			
OND:RBOSTICK		TREASURY:RZECHTER	
USDA/FAS:MCAMBLISS		USDA:CPOPE	
STATE/EB/FPG:PBRUCE		OPIC/D:GTUEST	
AID/AA/PPC:BSEVERN			

0421A

ROUTINE ACCRA, CONAKRY, NAIROBI, MONROVIA, ANTANANARIVO, NAPUTO, DAKAR, FREETOWN, NOGADISHU, KHARTOUM, KINSHASA, LUSAKA, ABIDJAN,

AIDAC
E.O. 12356: N/A

TAGS:

SUBJECT: PL 480, TITLE I SECTION 106/108 GUIDELINES ON LOCAL CURRENCY LENDING FOR PRIVATE ENTERPRISE

REF: STATE 189038

1. THE FOLLOWING REVISED GUIDELINES, APPROVED BY THE FOOD AID SUBCOMMITTEE OF THE DCC, ARE BASED UPON FIELD COMMENTS TO REFTEL AND COMMENTS FROM OTHER INTERESTED ORGANIZATIONS. THE REVISIONS TO THE GUIDELINES TOGETHER WITH FURTHER EXPLANATORY INFORMATION TO BE SENT SEPTTEL IN THE FORM OF QUESTIONS AND ANSWERS WILL HELP WITH MANY OF THE QUESTIONS SURROUNDING THE SUBJECT. NO DOUBT FURTHER GUIDANCE WILL BE NEEDED FROM TIME TO TIME. HOWEVER THE FIELD IS GIVEN BROAD AUTHORITY IN THE GUIDELINES TO ACT.

2. THE APPROVED GUIDELINES ARE AS FOLLOWS.

JBML
HGM
RU MK
RZ B
MC mk
CP MK
PB MK
GTM MK
HR MK
GJ

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GUIDELINES
FOR
SALES FOR LOCAL CURRENCIES
PRIVATE ENTERPRISE PROMOTION
UNDER PL 480 TITLE I

AUGUST 14, 1986

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- I. INTRODUCTION AND SUMMARY

ON DECEMBER 23, 1985, THE PRESIDENT SIGNED INTO LAW

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H.R. 2100, THE FOOD SECURITY ACT OF 1985 (THE QUOTE ACT UNQUOTE) (PL 99-198). SECTION 1111 OF THE ACT, TITLED QUOTE SALES FOR LOCAL CURRENCY; PRIVATE ENTERPRISE PROMOTION UNQUOTE, CONTAINS A NUMBER OF AMENDMENTS TO TITLE I, PL 480. THESE AMENDMENTS ARE VIEWED BY THE EXECUTIVE BRANCH AS A MAJOR INITIATIVE TO STIMULATE PRIVATE ENTERPRISE IN DEVELOPING COUNTRIES TO PROMOTE ECONOMIC GROWTH AND DEVELOPMENT. SECTION 1111 CREATES AN INNOVATIVE PROGRAM THAT GOES BEYOND NORMAL PL 480 OPERATIONS AND PROVIDES NEW RESOURCES FOR SUPPORT OF PRIVATE SECTOR ACTIVITIES NOT CURRENTLY BENEFITTING FROM USG RESOURCES.

- THE AMENDMENTS TO TITLE I OF PL 480, ARE DESCRIBED IN DETAIL BELOW. THE PURPOSE OF THESE GUIDELINES IS TO DESCRIBE THE POLICIES AND PROCEDURES WHICH WILL BE USED BY THE EXECUTIVE BRANCH TO IMPLEMENT THESE AMENDMENTS. AS WE GAIN EXPERIENCE WITH THIS PROGRAM, THESE GUIDELINES WILL BE AMENDED AND CLARIFIED.

II. THE AMENDMENTS

- A. GENERAL DESCRIPTION. SECTION 1111 OF THE ACT AMENDS PL 480 TITLE I BY (A) DIRECTING THAT CERTAIN AMOUNTS OF TITLE I COMMODITIES EACH YEAR SHALL BE SOLD FOR LOCAL CURRENCY, AND (B) REQUIRING THAT SUCH LOCAL CURRENCY BE USED, WITHOUT FURTHER APPROPRIATIONS, FOR PRIVATE ENTERPRISE LENDING IN DEVELOPING COUNTRIES. ALSO, SECTION 106 IS AMENDED TO PROVIDE THAT HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED IN CUSTOMARY TITLE I SALES ON DOLLAR CREDIT TERMS BE JOINTLY PROGRAMMED FOR THE SAME PURPOSES.

~~- ALL SUCH LOANS ARE TO BE MADE AND REPAID IN LOCAL CURRENCY AND SHALL BE MADE TO INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) IN THE DEVELOPING COUNTRIES. THE IFIS, IN TURN, WILL RELEND THE LOCAL CURRENCY TO ELIGIBLE PRIVATELY-OWNED ENTERPRISES OR PRIVATE CITIZENS FOR CERTAIN PRIVATE ENTERPRISE PROJECTS OR ACTIVITIES. FUNDS LOANED BY IFIS ARE NOT TO BE USED TO FINANCE STATE-OWNED OR PUBLIC SECTOR ENTERPRISES. NOR ARE THE RESOURCES TO BE DIRECTED TO ENTERPRISES THAT PRODUCE AGRICULTURE PRODUCTS IN COMPETITION WITH U.S. PRODUCTS.~~

- THE STATUTE SEPARATES THE LOCAL CURRENCY LENDING AUTHORITIES INTO TWO CATEGORIES: (A) PL 480, SECTION 106, WHICH DEALS WITH HOST COUNTRY-OWNED LOCAL CURRENCY GENERATED FROM THE COUNTRY'S RESALE OF TITLE I COMMODITIES, AND (B) PL 480, SECTION 108, APPLYING TO

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LOCAL CURRENCY RECEIVED BY THE U.S. IN FULL OR PART PAYMENT FOR THE TITLE I SALE AND DEPOSITED TO AN INTEREST EARNING U.S.-OWNED {FT} ACCOUNT, IN CASH, WHEN OR SHORTLY AFTER THE TITLE I COMMODITIES ARE DELIVERED.

- FOR EACH OF THE FISCAL YEARS 1986 THROUGH 1990, THE PRESIDENT IS ENCOURAGED TO CHANNEL LOCAL CURRENCIES, IN AN AMOUNT EQUIVALENT TO A TOTAL OF 25 PERCENT OF THE VALUE OF TITLE I COMMODITIES, FOR PRIVATE SECTOR LENDING UNDER SECTIONS 106 AND 108, TO THE EXTENT THAT THERE ARE APPROPRIATE PROPOSALS FOR SUCH USE. THE STATUTE MANDATES THAT AT LEAST 10 PERCENT OF THE ANNUAL VALUE OF TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR PRIVATE SECTOR LENDING UNDER SECTION 108.

- IN PROVIDING FOR THESE NEW AUTHORITIES, THE CONFERENCE REPORT RECOGNIZES THE WILL OF CONGRESS TO DIRECT FOREIGN ASSISTANCE MORE TOWARD THE PRIVATE SECTOR. FURTHERMORE, THE CONFEREES STATE THAT THEY INTEND TO JUDGE THE PERFORMANCE OF THE ADMINISTRATION OF THESE AUTHORITIES ON THE QUALITY OF INVESTMENTS MADE UNDER THE PROGRAM, AND NOT UPON THE VOLUME OF FUNDS DIRECTED TO IFIS. THE CONFEREES STATE THAT THEY INTEND THAT THE PERFORMANCE OF THESE AND OTHER PROGRAMS WITH MANDATORY MINIMUMS OR TARGETS BE EXAMINED THOROUGHLY DURING THE NEXT REAUTHORIZATION OF PL 480 IN 1990.

- B. HOST COUNTRY-OWNED LOCAL CURRENCIES {SECTION 106}

- SECTION 106 OF PL 480 PROVIDES FOR PRIVATE ENTERPRISE PROMOTION ACTIVITIES UNDER SALES OF AGRICULTURAL COMMODITIES FOR DOLLARS ON CREDIT TERMS. LOCAL CURRENCY PROCEEDS FROM THE SALES OF THESE COMMODITIES ARE PLACED IN QUOTE JOINTLY PROGRAMMED ACCOUNTS UNQUOTE AND THEREAFTER LOANED TO IFIS FOR RELENDING TO ELIGIBLE PRIVATE ENTERPRISES. IN THE CASE OF A COOPERATIVE OR PRIVATE AND VOLUNTARY ORGANIZATION, LOCAL CURRENCY PROCEEDS MAY BE GRANTED TO DEFRAY THE STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

- C. U.S.-OWNED LOCAL CURRENCIES {SECTION 108}

- UNDER SECTION 108, THE MAJOR PORTION OF THIS NEW INITIATIVE, THE PRESIDENT IS AUTHORIZED TO ENTER INTO AGREEMENTS FOR THE SALE OF TITLE I COMMODITIES FOR LOCAL CURRENCIES. THE LOCAL CURRENCIES SHALL BE PAID INTO A U.S.-OWNED {FT} DEPOSITORY ACCOUNT. THEREAFTER, DISBURSEMENTS FROM THIS ACCOUNT SHALL BE MADE TO IFIS PURSUANT TO THE TERMS OF LOAN AGREEMENTS BETWEEN THE U.S. AND IFIS.

- FOR EACH OF FISCAL YEARS 1986 THROUGH 1990, THE ACT PROVIDES THAT NO LESS THAN 10 PERCENT OF THE AGGREGATE VALUE OF PL 480 TITLE I COMMODITIES SHALL BE SOLD FOR LOCAL CURRENCY FOR SECTION 108 PURPOSES, PROVIDED THAT THIS REQUIREMENT MAY BE WAIVED IN ANY YEAR IN WHICH MEETING THE MINIMUM WOULD RESULT IN A SIGNIFICANT REDUCTION IN THE VOLUME OF COMMODITIES FURNISHED UNDER TITLE I.

- INCLUDED IN THE TITLE I SALES AGREEMENTS SHALL BE A SCHEDULE PERMITTING THE EVENTUAL CONVERSION OF THESE SECTION 108 CURRENCIES TO DOLLARS OVER AN INTENDED 10 TO 30 YEAR PERIOD FOLLOWING DELIVERY OF THE COMMODITIES. THE RATES OF EXCHANGE FOR THE CONVERSIONS WILL BE THOSE IN EFFECT AT THE TIME EACH CONVERSION TAKES PLACE. THE CONFERENCE REPORT EXPRESSLY RECOGNIZES THAT THE U.S. GOVERNMENT MAY BEAR SOME OF THE FOREIGN EXCHANGE RISK.

- LOANS TO IFIS ARE TO BE MADE AT REASONABLE INTEREST RATES AS DETERMINED BY THE PRESIDENT. GENERALLY, THESE WILL BE CONSISTENT WITH BUSINESS PRACTICES. HOWEVER, PREFERENTIAL RATES OF INTEREST ARE AUTHORIZED FOR COOPERATIVES AND PRIVATE VOLUNTARY ORGANIZATIONS FOR STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY. LOCAL CURRENCY GRANTS ARE ALSO AUTHORIZED TO THE FOREGOING TO HELP DEFRAY STARTUP COSTS OF BECOMING A FINANCIAL INTERMEDIARY.

- ONCE THE FINANCIAL INTERMEDIARIES BEGIN TO MAKE REPAYMENTS OF THEIR LOANS TO THE UNITED STATES-OWNED DEPOSITORY ACCOUNT, THESE REFLOWS MAY BE: (A) RELOANED TO IFIS TO FINANCE ADDITIONAL PRIVATE INVESTMENT, (B) USED FOR AGRICULTURAL MARKET DEVELOPMENT, (C) USED, SUBJECT TO APPROPRIATIONS, TO PAY ANY U.S. OBLIGATIONS WITHIN THE RECIPIENT COUNTRY, OR (D) CONVERTED TO DOLLARS.

- TO THE MAXIMUM EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE LOCAL CURRENCIES DEPOSITED IN THE UNITED STATES-OWNED DEPOSITORY ACCOUNTS SHALL BE USED TO PROVIDE AGRICULTURAL TECHNICAL ASSISTANCE, INCLUDING THE FUNDING OF MARKET DEVELOPMENT ACTIVITIES.

- PROCUREMENT AND OTHER CONTRACTING REQUIREMENTS NORMALLY APPLICABLE TO APPROPRIATED FUNDS SHALL NOT APPLY TO SECTION 108 LOCAL CURRENCY USED FOR PRIVATE ENTERPRISE LENDING.

- STATUTORY HISTORY STATES THAT THE PROGRAM IS NOT

INTENDED TO AFFECT EXISTING CURRENCY USE PAYMENTS.

III. HOST COUNTRY SELECTION AND SUITABILITY

- A. GENERAL POLICY. TO MEET THE DEVELOPMENT PURPOSES OF THE STATUTE, IT IS EXECUTIVE BRANCH POLICY TO ACTIVELY PROMOTE SECTION 106 AND SECTION 108 LENDING PROGRAMS IN AS MANY TITLE I COUNTRIES AS MAY BE PRACTICABLE.

- B. COUNTRY ALLOCATIONS. TO FACILITATE EXECUTIVE BRANCH COMPLIANCE WITH ANNUAL STATUTORY LENDING TARGETS AND {IF NECESSARY} PERMIT A MORE RATIONAL ALLOCATION OF SECTION 108 SALES-FOR-LOCAL-CURRENCY AUTHORITY, EACH IN COUNTRY POLICY GROUP {QUOTE IPG UNQUOTE AS LATER DEFINED} WILL BE REQUESTED, ANNUALLY, TO ESTIMATE THE ABILITY AND WILLINGNESS OF THE COOPERATING COUNTRY TO NEGOTIATE SECTIONS 106 AND 108 PRIVATE SECTOR LENDING PROVISIONS IN THE FOLLOWING YEAR'S TITLE I SALES AGREEMENTS. REQUESTS FOR SUCH ESTIMATES WILL HELP DETERMINE WHETHER ON A GLOBAL BASIS TITLE I COUNTRIES CAN BE EXPECTED TO MEET OR EXCEED THE 25 PERCENT COMBINED SECTIONS 106 AND 108 STATUTORY LENDING TARGET, BASED ON THE MOST CURRENT TITLE I COUNTRY BUDGET LEVELS, AND WHETHER ANY ONE COUNTRY CAN MEET OR EXCEED THE 10 PERCENT SECTION 108 LENDING TARGET. TO THE EXTENT PRACTICABLE, THESE ANNUAL ESTIMATES WILL INCLUDE AMOUNTS INTENDED TO BE ALLOCATED TO PVOS AND CO-OPS ON A GRANT BASIS FOR START UP COSTS.

- IPG KNOWLEDGE OF LOCAL IFI ABSORPTIVE CAPACITY FOR LOCAL CURRENCY AS WELL AS COOPERATING COUNTRY ATTITUDES TOWARD THIS PRIVATE SECTOR LENDING PROGRAM WILL BE IMPORTANT IN RESPONDING TO SUCH ANNUAL REQUESTS. ANALYSIS OF THE SUM OF THESE FIELD RESPONSES WILL GIVE THE DCC'S FOOD AID SUBCOMMITTEE AN EARLY QUOTE SNAPSHOT UNQUOTE OF WHETHER THE EXECUTIVE BRANCH WILL BE ABLE TO MEET OR EXCEED THE STATUTORY TARGETS.

- IT SHOULD BE NOTED THAT THE 25 PERCENT AND 10 PERCENT STATUTORY TARGETS ARE AGGREGATE TARGET LEVELS; INDIVIDUAL COUNTRY LEVELS MAY BE HIGHER OR LOWER. HOWEVER, IPGS ARE ENCOURAGED TO SEEK WAYS TO USE THIS PRIVATE SECTOR APPROACH TO DEVELOPMENT.

- C. ELIGIBLE COUNTRIES. ALL COUNTRIES PARTICIPATING IN TITLE I SALES PROGRAMS ARE ELIGIBLE FOR THIS PROGRAM. PROGRAMS SHOULD BE DESIGNED IN A MANNER WHICH ENSURES CONSISTENCY WITH OR DOES NOT UNDERCUT EFFORTS OF THE U.S. GOVERNMENT OR INTERNATIONAL FINANCIAL INSTITUTIONS TO PROMOTE FINANCIAL SECTOR POLICY REFORM.

IV. PROGRAM DEVELOPMENT, REVIEW, AND APPROVAL PROCEDURES.

- A. USES OF SECTION 106 AND 108 RESOURCES. THESE GUIDELINES AND GUIDANCE ON LOAN AND GRANT TERMS SHALL BE ADMINISTERED BY IN COUNTRY POLICY GROUPS (IPG), CHAIRED BY THE AMBASSADOR OR DESIGNEE AND CONSISTING OF THE AID MISSION DIRECTOR, AGRICULTURE ATTACHE, ECONOMIC COUNSELOR, AND OTHER EMBASSY REPRESENTATIVES FROM THE OTHER DCC AGENCIES AND DEPARTMENTS OR THEIR DESIGNEES. THE IPG ALSO HAS THE AUTHORITY FOR THE FINAL SELECTION OF THE IFI OR IFI'S. SPECIFIC SECTION 106 AND 108 PROGRAMS SHALL BE DEVELOPED AND ADMINISTERED BY RESIDENT AID MISSIONS. AID IS RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFIS. ON OPIC-RELATED PROJECTS, OPIC WILL BE RESPONSIBLE FOR THE NEGOTIATIONS WITH THE IFIS.

- IN THOSE COUNTRIES WHERE OPIC HAS RELEVANT EXPERIENCE AND COMPETENCE, THE IPGS ARE INSTRUCTED TO TAKE THIS EXPERIENCE AND COMPETENCE INTO ACCOUNT FULLY. OPIC SHALL BE ADVISED IN A TIMELY MANNER OF TITLE I NEGOTIATIONS SO IT CAN MAKE PROPOSALS FOR IPG APPROVAL.

- PRIOR TO THE COMMENCEMENT OF THE TITLE I NEGOTIATIONS, THE INTERAGENCY GROUP IN WASHINGTON SHALL EXERCISE CENTRAL BUDGET CONTROL, AND ALLOCATE FUNDING LEVELS REQUESTED FOR SECTION 106 AND 108 USES, INCLUDING AMOUNTS TO BE ALLOCATED ON A GRANT BASIS.

- B. USES OF REFLOWS UNDER SECTION 108. LOCAL CURRENCY REPAYD BY IFIS TO THE U.S. MAY BE REUSED FOR ADDITIONAL PRIVATE ENTERPRISE LENDING TO IFIS, THE DEVELOPMENT OF NEW MARKETS FOR US AGRICULTURAL COMMODITIES, THE REPAYMENT OF U.S. OBLIGATIONS (SUBJECT TO APPROPRIATIONS), OR CONVERSION TO DOLLARS. THE INTERAGENCY GROUP SHALL CONSIDER, AND APPROVE AS MAY BE NECESSARY, PROPOSALS FOR THE USE OF REFLOWS ON THE RECOMMENDATIONS OF THE IPGS.

V. PROGRAM IMPLEMENTATION PROCEDURES

- A. AGREEMENTS. AS PROVIDED FOR IN NEGOTIATING INSTRUCTIONS, TITLE I SALES AGREEMENTS WILL INCLUDE SECTION 108 LOCAL CURRENCY PAYMENT TERMS AND SECURE COOPERATING COUNTRY SUPPORT IN GENERAL FOR PLANNED OR ANTICIPATED SECTION 106 AND 108 ACTIVITIES.

- ONCE A SECTION 108 DESIGNATED DEPOSITORY ACCOUNT

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IS ESTABLISHED IN A COUNTRY, SEPARATE LOAN AGREEMENTS, CONTRACTS, AND GRANT AGREEMENTS ARE REQUIRED BY LAW TO OBLIGATE THE U.S.-OWNED CURRENCIES FOR SECTION 108 PURPOSES. AID, AND AS APPROPRIATE, OPIC SHALL BE THE IMPLEMENTING AGENCIES FOR LOANS AND GRANTS TO IFIS. USDA, USING NORMAL CONTRACTING PROCEDURES, SHALL BE THE IMPLEMENTING AGENCY FOR TECHNICAL ASSISTANCE ACTIVITIES TO INCREASE MARKETS FOR U.S. AGRICULTURAL COMMODITIES.

- B. METHOD FOR HOST COUNTRY DEPOSITS OF LOCAL CURRENCY INTO THE SECTION 108 USG-OWNED ACCOUNT. THE TITLE I AGREEMENT PAYMENT TERMS MAY BE EXPRESSED IN LOCAL CURRENCY TERMS, OR IN A COMBINATION OF DOLLAR CREDIT AND LOCAL CURRENCY TERMS. IN THE LATTER CASE, A SPECIFIED PORTION OF THE COMMODITIES SHALL BE PURCHASED FOR DOLLARS ON CREDIT TERMS AND A PORTION SHALL BE PURCHASED FOR LOCAL CURRENCY ON CASH TERMS. ~~THE LOCAL CURRENCY SHALL BE PAYABLE WITHIN ONE HUNDRED TWENTY (120) DAYS AFTER THE DATE OF DISBURSEMENT BY THE U.S. BANK TO THE US EXPORTER (I.E. APPROXIMATELY 120 DAYS AFTER DELIVERY OF THE COMMODITIES TO VESSELS AT U.S. PORTS WHEN TITLE SHIFTS TO THE IMPORTING COUNTRY.)~~ THE LOCAL CURRENCIES SHALL BE DEPOSITED IN INTEREST EARNING BANK ACCOUNTS.

C. DEPOSIT INTO A SECTION 106 (COUNTRY - OWNED) ACCOUNT. PREFERABLY, THE SECTION 106 ACCOUNT WILL BE A SEPARATE ACCOUNT. HOWEVER, THE IPG MAY PERMIT SECTION 106 FUNDS TO BE COMMINGLED WITH OTHER SELF-HELP FUNDS AND/OR HANDLED IN ACCORDANCE WITH LOCAL CUSTOM FOR THE DEPOSIT OF PL 480 COUNTERPART FUNDS. PROVISION SHALL BE MADE TO SECURE AUDIT REPORTS ON THE USE OF SECTION 106 FUNDS.

VI. ELIGIBLE INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) AND LOAN TERMS

- THESE GUIDELINES ARE APPLICABLE EQUALLY TO SECTION 106 AND SECTION 108 LENDING PROGRAMS UNLESS OTHERWISE INDICATED.

- A. ELIGIBLE IFIS. ~~AN ELIGIBLE IFI IS A BANK, FINANCIAL INSTITUTION, COOPERATIVE, NONPROFIT VOLUNTARY AGENCY, OR OTHER ORGANIZATION DETERMINED BY THE PRESIDENT TO HAVE THE CAPABILITY TO MAKE AND SERVICE A LOAN IN ACCORDANCE WITH THIS STATUTE.~~ NON BANK FINANCIAL INSTITUTIONS SUCH AS EXPORT FINANCE COMPANIES ALSO MAY BE INCLUDED AT THE DISCRETION OF THE IPG. INDIGENOUS PVO'S AND CO-OPS MAY BE ELIGIBLE IFI'S

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- AN IFI SHALL BE LOCATED IN OR OPERATE IN THE HOST COUNTRY. IT SHALL BE ORGANIZED UNDER THE LAWS OF THE HOST COUNTRY, OR IF ORGANIZED ELSEWHERE, BE DULY LICENSED TO OPERATE WITHIN THE HOST COUNTRY. THE IFI SHALL HAVE FULL LEGAL AUTHORITY TO BORROW FROM THE USG AS WELL AS FROM THE HOST GOVERNMENT UNDER SECTION 106J AND ENGAGE IN RELENDING AS CONTEMPLATED.

- GENERALLY, (EXCEPT FOR CERTAIN PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVE PROPOSALS ENCOURAGED UNDER THE STATUTE) IFIS SHALL BE SOUND, GOING, FINANCIAL CONCERNS, WITH A HISTORY OF STABILITY, FINANCIAL STRENGTH, AND EXPERIENCE. THE SELECTION OF A SPECIFIC IFI SHALL BE BASED UPON A CONCLUSION THAT IN THE EVENT OF A DEFAULT, THE US WOULD BE ABLE TO COMMENCE LEGAL ACTION FOR DAMAGES AND COLLECT UPON ANY JUDGEMENT RENDERED IN FAVOR OF THE U.S.

- FOR SECTION 106 LENDING PURPOSES ONLY, STRONG PREFERENCE SHALL BE GIVEN TO WHOLLY PRIVATELY-OWNED AND CONTROLLED IFIS WHOSE OWNERSHIP IS SUBSTANTIALLY IN THE CONTROL OF NATIONALS OR FIRMS OF THE COOPERATING COUNTRY, THE U.S., OR OTHER FRIENDLY LESS-DEVELOPED COUNTRIES. WHERE THERE IS A CHOICE, THE USG AND THE COOPERATING COUNTRY SHOULD SELECT PRIVATE SECTOR IFIS, THE IMPLEMENTING AGENCY SHALL ASSURE THAT NOTWITHSTANDING THE PUBLIC SECTOR OWNERSHIP OF THE IFI, ITS LENDING ACTIVITIES ARE CONDUCTED ON PRIVATE MARKET BASED PRINCIPLES.

- HOWEVER FOR SECTION 108 LENDING PURPOSES, IT IS EXECUTIVE BRANCH POLICY THAT ONLY PRIVATELY-OWNED IFIS, WITH NO PUBLIC SECTOR OWNERSHIP, SHALL BE ELIGIBLE TO RECEIVE LOANS.

- B. LOAN TERMS TO IFIS. IN LOAN AGREEMENTS BETWEEN THE USG AND IFIS, THE INTEREST RATE CHARGED IFIS FOR BOTH SECTION 106 AND SECTION 108 SHOULD NORMALLY APPROXIMATE THE COST OF OBTAINING LENDABLE RESOURCES OF COMPARABLE MATURITIES FROM THE FREE PRIVATE CAPITAL MARKET IN THE INDIVIDUAL COOPERATING COUNTRY. IF INTEREST RATES WITHIN THAT COUNTRY ARE HELD DOWN ARTIFICIALLY BY GOVERNMENT POLICIES, THE RATE CHARGED THE IFIS SHOULD BE SET WITHIN THE CONTEXT OF US EFFORTS TO ENCOURAGE OVERALL POLICY REFORMS.

- WHILE THE STATUTE PERMITS LOWER INTEREST RATES TO BE CHARGED PRIVATE AND VOLUNTARY ORGANIZATIONS AND COOPERATIVES FOR STARTUP COSTS OF BECOMING IFIS, IT IS

EXECUTIVE BRANCH POLICY TO PROVIDE LOCAL CURRENCY FOR THESE PURPOSES ON A GRANT BASIS.

- ALL USG LOANS TO IFIS SHALL TRANSFER THE FULL CREDIT RISK TO THE IFI. THE USG SHALL NOT SHARE THE CREDIT RISK OF IFI SUBLOANS.

- THE MAXIMUM LOAN MATURITY TO AN IFI SHALL BE NEGOTIABLE. EFFORTS SHALL BE MADE HOWEVER TO MAKE LOAN MATURITIES CONFORM TO LOCAL CREDIT MARKET CONDITIONS.

- THE IMPLEMENTING AGENCIES SHALL NEGOTIATE LOAN TERMS WITH IFIS SUBJECT TO THESE GUIDELINES AND POLICIES SET BY THE IPG. FIXED OR FLOATING RATE TERMS ARE ACCEPTABLE, SUBJECT TO LOCAL MARKET CONDITIONS.

- C. FORM OF LOAN AND GRANT AGREEMENTS. SAMPLE LOAN AND GRANT AGREEMENTS BETWEEN THE USG AND IFIS SHALL BE SUPPLIED TOGETHER WITH ANNOTATIONS INDICATING WHICH CLAUSES ARE MANDATORY. LOAN AGREEMENTS BETWEEN IFIS AND SUBBORROWERS SHALL FOLLOW THE IFI'S STANDARD PRACTICE.

VII. ELIGIBLE PRIVATE ENTERPRISES AND LOAN TERMS

- A. ELIGIBLE SUBBORROWERS. SUBBORROWERS MAY BE INDIVIDUALS, PRIVATE AND VOLUNTARY ORGANIZATIONS, COOPERATIVES, CORPORATIONS, OR OTHER ENTITIES FORMED OR OPERATING SUBSTANTIALLY WITHIN THE COOPERATING COUNTRY.

- (A) NATIONALITY. TO BE ELIGIBLE TO RECEIVE A SUBLOAN FROM AN IFI, AN INDIVIDUAL SHALL BE A NATIONAL OF THE COOPERATING COUNTRY OR OF ANY OTHER FRIENDLY LESS DEVELOPED COUNTRY. FIRMS OR OTHER ENTITIES AS SUBBORROWERS MUST BE OWNED DIRECTLY OR INDIRECTLY BY FIRMS OR NATIONALS OF THE COOPERATING COUNTRY OR THOSE OF ANY OTHER COUNTRY ELIGIBLE FOR TITLE I SALES; PROVIDED THAT UP TO 49 PERCENT OF SUCH OWNERSHIP MAY BE HELD BY CITIZENS OF THE U.S.; AND PROVIDED FURTHER THAT IF OWNERSHIP IS HELD BY NATIONALS OF THIRD COUNTRIES, SUBSTANTIAL OWNERSHIP AND CONTROL SHALL BE VESTED IN NATIONALS OF FRIENDLY LESS DEVELOPED COUNTRIES. THE LOAN AGREEMENT WITH IFIS SHALL REQUIRE THE IFI TO ASSURE THE ELIGIBILITY OF SUBBORROWERS.

- (B) PRIVATE SECTOR. SUBBORROWERS SHALL NOT BE OWNED OR CONTROLLED, IN WHOLE OR IN PART, BY THE PUBLIC SECTOR OR BY ANY GOVERNMENTAL DIVISION, AUTHORITY, OR

SUBDIVISION OF THE COOPERATING COUNTRY. INTERNATIONAL ORGANIZATIONS, MUNICIPAL AUTHORITIES, PARASTATALS OR OTHER ENTITIES NOT WHOLLY OWNED AND CONTROLLED BY PRIVATE FIRMS OR INDIVIDUALS ARE NOT ELIGIBLE SUBBORROWERS. THE STATUTE IS CLEAR IN ITS INTENTION THAT THE SUBLOANS BE MADE TO WHOLLY PRIVATE FIRMS AND INDIVIDUALS, NOT SUBJECT TO GOVERNMENT CONTROL.

- B. ELIGIBLE SUBLOAN PURPOSES. THE STATUTE (SECTION 108) PROVIDES THAT IFI SUBLOANS SHALL BE MADE FOR THE PURPOSE OF FINANCING:

- QUOTE (A) PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT WITHIN SUCH COUNTRY, INCLUDING SUCH INVESTMENT IN PROJECTS CARRIED OUT BY COOPERATIVES, NONPROFIT VOLUNTARY ORGANIZATIONS, AND OTHER ENTITIES FOUND TO BE QUALIFIED BY THE PRESIDENT;

- (B) PRIVATE ENTERPRISE FACILITIES FOR AIDING THE UTILIZATION AND DISTRIBUTION, AND INCREASING THE CONSUMPTION OF AND MARKETS FOR, UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF; OR

- (C) PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS. UNQUOTE

- THE IFI LOAN AGREEMENT SHALL REQUIRE AN IFI, TO THE MAXIMUM EXTENT FEASIBLE, TO GIVE PREFERENCE TO THE FINANCING OF AGRICULTURAL RELATED PRIVATE ENTERPRISE WITH THE FUNDS PROVIDED UNDER THIS SECTION.

- SECTION 106 REFERS MORE GENERALLY TO QUOTE PRIVATE SECTOR DEVELOPMENT ACTIVITIES UNQUOTE WITHOUT REFERENCE TO A PREFERENCE FOR AGRICULTURAL PURPOSES. NEVERTHELESS, AS A MATTER OF POLICY, THE PERMISSIBLE PURPOSES OF SECTION 106 AND 108 SHALL BE READ TOGETHER AND READ BROADLY TO INCLUDE A WIDE VARIETY OF LOAN PURPOSES AND A PREFERENCE FOR AGRICULTURAL-RELATED ACTIVITIES. TO THE EXTENT PRACTICABLE, SECTION 106 AND 108 FUNDED IFI LOAN AGREEMENTS SHALL BE SIMILAR IN THEIR TERMS AND PURPOSES.

- C. SUBLOAN TERMS. USG POLICY IS THAT INTEREST RATES FOR PRIVATE BORROWERS SHOULD NOT BE LESS THAN PREVAILING FREE MARKET INTEREST RATES OR A RATE WHICH APPROXIMATES THE OPPORTUNITY COST OF CAPITAL IN THE INDIVIDUAL DEVELOPING COUNTRY. THE INTEREST RATE CHARGED TO THE SUBBORROWERS BY THE IFI SHOULD COVER COSTS OF LENDING IN A MANNER CONSISTENT WITH COMMERCIAL PRACTICE.

- IN MANY OF THE DEVELOPING COUNTRIES PREVAILING RATES ARE DISTORTED BY LOW LEGAL CEILINGS ON INTEREST RATES, OTHER DIRECT INTERVENTIONS IN THE LOCAL CAPITAL MARKET BY THE GOVERNMENT, OR INAPPROPRIATE FISCAL AND CREDIT POLICIES. IN SUCH COUNTRIES, INTEREST RATES TO BE CHARGED TO PRIVATE ENTERPRISES SHOULD BE SET WITHIN THE CONTEXT OF EFFORTS TO ENCOURAGE THE GOVERNMENT TO PROGRESSIVELY REMOVE THE IMPEDIMENTS TO A FREE CAPITAL MARKET.

- D. OTHER TERMS. PROCUREMENT REGULATIONS APPLICABLE UNDER THE FOREIGN ASSISTANCE ACT AND OTHER USG STATUTES INCLUDING, BUT NOT LIMITED TO, RULES FOR COMPETITIVE PROCUREMENT AND THE QUOTE BUY AMERICA UNQUOTE PROVISIONS ARE NOT APPLICABLE TO PRIVATE ENTERPRISE PROCUREMENT WITH US-OWNED CURRENCIES LOANED BY IFIS.

VIII. USE AND DISPOSITION OF IFI LOAN REPAYMENTS

- A. SECTION 106. THE TITLE I SALES AGREEMENT WILL PROVIDE FOR A JOINTLY PROGRAMMED ACCOUNT FOR SECTION 106 LOCAL CURRENCY LOAN USES. CONSIDERATION SHOULD BE MADE TO NEGOTIATE A FIXED LIFE OF THIS ACCOUNT, DURING WHICH DEBT SERVICE REPAYMENTS BY IFIS WILL BE MADE TO THE ACCOUNT RATHER THAN TO OTHER HOST COUNTRY ACCOUNTS. AFTER THE ACCOUNT IS TERMINATED, DEBT SERVICE PAYMENTS WILL BE MADE DIRECTLY TO THE COOPERATING COUNTRY.

- B. SECTION 108. ALL THE SECTION 108 USES OF REFLOWS ARE AVAILABLE WITHOUT CHARGING AN APPROPRIATION EXCEPT USE FOR PAYMENT OF U.S. OBLIGATIONS. SEE SECTION 108(D)(2) AND (3). THE TITLE I SALES AGREEMENTS CONTAINING PROVISIONS WHICH PROVIDE FOR SECTION 108-RELATED ACCOUNTS SHALL PROVIDE, TO THE EXTENT PRACTICABLE, THAT THE U.S. SHALL BE ENTITLED, AT ITS OWN OPTION, TO USE REFLOWS FOR ALL OF THE FOUR PURPOSES AUTHORIZED BY THE STATUTE. BECAUSE OF THE NEED FOR SOME CENTRAL BUDGET CONTROL, THE FOOD AID SUBCOMMITTEE SHALL ALLOCATE LOCAL CURRENCY REFLOWS TO POTENTIALLY COMPETING REQUESTS FOR SUCH CURRENCIES: ANNUAL FIELD REQUESTS FOR

SECTION 108 AUTHORITY SHALL INCLUDE, AS APPROPRIATE, REQUESTS FOR THE REUSE OF REFLWS.

IX. SPECIAL STATUTORY PROVISIONS

- A. PUBLICITY REQUIREMENTS. THE STATUTE CONTAINS TWO REFERENCES TO PUBLICITY: SECTION 108(A)(2) AND 108(C)(7). THE FORMER PROVIDES THAT PRIOR TO LENDING THE LOCAL CURRENCY, THE PRESIDENT SHALL TAKE SUCH STEPS AS ARE NECESSARY TO ASSURE THAT THE AVAILABILITY OF LOCAL CURRENCIES TO FINANCIAL INTERMEDIARIES IS ADEQUATELY PUBLICIZED WITHIN THE PURCHASING COUNTRY. GENERAL PRESS GUIDANCE ON THE FOOD SECURITY ACT OF 1985 RELEASED BY THE USG IN 1986 AND PUBLISHED BY THE FOREIGN PRESS WILL MEET SOME OF THE REQUIREMENTS OF THIS SECTION. THE PREFERRED METHOD FOR FURTHER COMPLIANCE IS TO MAKE THIS INFORMATION KNOWN IN PRESS RELEASES WHICH ANNOUNCE THE EXECUTION OF THE TITLE I AGREEMENT CONTAINING PRIVATE ENTERPRISE LENDING PROVISIONS. SUCH PRESS RELEASES WILL ALSO SOLICIT PROPOSALS FROM IFIS WHO DESIRE TO PARTICIPATE IN THE PROGRAM.

- THE SECOND PUBLICITY PROVISION RELATES TO IFI BORROWERS PUBLICIZING THE AVAILABILITY OF LOCAL CURRENCY RESOURCES FOR THE PRIVATE SECTOR. STANDARD LANGUAGE IN THE FORM OF LOAN AGREEMENT BETWEEN THE USG AND AN IFI CALLING FOR IFIS TO PUBLISH FACTS ABOUT THE PROGRAM IN LOCAL NEWSPAPERS WILL ALLOW THIS REQUIREMENT TO BE MET.

- EFFORTS SHALL BE MADE TO INCLUDE SIMILAR PUBLICITY REQUIREMENTS IN SECTION 106 PROGRAMS.

- B. MANDATORY CONVERSIONS OF LOCAL CURRENCY TO DOLLARS. SECTION 103(M), AS AMENDED, PROVIDES THAT FOREIGN CURRENCIES TO BE USED UNDER SECTION 108 QUOTE ACQUIRED UNDER AN AGREEMENT FOR THE SALE OF COMMODITIES UNQUOTE BE CONVERTIBLE TO DOLLARS DURING THE PERIOD ~~BEGINNING NOT LATER THAN 30 YEARS AFTER THE DATE OF THE LAST DELIVERY OF COMMODITIES AND ENDING 30 YEARS THEREAFTER. THE SALES AGREEMENT SHALL ESTABLISH A SCHEDULE FOR THE CONVERSION.~~ THE EXCHANGE RATE FOR EACH CONVERSION SHALL BE THE HIGHEST RATE, YIELDING THE MOST DOLLARS, APPLICABLE IN THE COOPERATING COUNTRY ON THE DATE OF EACH CONVERSION.

- STANDARD NEGOTIATING INSTRUCTIONS FOR TITLE I AGREEMENTS WILL PROVIDE THAT AN AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF LOCAL CURRENCY INITIALLY DEPOSITED IN THE SECTION 108 ACCOUNT SHALL BE SUBJECT TO THIS HOST

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COUNTRY PROMISE OF CONVERTIBILITY. ~~THIS SUM SHALL BE FIXED WHEN FULL INITIAL DEPOSIT INTO THE SECTION 108 ACCOUNT HAS OCCURRED.~~ IT IS INTENDED THAT THIS LOCAL CURRENCY SUM WILL BE GRADUALLY CONVERTED TO DOLLARS OVER A TIME PERIOD NEGOTIATED IN THE TITLE I SALES AGREEMENT AND REPATRIATED TO THE C.C.C. IN ITS REQUEST FOR A SECTION 108 PROGRAM, THE IPG SHALL PROPOSE TERMS FOR THIS CONVERSION AND RECEIVE INSTRUCTIONS FROM THE INTERAGENCY GROUP.

- THIS SECTION 108 CONVERSION RIGHT SHALL BE IN ADDITION TO ALL OTHER CONVERSION RIGHTS OTHERWISE AVAILABLE TO THE USG IN THE RESPECTIVE COOPERATING COUNTRIES.

- C. COMPETITION WITH U.S. AGRICULTURAL COMMODITIES IN WORLD MARKETS. SECTION 108(B)(4)(B) AND SECTION 108(C)(5) OPERATE TO PROHIBIT SUBLOANS WHICH WOULD PROMOTE THE PRODUCTION OF COMMODITIES OR THE PRODUCTS THEREOF THAT THE PRESIDENT DETERMINES WILL COMPETE IN WORLD MARKETS WITH SIMILAR ITEMS PRODUCED IN THE U.S. THIS REQUIREMENT IS OPERABLE ONLY WITH RESPECT TO EXPORTS, NOT LOCAL CONSUMPTION. FOR PROPOSED IFI SUBLOANS INVOLVING AGRICULTURAL EXPORTS THE IFI LOAN AGREEMENTS SHALL REQUIRE THE PRIOR APPROVAL OF A DESIGNATED U.S. OFFICIAL IN THE FIELD. A LIST OF SUCH COMMODITIES WILL BE PROVIDED UNDER SEPARATE COVER. USDA/FAS WILL PROVIDE ADDITIONAL GUIDANCE FROM TIME TO TIME.

- D. HOST COUNTRY GUARANTEES. SECTION 108(C)(6) PROVIDES THAT THE PRESIDENT MAY NOT REQUIRE A DEVELOPING COUNTRY TO GUARANTY AN IFI'S REPAYMENT OF A SECTION 108 LOAN. THE USG SHALL TAKE THE CREDIT RISK ON EACH LOAN TO AN IFI.

- E. AGRICULTURAL TECHNICAL ASSISTANCE AND FOREIGN MARKET DEVELOPMENT. SECTION 108(D)(2)(B), RE-USE OF REFLOWS ON CURRENCIES REPAYED BY IFIS, CALLS FOR THE USE OF LOCAL CURRENCY TO DEVELOP NEW MARKETS FOR U.S. AGRICULTURAL COMMODITIES.

- SECTION 108(F) ALSO ALLOWS THE PRESIDENT TO PROVIDE QUOTE AGRICULTURAL TECHNICAL ASSISTANCE UNQUOTE TO FURTHER THE PURPOSES OF SECTION 108, INCLUDING THE FUNDING OF MARKET DEVELOPMENT ACTIVITIES. TO THE MAXIMUM EXTENT PRACTICABLE, AT LEAST 5 PERCENT OF THE SECTION 108 DESIGNATED LOCAL CURRENCIES SHALL BE USED TO CARRY OUT SUCH ASSISTANCE. IPG RECOMMENDATIONS ON THIS PROVISION

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ARE REQUESTED. SPECIFICALLY IPG RECOMMENDATIONS OF ANY MARKET DEVELOPMENT ASSISTANCE NEEDS, INCLUDING USE OF IN-COUNTRY COOPERATORS, SHOULD BE IDENTIFIED. USDA/FAS WILL ALSO CONSIDER MARKET DEVELOPMENT PROPOSALS THAT PROVIDE SUPPORT FOR IMPROVED HANDLING AND DISTRIBUTION AND INCREASED CONSUMPTION OF AGRICULTURAL COMMODITIES WHICH ARE PRESENTED DIRECTLY TO FAS. IPG ADVICE ON ANY SUCH DIRECT PROPOSALS WILL BE SOUGHT TO FACILITATE WASHINGTON DECISION ON THESE USES. THESE FUNDS, HOWEVER, CANNOT BE USED FOR GENERAL OPERATING AND ADMINISTRATIVE EXPENSES OF THE PROGRAM.

X. REPORTS, AUDIT AND FINANCIAL MANAGEMENT

- A. REPORTS. SECTION 108(E)(2) CALLS FOR REPORTS TO BE SUBMITTED BY THE PRESIDENT TO THE CONGRESS 180 DAYS AFTER THE CLOSE OF EACH FISCAL YEAR. THIS REPORT SHALL BE PART OF THE PL 480 ANNUAL REPORT TO THE CONGRESS. GUIDANCE ON HOW THIS DATA IS TO BE SUMMARIZED AND REPORTED WILL BE SUPPLIED LATER.

- B. AUDIT. LOAN AND GRANT AGREEMENTS WITH IFIS (FORMS FOR SUCH AGREEMENTS TO BE SUPPLIED LATER) WILL CONTAIN NORMAL USG AUDIT PROVISIONS ALLOWING USG AUDITORS TO CARRY-OUT THEIR NORMAL FUNCTIONS. IN ADDITION, EACH AGREEMENT WILL REQUIRE THE IFI'S OWN INDEPENDENT AUDITORS TO AUDIT EACH SECTION 108 LOAN AND REQUIRE THE RESULTS OF SUCH ANNUAL AUDITS TO BE ROUTINELY FORWARDED TO THE ADMINISTERING AGENCY WHICH, IN TURN WILL FORWARD THESE TO THE DCC.

- C. FINANCIAL MANAGEMENT. FINANCIAL MANAGEMENT SERVICES FOR SECTION 108 LOANS AND GRANTS SHALL BE PROVIDED BY AID IN ACCORDANCE WITH PROCEDURES MUTUALLY AGREED UPON BY THE FOOD AID SUBCOMMITTEE. END TEXT. 44

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SAN JOSE
SANTO DOMINGO
QUITO
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SAN SALVADOR
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LAC/DP:WHEELER (INFO) GC:STEPHENSON (DFT)
USOA:LKREITZBERG(DFT) TREG:JKOTZE (INFO)
OMB:RBOSTICK (INFO) EB:CBILLO (INFO)
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TAGS:

SUBJECT: GUIDANCE AND NEW AGREEMENT TEXT FOR A PROPOSED
FY 1987 TITLE I, PUBLIC LAW 480 SALES AGREEMENT WHICH
INCLUDES SECTION 108 PROVISIONS FOR LOANS FOR PRIVATE
ENTERPRISE PROMOTION.

REFS: (A) STATE 259214 (B) STATE 352111, DATED 11
NOVEMBER, 1985

SUMMARY: PURPOSE OF THIS MESSAGE IS TO PROVIDE ALL
MISSIONS CONSIDERING FY 87 TITLE I AGREEMENTS WITH NEW
FY 87 TITLE I SALES AGREEMENT TEXT FOR AGREEMENTS WHICH
INCLUDE BOTH SECTION 108 PROVISIONS TO PROVIDE LOCAL

CURRENCY FOR LOANS FOR PRIVATE ENTERPRISE PROMOTION, AND
TRADITIONAL LONG TERM CREDIT FINANCING. FORMAT CALLS
FOR FULL NEW AGREEMENT FOR WHICH TEXT IS PROVIDED HEREIN.

ALSO CONTAINED HEREIN IS GUIDANCE FOR MINUTES OF
NEGOTIATION SO THAT RECIPIENT GOVERNMENTS ARE AWARE OF
CERTAIN SIGNIFICANT LOAN PARAMETERS. END SUMMARY.

1. AS THE INTER-AGENCY WORKING GROUP PROVIDED IN REF
(A), THERE IS DETAILED BELOW GUIDANCE AND A COPY OF THE
COMPLETE TEXT OF THE NEW FY 87 TITLE I AGREEMENT WHICH

INCLUDES LANGUAGE COVERING THE TERMS AND CONDITIONS UNDER
SECTION 108 PRIVATE ENTERPRISE PROMOTION. THE TEXT
INCLUDES STANDARD LANGUAGE TO BE INCORPORATED IN ALL
TITLE I AGREEMENTS, INCLUDING PARTS I, II, AND III. NOTE
THAT TEXT FOR ANY AGREEMENT DEVOTED SOLELY TO SECTION 108
PROGRAMMING VARIES FROM THAT SET FORTH BELOW.
ACCORDINGLY, ANY EMBASSIES CONTEMPLATING ALL-LOCAL
CURRENCY PROGRAMMING SHOULD ADVISE THE WORKING GROUP AND
REQUEST APPROPRIATE TEXT. IN-COUNTRY POLICY GROUPS
(IPG'S - DEFINED IN SECTION III B, OF REF A) ARE REMINDED
THAT THE BASIC NEGOTIATING INSTRUCTIONS USED IN PRIOR
YEAR NEGOTIATIONS ARE STILL VALID AND NEED TO BE FOLLOWED
APPROPRIATELY. WASHINGTON HCPS TO TRANSMIT EARLY
DECEMBER ILLUSTRATIVE DRAFT AGREEMENT BETWEEN THE USG AND
IFI, AS PROVIDED REF (A), PARA 4.

2. ALSO, YOU ARE REMINDED THAT THIS MESSAGE IS INTENDED
ONLY TO ADVISE REGARDING NEW TITLE I TEXT. COUNTRY
SPECIFIC GUIDANCE AND AUTHORITY TO BEGIN NEGOTIATIONS OF
FY 87 TITLE I AGREEMENTS WILL BE PROVIDED ON INDIVIDUAL
COUNTRY BASIS IN SEPTELS AS AND WHEN APPROVED BY DCC FOOD
AID SUB-COMMITTEE WORKING GROUP.

3. IT IS RECOGNIZED THAT SOME MISSIONS MAY WISH TO
REVISE ITEMS V AND VI UNDER PART II - PARTICULAR
PROVISIONS, TO REFLECT SPECIAL LANGUAGE FOR YOUR
PARTICULAR COUNTRY WHICH WAS DEVELOPED UNDER PRIOR YEAR
AGREEMENTS ON SELF-HELP OR USE OF PROCEEDS LANGUAGE.

4. MINUTES OF NEGOTIATION (M/N): YOU WILL BE REQUIRED
TO DISCUSS AND RECORD IN M/N THAT, AS SECTION 108
REQUIRES, PURPOSE OF U.S. LOANS TO INTERMEDIARY FINANCIAL
INSTITUTIONS (IFIS) WILL BE TO FOSTER AND ENCOURAGE THE
DEVELOPMENT OF PRIVATE ENTERPRISE INSTITUTIONS AND
INFRASTRUCTURE AS THE BASE FOR EXPANSION, PROMOTION, AND
IMPROVEMENT OF FOOD AND OTHER RELATED GOODS AND SERVICES
WITHIN THE COUNTRY. ALSO, THAT PREFERENCE SHALL BE GIVEN
TO MAXIMUM EXTENT FEASIBLE TO FINANCING
AGRICULTURAL-RELATED PRIVATE ENTERPRISE. HOWEVER, AS
SECTION 108 ALSO REQUIRES, FINANCING UNDER THIS AGREEMENT
MAY NOT BE USED TO PROMOTE THE PRODUCTION FOR EXPORT OF
AGRICULTURAL COMMODITIES OR THE PRODUCTS THEREOF THAT
WILL COMPETE, AS DETERMINED BY THE U.S., IN WORLD MARKETS
WITH SIMILAR AGRICULTURAL COMMODITIES OR THE PRODUCTS
THEREOF IN U.S. ADDITIONAL INFORMATION ON THIS ASPECT
WILL BE PROVIDED SHORTLY.

5. AGREEMENT.

FOLLOWING IS FULL TEXT OF AGREEMENT WHICH WILL BE
USED BY ALL MISSIONS WHICH INCORPORATES SECTION 108
PROVISIONS.

BEGIN TEXT AGREEMENT.

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF
AMERICA AND THE GOVERNMENT OF (TO BE INSERTED BY
WASHINGTON) FOR SALES OF AGRICULTURAL COMMODITIES.

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THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF (TO BE INSERTED), RECOGNIZING THE DESIRABILITY OF EXPANDING TRADE IN AGRICULTURAL COMMODITIES BETWEEN THE UNITED STATES OF AMERICA (HEREINAFTER REFERRED TO AS THE EXPORTING COUNTRY) AND (COUNTRY) (HEREINAFTER REFERRED TO AS THE IMPORTING COUNTRY) AND WITH OTHER FRIENDLY COUNTRIES IN A MANNER THAT WILL NOT DISPLACE USUAL MARKETINGS OF THE EXPORTING COUNTRY IN THESE COMMODITIES OR UNDULY DISRUPT WORLD PRICES OF AGRICULTURAL COMMODITIES OR NORMAL PATTERNS OF COMMERCIAL TRADE WITH FRIENDLY COUNTRIES;

TAKING INTO ACCOUNT THE IMPORTANCE TO DEVELOPING COUNTRIES OF THEIR EFFORTS TO HELP THEMSELVES TOWARD A GREATER DEGREE OF SELF-RELIANCE, INCLUDING EFFORTS TO MEET THEIR PROBLEMS OF FOOD PRODUCTION AND POPULATION GROWTH;

RECOGNIZING THE POLICY OF THE EXPORTING COUNTRY TO USE ITS AGRICULTURAL PRODUCTIVITY TO COMBAT HUNGER AND MALNUTRITION IN THE DEVELOPING COUNTRIES, TO ENCOURAGE THESE COUNTRIES TO IMPROVE THEIR OWN AGRICULTURAL PRODUCTION, AND TO ASSIST THEM IN THEIR ECONOMIC DEVELOPMENT;

RECOGNIZING THE DETERMINATION OF THE IMPORTING COUNTRY TO IMPROVE ITS OWN PRODUCTION, STORAGE, AND DISTRIBUTION OF AGRICULTURAL FOOD PRODUCTS, INCLUDING THE REDUCTION OF WASTE IN ALL STAGES OF FOOD HANDLING;

DESIRING TO SET FORTH THE UNDERSTANDINGS THAT WILL GOVERN THE SALES OF AGRICULTURAL COMMODITIES TO THE IMPORTING COUNTRY PURSUANT TO TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT, AS AMENDED, (HEREINAFTER REFERRED TO AS THE ACT), AND THE MEASURES THAT THE TWO GOVERNMENTS WILL TAKE INDIVIDUALLY AND COLLECTIVELY IN FURTHERING THE ABOVE-MENTIONED POLICIES;

HAVE AGREED AS FOLLOWS:

PART I GENERAL PROVISIONS

ARTICLE I

A. AGREEMENT TO FINANCE COMMODITY SALES.

THE GOVERNMENT OF THE EXPORTING COUNTRY UNDERTAKES TO FINANCE THE SALE OF AGRICULTURAL COMMODITIES TO PURCHASERS AUTHORIZED BY THE GOVERNMENT OF THE IMPORTING COUNTRY IN ACCORDANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT.

B. PURCHASE AUTHORIZATIONS.

THE FINANCING OF THE AGRICULTURAL COMMODITIES LISTED IN PART II OF THIS AGREEMENT WILL BE SUBJECT TO:

1. THE ISSUANCE BY THE GOVERNMENT OF THE EXPORTING COUNTRY OF PURCHASE AUTHORIZATIONS AND THEIR ACCEPTANCE BY THE GOVERNMENT OF THE IMPORTING COUNTRY; AND
2. THE AVAILABILITY OF THE SPECIFIED COMMODITIES AT THE TIME OF EXPORTATION.

C. APPLICATION FOR PURCHASE AUTHORIZATIONS.

APPLICATION FOR PURCHASE AUTHORIZATIONS WILL BE MADE WITHIN 90 DAYS AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, AND, WITH RESPECT TO ANY ADDITIONAL

COMMODITIES OR AMOUNTS OF COMMODITIES PROVIDED FOR IN ANY AMENDMENT TO THIS AGREEMENT, WITHIN 90 DAYS AFTER THE EFFECTIVE DATE OF SUCH AMENDMENT TO THIS AGREEMENT. PURCHASE AUTHORIZATIONS SHALL INCLUDE PROVISIONS RELATING TO THE SALE AND DELIVERY OF SUCH COMMODITIES, AND OTHER RELEVANT MATTERS.

D. DELIVERY PERIODS.

EXCEPT AS MAY BE AUTHORIZED BY THE GOVERNMENT OF THE EXPORTING COUNTRY, ALL DELIVERIES OF COMMODITIES SOLD UNDER THIS AGREEMENT SHALL BE MADE WITHIN THE SUPPLY PERIODS SPECIFIED IN THE COMMODITY TABLE IN PART II.

E. MAXIMUM EXPORT VALUES.

THE VALUE OF THE TOTAL QUANTITY OF EACH COMMODITY COVERED BY THE PURCHASE AUTHORIZATIONS SHALL NOT EXCEED THE MAXIMUM EXPORT MARKET VALUE SPECIFIED FOR THAT COMMODITY

IN PART II. THE GOVERNMENT OF THE EXPORTING COUNTRY MAY LIMIT THE TOTAL VALUE OF EACH COMMODITY TO BE COVERED BY PURCHASE AUTHORIZATIONS AS PRICE DECLINES OR OTHER MARKETING FACTORS MAY REQUIRE, SO THAT THE QUANTITIES OF SUCH COMMODITY SOLD WILL NOT SUBSTANTIALLY EXCEED THE APPLICABLE APPROXIMATE MAXIMUM QUANTITY SPECIFIED IN PART II.

F. OCEAN FREIGHT.

THE GOVERNMENT OF THE EXPORTING COUNTRY SHALL BEAR THE OCEAN FREIGHT DIFFERENTIAL FOR COMMODITIES THE GOVERNMENT OF THE EXPORTING COUNTRY REQUIRES TO BE TRANSPORTED IN UNITED STATES FLAG VESSELS. THE OCEAN FREIGHT DIFFERENTIAL IS DEEMED TO BE THE AMOUNT, AS DETERMINED BY THE GOVERNMENT OF THE EXPORTING COUNTRY, BY WHICH THE COST OF OCEAN TRANSPORTATION IS HIGHER (THAN WOULD OTHERWISE BE THE CASE) BY REASON OF THE REQUIREMENT THAT THE COMMODITIES BE TRANSPORTED IN UNITED STATES FLAG VESSELS. THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL HAVE NO OBLIGATION TO REIMBURSE THE GOVERNMENT OF THE EXPORTING COUNTRY OR DEPOSIT LOCAL CURRENCY OF THE IMPORTING COUNTRY FOR THE OCEAN FREIGHT DIFFERENTIAL BORNE BY THE GOVERNMENT OF THE EXPORTING COUNTRY.

G. TRANSPORTATION LETTERS OF CREDIT.

PROMPTLY AFTER CONTRACTING FOR UNITED STATES FLAG SHIPPING SPACE TO BE USED FOR COMMODITIES REQUIRED TO BE TRANSPORTED IN UNITED STATES FLAG VESSELS, AND IN ANY EVENT NOT LATER THAN PRESENTATION OF VESSEL FOR LOADING, THE GOVERNMENT OF THE IMPORTING COUNTRY OR THE PURCHASERS AUTHORIZED BY IT SHALL OPEN A LETTER OF CREDIT, IN UNITED STATES DOLLARS, FOR THE ESTIMATED COST OF OCEAN TRANSPORTATION FOR SUCH COMMODITIES.

H. TERMINATION CLAUSE.

THE FINANCING, SALE, AND DELIVERY OF COMMODITIES UNDER THIS AGREEMENT MAY BE TERMINATED BY EITHER GOVERNMENT IF THAT GOVERNMENT DETERMINES THAT BECAUSE OF CHANGED CONDITIONS THE CONTINUATION OF SUCH FINANCING, SALE, OR DELIVERY IS UNNECESSARY OR UNDESIRABLE.

ARTICLE II

A. INITIAL PAYMENT.

THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL PAY, OR

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CAUSE TO BE PAID, SUCH INITIAL PAYMENT AS MAY BE SPECIFIED IN PART II OF THIS AGREEMENT. THE AMOUNT OF THIS PAYMENT SHALL BE THAT PORTION OF THE PURCHASE PRICE (EXCLUDING ANY OCEAN TRANSPORTATION COSTS THAT MAY BE INCLUDED THEREIN) EQUAL TO THE PERCENTAGE SPECIFIED FOR INITIAL PAYMENT IN PART II, AND PAYMENT SHALL BE MADE IN UNITED STATES DOLLARS IN ACCORDANCE WITH THE APPLICABLE PURCHASE AUTHORIZATION.

B. CURRENCY USE PAYMENT.

THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL PAY, OR CAUSE TO BE PAID, UPON DEMAND BY THE GOVERNMENT OF THE EXPORTING COUNTRY IN AMOUNTS AS IT MAY DETERMINE, BUT IN ANY EVENT NO LATER THAN ONE YEAR AFTER THE FINAL DISBURSEMENT BY THE COMMODITY CREDIT CORPORATION UNDER THIS AGREEMENT, OR THE END OF THE SUPPLY PERIOD, WHICHEVER IS LATER, SUCH PAYMENT AS MAY BE SPECIFIED IN PART II OF THIS AGREEMENT PURSUANT TO SECTION 103 (B) OF THE ACT (HEREINAFTER REFERRED TO AS THE CURRENCY USE PAYMENT). THE CURRENCY USE PAYMENT SHALL BE THE AMOUNT FINANCED ON CREDIT TERMS BY THE EXPORTING COUNTRY EQUAL TO THE PERCENTAGE SPECIFIED FOR CURRENCY USE PAYMENT IN PART II.

PAYMENT SHALL BE MADE IN ACCORDANCE WITH PARAGRAPH H, AND FOR PURPOSES SPECIFIED IN SUBSECTION 104 (A), (B), (E), AND (H) OF THE ACT, AS SET FORTH IN PART II OF THIS AGREEMENT. SUCH PAYMENT SHALL BE CREDITED AGAINST (A) THE AMOUNT OF EACH YEAR'S INTEREST PAYMENT DUE DURING THE PERIOD PRIOR TO THE DUE DATE OF THE FIRST INSTALLMENT PAYMENT, STARTING WITH THE FIRST YEAR, PLUS (B) THE COMBINED PAYMENTS OF PRINCIPAL AND INTEREST STARTING WITH THE FIRST INSTALLMENT PAYMENT, UNTIL THE VALUE OF THE CURRENCY USE PAYMENT HAS BEEN OFFSET. UNLESS OTHERWISE SPECIFIED IN PART II, NO REQUESTS FOR PAYMENT WILL BE MADE BY THE GOVERNMENT OF THE EXPORTING COUNTRY PRIOR TO THE FIRST DISBURSEMENT BY THE COMMODITY CREDIT CORPORATION OF THE EXPORTING COUNTRY UNDER THIS AGREEMENT.

C. TYPE OF FINANCING.

SALES OF THE COMMODITIES SPECIFIED IN PART II SHALL BE FINANCED IN ACCORDANCE WITH THE TYPE OF FINANCING INDICATED THEREIN. SPECIAL PROVISIONS RELATING TO THE SALE ARE ALSO SET FORTH IN PART II.

D. CREDIT PROVISIONS APPLICABLE TO SALES TO BE FINANCED ON CREDIT TERMS AS SPECIFIED IN PART II:

1. WITH RESPECT TO COMMODITIES DELIVERED IN EACH CALENDAR YEAR UNDER THIS AGREEMENT, THE PRINCIPAL OF THE CREDIT (HEREINAFTER REFERRED TO AS PRINCIPAL) WILL CONSIST OF THE DOLLAR AMOUNT DISBURSED BY THE GOVERNMENT OF THE EXPORTING COUNTRY FOR THE COMMODITIES (NOT INCLUDING ANY OCEAN TRANSPORTATION COSTS).

THE PRINCIPAL SHALL BE PAID IN ACCORDANCE WITH THE PAYMENT SCHEDULE IN PART II OF THIS AGREEMENT. THE FIRST INSTALLMENT PAYMENT SHALL BE DUE AND PAYABLE ON THE DATE SPECIFIED IN PART II OF THIS AGREEMENT. SUBSEQUENT INSTALLMENT PAYMENTS SHALL BE DUE AND PAYABLE AT INTERVALS OF ONE YEAR THEREAFTER. ANY PAYMENT OF PRINCIPAL MAY BE MADE PRIOR TO ITS DUE DATE.

2. INTEREST ON THE UNPAID BALANCE OF THE PRINCIPAL DUE TO THE GOVERNMENT OF THE EXPORTING COUNTRY FOR THE COMMODITIES DELIVERED IN EACH CALENDAR YEAR SHALL BE PAID

AS FOLLOWS:

A. IN THE CASE OF DOLLAR CREDIT, INTEREST SHALL BEGIN TO ACCRUE ON THE DATE OF LAST DELIVERY OF THESE COMMODITIES IN EACH CALENDAR YEAR. INTEREST SHALL BE PAID NOT LATER THAN THE DUE DATE OF EACH INSTALLMENT PAYMENT OF PRINCIPAL, EXCEPT THAT IF THE DATE OF THE FIRST INSTALLMENT IS MORE THAN A YEAR AFTER SUCH DATE OF LAST DELIVERY, THE FIRST PAYMENT OF INTEREST SHALL BE MADE NOT LATER THAN THE ANNIVERSARY DATE OF SUCH DATE OF LAST DELIVERY, AND THEREAFTER PAYMENT OF INTEREST SHALL BE MADE ANNUALLY AND NOT LATER THAN THE DUE DATE OF EACH INSTALLMENT PAYMENT OF PRINCIPAL.

B. IN THE CASE OF CONVERTIBLE LOCAL CURRENCY CREDIT, INTEREST SHALL BEGIN TO ACCRUE ON THE DATE OF DOLLAR DISBURSEMENT BY THE GOVERNMENT OF THE EXPORTING COUNTRY. SUCH INTEREST SHALL BE PAID ANNUALLY BEGINNING ONE YEAR AFTER THE DATE OF LAST DELIVERY OF COMMODITIES IN EACH CALENDAR YEAR, EXCEPT THAT IF THE INSTALLMENT PAYMENTS FOR THESE COMMODITIES ARE NOT DUE ON THE SAME ANNIVERSARY OF SUCH DATE OF LAST DELIVERY, ANY SUCH INTEREST ACCRUED ON THE DUE DATE OF THE FIRST INSTALLMENT PAYMENT SHALL BE DUE ON THE SAME DATE AS THE FIRST INSTALLMENT, AND THEREAFTER SUCH INTEREST SHALL BE PAID ON THE DUE DATES OF THE SUBSEQUENT INSTALLMENT PAYMENTS.

3. FOR THE PERIOD OF TIME FROM THE DATE THE INTEREST BEGINS TO THE DUE DATE FOR THE FIRST INSTALLMENT PAYMENT,

THE INTEREST SHALL BE COMPUTED AT THE INITIAL INTEREST RATE SPECIFIED IN PART II OF THIS AGREEMENT. THEREAFTER, THE INTEREST SHALL BE COMPUTED AT THE CONTINUING INTEREST RATE SPECIFIED IN PART II OF THIS AGREEMENT.

E. PAYMENT PROVISIONS APPLICABLE TO SALES TO BE FINANCED ON CREDIT TERMS AS SPECIFIED IN PART II.

ALL PAYMENTS SHALL BE MADE IN UNITED STATES DOLLARS OR, IF THE GOVERNMENT OF THE EXPORTING COUNTRY SO ELECTS,

1. THE PAYMENTS SHALL BE MADE IN READILY CONVERTIBLE CURRENCIES OF THIRD COUNTRIES AT A MUTUALLY AGREED RATE OF EXCHANGE AND SHALL BE USED BY THE GOVERNMENT OF THE EXPORTING COUNTRY FOR PAYMENT OF ITS OBLIGATIONS OR, IN THE CASE OF CURRENCY USE PAYMENTS, USED FOR THE PURPOSES SET FORTH IN PART II OF THIS AGREEMENT; OR

2. THE PAYMENTS SHALL BE MADE IN LOCAL CURRENCY AT THE APPLICABLE EXCHANGE RATE SPECIFIED IN PART I, ARTICLE III, G OF THIS AGREEMENT IN EFFECT ON THE DATE OF PAYMENT AND SHALL, AT THE OPTION OF THE GOVERNMENT OF THE EXPORTING COUNTRY, BE CONVERTED TO UNITED STATES DOLLARS AT THE SAME RATE, OR USED BY THE GOVERNMENT OF THE EXPORTING COUNTRY FOR PAYMENT OF ITS OBLIGATIONS OR, IN THE CASE OF CURRENCY USE PAYMENTS, USED FOR THE PURPOSES SET FORTH IN PART II OF THIS AGREEMENT IN THE IMPORTING COUNTRY.

F. PAYMENT PROVISIONS APPLICABLE TO SALES TO BE FINANCED ON LOCAL CURRENCY TERMS AS SPECIFIED IN PART II:

1. THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL PAY, OR CAUSE TO BE PAID, TO THE GOVERNMENT OF THE EXPORTING COUNTRY AN AMOUNT IN LOCAL CURRENCY EQUIVALENT TO THE DOLLAR AMOUNT DISBURSED BY THE GOVERNMENT OF THE EXPORTING COUNTRY FOR THE COMMODITIES TO BE FINANCED ON LOCAL CURRENCY TERMS (NOT INCLUDING ANY OCEAN TRANSPORTATION COSTS), LESS ANY PORTION OF THE INITIAL PAYMENT PAYABLE IN DOLLARS, NOT LATER THAN 120 DAYS AFTER

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DATE OF DISBURSEMENT BY THE GOVERNMENT OF THE EXPORTING COUNTRY. THE CALCULATION OF THIS LOCAL CURRENCY EQUIVALENT SHALL BE AT THE APPLICABLE RATE OF EXCHANGE SPECIFIED IN PART I, ARTICLE III G OF THIS AGREEMENT, USING THE RATE IN EFFECT ON THE DATE OF PAYMENT BY THE GOVERNMENT OF THE IMPORTING COUNTRY.

SELECTED AS RECIPIENTS OF LOANS, THE AMOUNT OF SUCH LOANS, AND REPAYMENT TERMS. THE REPAYMENT TERMS WILL BE CONSISTENT WITH THE CURRENCY CONVERSION OBLIGATIONS OF THE GOVERNMENT OF THE IMPORTING COUNTRY UNDER THIS AGREEMENT.

2. THE GOVERNMENT OF THE EXPORTING COUNTRY SHALL DETERMINE WHICH OF ITS FUNDS SHALL BE USED TO REPAY TO

C. ANY PERCENTAGE OF SUCH LOCAL CURRENCY INDICATED IN PART II FOR AGRICULTURAL TECHNICAL ASSISTANCE SHALL BE MADE AVAILABLE BY THE GOVERNMENT OF THE EXPORTING COUNTRY FOR ACTIVITIES TO SUPPORT AND EXPAND PRIVATE SECTOR ENTERPRISE IN THE IMPORTING COUNTRY, AND ACTIVITIES TO DEVELOP AND EXPAND MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES AND PRODUCTS THEREOF.

THE GOVERNMENT OF THE IMPORTING COUNTRY ANY LOCAL CURRENCY DUE THE GOVERNMENT OF THE IMPORTING COUNTRY AS A RESULT OF REFUNDS RECEIVED BY THE GOVERNMENT OF THE EXPORTING COUNTRY OF DOLLAR AMOUNTS FINANCED HEREUNDER.

2. LOCAL CURRENCY PAID TO THE GOVERNMENT OF THE EXPORTING COUNTRY BY THE INTERMEDIARY FINANCIAL INSTITUTIONS (UNDER THE TERMS OF THEIR LOAN AGREEMENTS) MAY BE USED BY THAT GOVERNMENT:

G. DEPOSIT OF PAYMENTS.

THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL MAKE, OR CAUSE TO BE MADE, PAYMENTS TO THE GOVERNMENT OF THE EXPORTING COUNTRY IN THE CURRENCIES, AMOUNTS, AND AT THE EXCHANGE RATES PROVIDED FOR IN THIS AGREEMENT AS FOLLOWS:

A. TO FINANCE ADDITIONAL PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT UNDER AGREEMENTS WITH INTERMEDIARY FINANCIAL INSTITUTIONS;

1. DOLLAR PAYMENTS SHALL BE REMITTED TO THE TREASURER, COMMODITY CREDIT CORPORATION, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C. 20250, UNLESS ANOTHER METHOD OF PAYMENT IS AGREED UPON BY THE TWO GOVERNMENTS.

B. TO DEVELOP NEW MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES;

2. PAYMENTS IN THE LOCAL CURRENCY OF THE IMPORTING COUNTRY (HEREINAFTER REFERRED TO AS LOCAL CURRENCY), SHALL BE DEPOSITED TO THE ACCOUNT OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA IN INTEREST BEARING ACCOUNTS IN BANKS SELECTED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA IN THE IMPORTING COUNTRY.

C. TO PAY UNITED STATES OBLIGATIONS IN THE IMPORTING COUNTRY; OR

H. USES OF LOCAL CURRENCY.

1. THE LOCAL CURRENCY ACCRUING TO THE GOVERNMENT OF THE EXPORTING COUNTRY FROM SALES OF COMMODITIES FINANCED ON LOCAL CURRENCY TERMS SHALL BE MADE AVAILABLE FOR USE BY THE GOVERNMENT OF THE EXPORTING COUNTRY IN SUCH MANNER AND ORDER OF PRIORITY AS THE GOVERNMENT OF THE EXPORTING COUNTRY SHALL DETERMINE, FOR THE PURPOSES AND IN THE PROPORTIONS INDICATED IN PART II OF THE AGREEMENT.

D. TO BE CONVERTED TO UNITED STATES DOLLARS.

I. CURRENCY CONVERSION REQUIREMENTS.

A. ANY PERCENTAGE OF SUCH LOCAL CURRENCY INDICATED IN PART II FOR LOANS TO INTERMEDIARY FINANCIAL INSTITUTIONS WILL BE AVAILABLE FOR LOANS BY THE GOVERNMENT OF THE EXPORTING COUNTRY TO FINANCIAL INSTITUTIONS LOCATED OR OPERATING IN THE IMPORTING COUNTRY FOR THE PURPOSE OF RELENDING TO INDIVIDUALS, COOPERATIVES, CORPORATIONS, OR OTHER ENTITIES WITHIN THE IMPORTING COUNTRY, IN ORDER TO FINANCE:

1. THE AMOUNT OF LOCAL CURRENCY WHICH HAS ACCRUED TO THE GOVERNMENT OF THE EXPORTING COUNTRY FROM THE SALE OF COMMODITIES FINANCED ON LOCAL CURRENCY TERMS UNDER THIS AGREEMENT, AND WHICH HAS BEEN REPAID TO THAT GOVERNMENT BY INTERMEDIARY FINANCIAL INSTITUTIONS, LESS AMOUNTS

THEREOF, IF ANY, USED TO PAY UNITED STATES OBLIGATIONS OR FOR THE DEVELOPMENT OF NEW MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES IN THE IMPORTING COUNTRY, SHALL BE CONVERTIBLE TO UNITED STATES DOLLARS IN ACCORDANCE WITH THE CONVERSION SCHEDULE SPECIFIED IN PART II. THE CALCULATION OF THE UNITED STATES DOLLAR EQUIVALENT SHALL BE AT THE APPLICABLE RATE OF EXCHANGE SPECIFIED IN PART I, ARTICLE III G OF THIS AGREEMENT ON THE DATE OF CONVERSION.

2. LOCAL CURRENCY RECEIVED BY THE GOVERNMENT OF THE EXPORTING COUNTRY UNDER THE TERMS OF A LOAN AGREEMENT WITH AN INTERMEDIARY FINANCIAL INSTITUTION IN EXCESS OF THE AMOUNT SPECIFIED IN PARAGRAPH 1 ABOVE MAY BE CONVERTED TO UNITED STATES DOLLARS AS MUTUALLY AGREED.

(1) PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT WITHIN THE IMPORTING COUNTRY INCLUDING SUCH INVESTMENT IN PROJECTS CARRIED OUT BY COOPERATIVES AND NON-PROFIT VOLUNTARY ORGANIZATIONS;

J. SALES PROCEEDS.

(2) PRIVATE ENTERPRISE FACILITIES FOR AIDING THE UTILIZATION AND DISTRIBUTION, AND INCREASING THE CONSUMPTION OF AND MARKETS FOR, UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF; OR

THE TOTAL AMOUNT OF THE PROCEEDS ACCRUING TO THE IMPORTING COUNTRY FROM THE SALE OF COMMODITIES FINANCED ON CREDIT TERMS UNDER THIS AGREEMENT, TO BE APPLIED TO THE ECONOMIC DEVELOPMENT PURPOSES SET FORTH IN PART II OF THIS AGREEMENT, SHALL BE NOT LESS THAN THE LOCAL CURRENCY EQUIVALENT OF THE DOLLAR DISBURSEMENT BY THE GOVERNMENT OF THE EXPORTING COUNTRY IN CONNECTION WITH THE FINANCING OF THE COMMODITIES ON CREDIT TERMS (OTHER THAN THE OCEAN FREIGHT DIFFERENTIAL), PROVIDED, HOWEVER, THAT THE SALES PROCEEDS TO BE SO APPLIED SHALL BE REDUCED BY THE CURRENCY USE PAYMENT, IF ANY, MADE BY THE GOVERNMENT OF THE IMPORTING COUNTRY. THE EXCHANGE RATE TO BE USED IN CALCULATING THIS LOCAL CURRENCY EQUIVALENT SHALL BE THE

(3) PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS OUTLINED IN PART II BELOW.

B. THE GOVERNMENT OF THE EXPORTING COUNTRY WILL KEEP THE GOVERNMENT OF THE IMPORTING COUNTRY INFORMED, IN A TIMELY MANNER, AS TO THE INTERMEDIARY FINANCIAL INSTITUTIONS

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RATE AT WHICH THE CENTRAL MONETARY AUTHORITY OF THE IMPORTING COUNTRY, OR ITS AUTHORIZED AGENT, SELLS FOREIGN EXCHANGE FOR LOCAL CURRENCY IN CONNECTION WITH THE COMMERCIAL IMPORT OF THE SAME COMMODITIES. ANY SUCH ACCRUED PROCEEDS THAT ARE LOANED BY THE GOVERNMENT OF THE IMPORTING COUNTRY TO PRIVATE OR NON-GOVERNMENTAL ORGANIZATIONS SHALL BE LOANED AT RATES OF INTEREST APPROXIMATELY EQUIVALENT TO THOSE CHARGED FOR COMPARABLE LOANS IN THE IMPORTING COUNTRY. THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL FURNISH IN ACCORDANCE WITH ITS FISCAL YEAR BUDGET REPORTING PROCEDURE, AT SUCH TIMES AS MAY BE REQUESTED BY THE GOVERNMENT OF THE EXPORTING COUNTRY BUT NOT LESS OFTEN THAN ANNUALLY, A REPORT OF THE RECEIPT AND EXPENDITURE OF THE PROCEEDS, CERTIFIED BY THE APPROPRIATE AUDIT AUTHORITY OF THE GOVERNMENT OF THE IMPORTING COUNTRY, AND IN CASE OF EXPENDITURES THE BUDGET SECTOR IN WHICH THEY WERE USED.

K. COMPUTATIONS.

THE COMPUTATION OF THE INITIAL PAYMENT, CURRENCY USE PAYMENT AND ALL PAYMENTS OF PRINCIPAL AND INTEREST UNDER THIS AGREEMENT SHALL BE MADE IN UNITED STATES DOLLARS.

ARTICLE III

A. WORLD TRADE.

THE TWO GOVERNMENTS SHALL TAKE MAXIMUM PRECAUTIONS TO ASSURE THAT SALES OF AGRICULTURAL COMMODITIES PURSUANT TO THIS AGREEMENT WILL NOT DISPLACE USUAL MARKETINGS OF THE EXPORTING COUNTRY IN THESE COMMODITIES OR UNDULY DISRUPT WORLD PRICES OF AGRICULTURAL COMMODITIES OR NORMAL PATTERNS OF COMMERCIAL TRADE WITH COUNTRIES THE GOVERNMENT OF THE EXPORTING COUNTRY CONSIDERS TO BE FRIENDLY TO IT (REFERRED TO IN THIS AGREEMENT AS FRIENDLY COUNTRIES). IN IMPLEMENTING THIS PROVISION THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL:

1. INSURE THAT TOTAL IMPORTS FROM THE EXPORTING COUNTRY AND OTHER FRIENDLY COUNTRIES INTO THE IMPORTING COUNTRY PAID FOR WITH THE RESOURCES OF THE IMPORTING COUNTRY WILL EQUAL AT LEAST THE QUANTITIES OF AGRICULTURAL COMMODITIES AS MAY BE SPECIFIED IN THE USUAL MARKETING TABLE SET FORTH IN PART II DURING EACH IMPORT PERIOD SPECIFIED IN THE TABLE AND DURING EACH SUBSEQUENT COMPARABLE PERIOD IN WHICH COMMODITIES FINANCED UNDER THIS AGREEMENT ARE BEING DELIVERED. THE IMPORTS OF COMMODITIES TO SATISFY THESE USUAL MARKETING REQUIREMENTS FOR EACH IMPORT PERIOD SHALL BE IN ADDITION TO PURCHASES FINANCED UNDER THIS AGREEMENT.

2. TAKE STEPS TO ASSURE THAT THE EXPORTING COUNTRY OBTAINS A FAIR SHARE OF ANY INCREASE IN COMMERCIAL PURCHASES OF AGRICULTURAL COMMODITIES BY THE IMPORTING COUNTRY.

3. TAKE ALL POSSIBLE MEASURES TO PREVENT THE RESALE, DIVERSION IN TRANSIT, OR TRANSSHIPMENT TO OTHER COUNTRIES OR THE USE FOR OTHER THAN DOMESTIC PURPOSES OF THE AGRICULTURAL COMMODITIES PURCHASED PURSUANT TO THIS AGREEMENT (EXCEPT WHERE SUCH RESALE, DIVERSION IN TRANSIT, TRANSSHIPMENT OR USE IS SPECIFICALLY APPROVED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA).

4. TAKE ALL POSSIBLE MEASURES TO PREVENT THE EXPORT OF ANY COMMODITY OF EITHER DOMESTIC OR FOREIGN ORIGIN, WHICH IS DEFINED IN PART II OF THIS AGREEMENT, DURING THE

EXPORT LIMITATION PERIOD SPECIFIED IN THE EXPORT LIMITATION TABLE IN PART II (EXCEPT AS MAY BE SPECIFIED

IN PART II OR WHERE SUCH EXPORT IS OTHERWISE APPROVED BY THE GOVERNMENT OF THE UNITED STATES OF AMERICA).

B. PRIVATE TRADE.

IN CARRYING OUT THE PROVISIONS OF THIS AGREEMENT, THE TWO GOVERNMENTS SHALL SEEK TO ACQUIRE CONDITIONS OF COMMERCE PERMITTING PRIVATE TRADERS TO FUNCTION EFFECTIVELY.

C. SELF HELP.

PART II DESCRIBES THE PROGRAM THE GOVERNMENT OF THE IMPORTING COUNTRY IS UNDERTAKING TO IMPROVE ITS PRODUCTION, STORAGE, AND DISTRIBUTION OF AGRICULTURAL COMMODITIES. THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL FURNISH IN SUCH FORM AND AT SUCH TIME AS MAY BE REQUESTED BY THE GOVERNMENT OF THE EXPORTING COUNTRY, A STATEMENT OF THE PROGRESS THE GOVERNMENT OF THE IMPORTING COUNTRY IS MAKING IN CARRYING OUT SUCH SELF-HELP MEASURES.

D. REPORTING.

IN ADDITION TO ANY OTHER REPORTS AGREED UPON BY THE TWO GOVERNMENTS, THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL FURNISH, IN SUCH FORM AND AT SUCH TIME AS MAY BE REQUESTED BY THE GOVERNMENT OF THE EXPORTING COUNTRY:

1. A REPORT ON THE ARRIVAL OF EACH SHIPMENT OF COMMODITIES PURCHASED UNDER THE AGREEMENT WHICH SHALL INCLUDE: THE NAME OF EACH VESSEL; THE COMMODITY AND QUANTITY RECEIVED; THE DISCHARGE PORT; THE DATE DISCHARGE WAS COMPLETED; THE CONDITION OF THE COMMODITY ON ARRIVAL; ANY SIGNIFICANT LOSS OR DAMAGE IN TRANSIT; AND ADVICE OF ANY CLAIMS FOR, OR RECOVERY OF, OR REDUCTION OF FREIGHT CHARGES DUE TO LOSS OR DAMAGE IN TRANSIT ON U.S. FLAG SHIPS;

2. A REPORT COVERING THE SUPPLY PERIOD SPECIFIED IN PART II, ITEM I OF THE AGREEMENT AND CONTAINING: STATISTICAL DATA ON IMPORTS BY COUNTRY OF ORIGIN TO MEET USUAL MARKETING REQUIREMENTS SPECIFIED IN PART II, ITEM III OF THE AGREEMENT; A STATEMENT OF THE MEASURES TAKEN TO IMPLEMENT THE PROVISIONS OF SECTION A, ITEMS 3 AND 4 OF THIS ARTICLE; STATISTICAL DATA ON EXPORTS BY COUNTRY OF DESTINATION OF COMMODITIES THE SAME AS OR LIKE THOSE IMPORTED UNDER THE AGREEMENT, AS SPECIFIED PART II, ITEM IV OF THE AGREEMENT; A STATEMENT OF UTILIZATION OF

COMMODITIES IMPORTED UNDER THE AGREEMENT; AND A STATEMENT OF MEASURES TAKEN TO IMPLEMENT THE PUBLICITY PROVISIONS OF SECTION I OF THIS ARTICLE.

E. PROCEDURES FOR RECONCILIATION AND ADJUSTMENT OF ACCOUNTS.

THE TWO GOVERNMENTS SHALL EACH ESTABLISH APPROPRIATE PROCEDURES TO FACILITATE THE RECONCILIATION OF THEIR RESPECTIVE RECORDS ON THE AMOUNTS FINANCED WITH RESPECT TO THE COMMODITIES DELIVERED DURING EACH CALENDAR YEAR.

THE COMMODITY CREDIT CORPORATION OF THE EXPORTING COUNTRY AND THE GOVERNMENT OF THE IMPORTING COUNTRY MAY MAKE SUCH ADJUSTMENTS IN THESE ACCOUNTS AS THEY MUTUALLY DECIDE ARE APPROPRIATE.

F. DEFINITIONS.

FOR THE PURPOSES OF THIS AGREEMENT:

1. DELIVERY SHALL BE DEEMED TO HAVE OCCURRED AS OF THE

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ON-BOARD DATE SHOWN IN THE OCEAN BILL OF LADING WHICH HAS BEEN SIGNED OR INITIALED ON BEHALF OF THE CARRIER,

(TO BE SUPPLIED BY WASHINGTON)

2. IMPORT SHALL BE DEEMED TO HAVE OCCURRED WHEN THE COMMODITY HAS ENTERED THE COUNTRY, AND PASSED THROUGH CUSTOMS, IF ANY, OF THE IMPORTING COUNTRY, AND

8. LOCAL CURRENCY TERMS:

(TO BE SUPPLIED BY WASHINGTON)

3. UTILIZATION SHALL BE DEEMED TO HAVE OCCURRED WHEN THE COMMODITY CLEARS CUSTOMS AND ENTERS NORMAL DISTRIBUTION CHANNELS WITHIN THE IMPORTING COUNTRY, INCLUDING: BEING TRANSPORTED TO MILLS, BAKERIES, REFINERIES OR OTHER FACILITIES FOR FURTHER PROCESSING; TRANSPORTED TO LOCAL, REGIONAL OR CENTRAL STORAGE FOR SUBSEQUENT DISTRIBUTION; OR TRANSPORTED DIRECTLY TO COMMERCIAL OR GOVERNMENT WHOLESALE, RETAIL, OR RATION CENTER OUTLETS.

ITEM 11. PAYMENT TERMS:

A. CONVERTIBLE LOCAL CURRENCY CREDIT (CLCC) TERMS: UP TO DOLS (TO BE SUPPLIED BY WASHINGTON).

G. APPLICABLE EXCHANGE RATE.

FOR THE PURPOSES OF THIS AGREEMENT, THE APPLICABLE EXCHANGE RATE FOR DETERMINING THE AMOUNT OF ANY LOCAL CURRENCY TO BE PAID TO THE GOVERNMENT OF THE EXPORTING COUNTRY SHALL BE A RATE IN EFFECT ON THE DATE OF PAYMENT BY THE IMPORTING COUNTRY WHICH IS NOT LESS FAVORABLE TO THE GOVERNMENT OF THE EXPORTING COUNTRY THAN THE HIGHEST EXCHANGE RATE LEGALLY OBTAINABLE IN THE IMPORTING COUNTRY AND WHICH IS NOT LESS FAVORABLE TO THE GOVERNMENT OF THE EXPORTING COUNTRY THAN THE HIGHEST EXCHANGE RATE

1. INITIAL PAYMENT IN DOLLARS: (TO BE SUPPLIED BY WASHINGTON)

2. CURRENCY USE PAYMENT - (TO BE SUPPLIED BY WASHINGTON)

3. NUMBER OF INSTALLMENT PAYMENTS - (TO BE SUPPLIED BY WASHINGTON)

4. AMOUNT OF EACH INSTALLMENT PAYMENT - APPROXIMATELY EQUAL ANNUAL AMOUNTS

5. DUE DATE OF THE FIRST INSTALLMENT PAYMENT - (TO BE SUPPLIED BY WASHINGTON)

6. INITIAL INTEREST RATE - (TO BE SUPPLIED BY WASHINGTON)

OBTAINABLE BY ANY OTHER NATION. WITH RESPECT TO LOCAL CURRENCY:

7. CONTINUING INTEREST RATE - (TO BE SUPPLIED BY WASHINGTON)

1. AS LONG AS A UNITARY EXCHANGE RATE SYSTEM IS MAINTAINED BY THE GOVERNMENT OF THE IMPORTING COUNTRY, THE APPLICABLE EXCHANGE RATE WILL BE THE RATE AT WHICH THE CENTRAL MONETARY AUTHORITY OF THE IMPORTING COUNTRY, OR ITS AUTHORIZED AGENT, SELLS FOREIGN EXCHANGE FOR LOCAL CURRENCY.

8. LOCAL CURRENCY TERMS: UP TO DOLS (TO BE SUPPLIED BY WASHINGTON)

2. IF A UNITARY RATE SYSTEM IS NOT MAINTAINED, THE APPLICABLE RATE WILL BE THE RATE (AS MUTUALLY AGREED BY THE TWO GOVERNMENTS) THAT FULFILLS THE REQUIREMENTS OF THE FIRST SENTENCE OF THIS SECTION G.

1. INITIAL PAYMENT IN DOLLARS: NONE.

2. PAYMENT TERMS OF LOCAL CURRENCY: WITHIN 120 DAYS AS SPECIFIED IN PART I, ARTICLE 11, PARA F.1.

3. PROPORTION OF LOCAL CURRENCY INDICATED FOR SPECIFIED PURPOSES:

H. CONSULTATION.

THE TWO GOVERNMENTS SHALL, UPON REQUEST OF EITHER OF THEM, CONSULT REGARDING ANY MATTER ARISING UNDER THIS AGREEMENT, INCLUDING THE OPERATION OF ARRANGEMENTS CARRIED OUT PURSUANT TO THIS AGREEMENT.

(A) LOANS TO INTERMEDIARY FINANCIAL INSTITUTIONS, IN ORDER TO FOSTER AND ENCOURAGE THE DEVELOPMENT OF PRIVATE ENTERPRISE INSTITUTIONS AND INFRASTRUCTURE AS THE BASE FOR EXPANSION, PROMOTION, AND IMPROVEMENT OF THE PRODUCTION OF FOOD AND OTHER RELATED GOODS AND SERVICES: NINETY-FIVE (95) PERCENT.

I. IDENTIFICATION AND PUBLICITY.

(B) TECHNICAL ASSISTANCE, AS SPECIFIED IN PART I, ARTICLE 11.H.1.C.: (5) PERCENT.

THE GOVERNMENT OF THE IMPORTING COUNTRY SHALL UNDERTAKE SUCH MEASURES AS MAY BE MUTUALLY AGREED PRIOR TO DELIVERY FOR THE IDENTIFICATION OF FOOD COMMODITIES AT POINTS OF DISTRIBUTION IN THE IMPORTING COUNTRY, AND FOR PUBLICITY IN THE SAME MANNER AS PROVIDED FOR IN SUBSECTION 103 (4) OF THE ACT.

4. CONVERTIBILITY SCHEDULE:

UP TO FIVE PERCENT OF THE AMOUNT SUBJECT TO CONVERSION MAY BE PRESENTED TO THE GOVERNMENT OF THE IMPORTING COUNTRY FOR CONVERSION, ANNUALLY, BEGINNING TEN (10) YEARS AFTER DATE OF LAST DELIVERY UNDER THIS AGREEMENT, AND ENDING THIRTY (30) YEARS AFTER SUCH DATE OF LAST DELIVERY.

PART II - PARTICULAR PROVISIONS:

ITEM I. COMMODITY TABLE:

COMMODITY	SUPPLY PERIOD		MAXIMUM EXPORT MARKET VALUE (M.T.) MILLIONS)
	U.S. FISCAL YEAR)	APPROX. QUANTITY (M.T.)	

A. CONVERTIBLE LOCAL CURRENCY CREDIT TERMS:

ITEM III. USUAL MARKETING TABLE:

COMMODITY	USUAL MARKETING REQUIREMENTS (M.T.)	
	IMPORT PERIOD (U.S. FISCAL YEAR)	USUAL MARKETING REQUIREMENTS (M.T.)

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ANY FINANCIAL OBLIGATIONS THE GOVERNMENT OF THE
IMPORTING COUNTRY HAS INCURRED AS OF THE DATE OF
TERMINATION. THIS AGREEMENT SHALL ENTER INTO FORCE UPON
SIGNATURE.

IN WITNESS WHEREOF, THE RESPECTIVE REPRESENTATIVES, DULY
AUTHORIZED FOR THE PURPOSE, HAVE SIGNED THE PRESENT
AGREEMENT.

DONE AT (COUNTRY), IN DUPLICATE, THIS DAY
OF , 19.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF
(COUNTRY) SHULTZ

ITEM IV. EXPORT LIMITATIONS:

-- (A) EXPORT LIMITATION PERIOD:

-- THE EXPORT LIMITATION PERIOD SHALL BE UNITED STATES
FISCAL YEAR 1987, OR ANY SUBSEQUENT UNITED STATES FISCAL
YEAR DURING WHICH COMMODITIES FINANCED UNDER THIS
AGREEMENT ARE BEING IMPORTED OR UTILIZED.

-- (B) COMMODITIES TO WHICH EXPORT LIMITATIONS APPLY:

-- FOR THE PURPOSES OF PART I, ARTICLE III (A) (4) OF
THIS AGREEMENT, THE COMMODITIES WHICH MAY NOT BE
EXPORTED ARE: (TO BE SUPPLIED BY WASHINGTON)

ITEM V. SELF-HELP MEASURES:

A. THE GOVERNMENT OF (COUNTRY) AGREES TO UNDERTAKE
SELF-HELP MEASURES TO IMPROVE THE PRODUCTION, STORAGE,
AND DISTRIBUTION OF AGRICULTURAL COMMODITIES. THE
FOLLOWING SELF-HELP MEASURES SHALL BE IMPLEMENTED TO
CONTRIBUTE DIRECTLY TO DEVELOPMENT PROGRESS IN POOR
RURAL AREAS AND ENABLE THE POOR TO PARTICIPATE ACTIVELY
IN INCREASING AGRICULTURAL PRODUCTION THROUGH SMALL FARM
AGRICULTURE.

B. THE GOVERNMENT OF (COUNTRY) AGREES TO UNDERTAKE THE
FOLLOWING ACTIVITIES AND IN DOING SO TO PROVIDE ADEQUATE
FINANCIAL, TECHNICAL, AND MANAGERIAL RESOURCES FOR THEIR
IMPLEMENTATION:

(TO BE SUPPLIED BY MISSION TO WASHINGTON FOR REVIEW AND
APPROVAL BEFORE INCLUSION IN AGREEMENT.)

ITEM VI. ECONOMIC DEVELOPMENT PURPOSES FOR WHICH
PROCEEDS FROM SALES FINANCED UNDER CLCC TERMS ACCRUING
TO IMPORTING COUNTRY ARE TO BE USED:

A. THE PROCEEDS ACCRUING TO THE IMPORTING COUNTRY FROM
THE SALES OF COMMODITIES FINANCED UNDER THIS AGREEMENT
WILL BE DEPOSITED IN A SPECIAL ACCOUNT ESTABLISHED BY
THE GOVERNMENT OF (COUNTRY), AND WILL BE USED FOR
FINANCING THE SELF-HELP MEASURES SET FORTH IN THE
AGREEMENT, AND FOR AGRICULTURE AND RURAL DEVELOPMENT, IN
A MANNER DESIGNED TO INCREASE THE ACCESS OF THE POOR IN
THE RECIPIENT COUNTRY TO AN ADEQUATE, NUTRITIOUS, AND
STABLE FOOD SUPPLY. DISBURSEMENTS FROM THE SPECIAL
ACCOUNT WILL BE MADE FOR SUCH PURPOSES AND AT SUCH TIMES
AS MAY BE MUTUALLY AGREED BY THE TWO PARTIES TO THIS
AGREEMENT.

B. IN THE USE OF PROCEEDS FOR THESE PURPOSES, EMPHASIS
WILL BE PLACED ON DIRECTLY IMPROVING THE LIVES OF THE
POOREST OF THE RECIPIENT COUNTRY'S PEOPLE AND THEIR
CAPACITY TO PARTICIPATE IN THE DEVELOPMENT OF THEIR
COUNTRY.

C. REMAINING PRIORITIES TO BE PROVIDED BY THE MISSION.

PART III - FINAL PROVISIONS

A. THIS AGREEMENT MAY BE TERMINATED BY EITHER
GOVERNMENT BY NOTICE OF TERMINATION TO THE OTHER
GOVERNMENT FOR ANY REASON, AND BY THE GOVERNMENT OF THE
EXPORTING COUNTRY IF IT SHOULD DETERMINE THAT THE SELF
HELP PROGRAM DESCRIBED IN THE AGREEMENT IS NOT BEING
ADEQUATELY DEVELOPED. SUCH TERMINATION WILL NOT REDUCE

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 AMEMBASSY QUITO
 AMEMBASSY GEORGETOWN
 AMEMBASSY SAN SALVADOR
 AMEMBASSY GUATEMALA
 AMEMBASSY PORT AU PRINCE
 AMEMBASSY TEGUCIGALPA
 AMEMBASSY KINGSTON
 AMEMBASSY LIMA
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AIDAC, FOR THE IN-COUNTRY POLICY GROUP (IPG)

E.O. 12356: N/A

TAGS:

SUBJECT: TEXT OF DRAFT LOAN AGREEMENT WITH FINANCIAL INTERMEDIARIES FOR LOCAL CURRENCY LENDING FOR PRIVATE ENTERPRISE UNDER SECTION 100 OF P.L. 400

REFS: (A) 86 STATE 259310 (B) 86 STATE 259314

SUMMARY: SUBJECT TEXT, WHICH PRESUMES A P.L. 400 TITLE I SALES AGREEMENT THAT INCLUDES SECTION 100 PROVISIONS GENERATING LOCAL CURRENCY FOR THIS PURPOSE, IS CONTAINED BELOW. FOLLOWING THAT ARE A FEW GUIDANCE NOTES TO EXPLAIN PARTS OF AGREEMENT.

QUOTE SECTION 100 LOAN AGREEMENT DATED:
 (SEE GUIDANCE NOTES FOR MISSION USE FOLLOWING THE TEXT)

1. THIS LOAN AGREEMENT IS ENTERED INTO PURSUANT TO SECTION 100 OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954, AS AMENDED (QUOTE P.L. 400 UNQUOTE), BETWEEN (INSERT NAME OF FINANCIAL INTERMEDIARY), (QUOTE BORROWER UNQUOTE), AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA (QUOTE U.S.G. UNQUOTE) ACTING THROUGH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (QUOTE A.I.D. UNQUOTE), HEREINAFTER REFERRED

TO AS QUOTE LENDER UNQUOTE.

2. THE LENDER WILL LEND BORROWER NOT TO EXCEED (INSERT AMOUNT OF LOCAL CURRENCY) TO USE TO MAKE LOANS (HEREINAFTER REFERRED TO AS (QUOTE SUBLOANS UNQUOTE) WITHIN (INSERT NAME OF DEVELOPING COUNTRY) IN ORDER TO FOSTER AND ENCOURAGE THE DEVELOPMENT OF PRIVATE ENTERPRISE INSTITUTIONS AND INFRASTRUCTURE AS THE BASE FOR THE EXPANSION, PROMOTION AND IMPROVEMENT OF THE PRODUCTION OF FOOD AND OTHER RELATED GOODS AND SERVICES WITHIN (NAME OF DEVELOPING COUNTRY). THE AGGREGATE AMOUNT OF LOCAL CURRENCY DISBURSED BY THE LENDER IS REFERRED TO AS QUOTE PRINCIPAL UNQUOTE.

3. INTEREST SHALL ACCRUE ON THE OUTSTANDING BALANCE OF PRINCIPAL AND ON ANY DUE AND UNPAID INTEREST AT THE RATE OF () PERCENT () REPEAT) PER ANNUM, BEGINNING ON THE FIRST DAY AFTER THE DATE OF DISBURSEMENT OF PRINCIPAL BY THE LENDER, AND SHALL BE DUE AND PAYABLE NO LATER THAN SIX (6) MONTHS AFTER THE FIRST DISBURSEMENT OF PRINCIPAL ON A DATE TO BE SPECIFIED BY THE LENDER AND SEMIANNUALLY THEREAFTER.

4. BORROWER WILL REPAY THE PRINCIPAL TO THE LENDER WITHIN () YEARS FROM THE DATE OF FIRST DISBURSEMENT OF PRINCIPAL IN () APPROXIMATELY EQUAL SEMIANNUAL INSTALLMENTS, THE FIRST BEING PAYABLE () AFTER THE DATE ON WHICH THE FIRST INTEREST PAYMENT IS DUE UNDER SECTION 3 ABOVE. THE LENDER WILL PROVIDE THE BORROWER WITH AN AMORTIZATION SCHEDULE AFTER FINAL DISBURSEMENT UNDER THE LOAN IS MADE).

5. DISBURSEMENT WILL BE DEEMED TO OCCUR ON THE DATE ON WHICH A CHECK OR OTHER INSTRUMENT IS ISSUED BY THE U.S.G. FOR THE ACCOUNT OF BORROWER.

6. BORROWER AGREES TO USE THE PRINCIPAL TO MAKE SUBLOANS IN ACCORDANCE WITH THE PURPOSES OF SECTION 2. ABOVE TO PRIVATE INDIVIDUALS, COOPERATIVES, CORPORATIONS, OR OTHER ENTITIES WITHIN (NAME OF DEVELOPING COUNTRY), AT REASONABLE RATES OF INTEREST, TO FINANCE:

(A) PRODUCTIVE, PRIVATE ENTERPRISE INVESTMENT WITHIN (NAME OF DEVELOPING COUNTRY), INCLUDING SUCH INVESTMENT IN PROJECTS CARRIED OUT BY COOPERATIVES, NONPROFIT VOLUNTARY ORGANIZATIONS, OR BY OTHER ENTITIES WITHIN (NAME OF DEVELOPING COUNTRY) WHICH HAVE BEEN APPROVED BY THE LENDER; OR

(B) PRIVATE ENTERPRISE FACILITIES FOR AIDING THE UTILIZATION AND DISTRIBUTION, AND INCREASING THE

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CONSUMPTION OF AND MARKETS FOR, UNITED STATES AGRICULTURAL COMMODITIES AND THE PRODUCTS THEREOF; OR

(C) PRIVATE ENTERPRISE SUPPORT OF SELF-HELP MEASURES AND PROJECTS IDENTIFIED IN AGREEMENTS FOR SALES OF AGRICULTURAL COMMODITIES BETWEEN THE U.S.G. AND THE GOVERNMENT OF (NAME OF DEVELOPING COUNTRY) UNDER TITLE I OF P.L. 480.

7. BORROWER SHALL, TO THE MAXIMUM EXTENT FEASIBLE, GIVE PREFERENCE UNDER THIS AGREEMENT TO THE FINANCING OF AGRICULTURAL RELATED PRIVATE ENTERPRISE.

8. TO BE ELIGIBLE TO RECEIVE A SUBLOAN FROM BORROWER UNDER THIS AGREEMENT, AN ENTITY OR VENTURE MUST BOTH:

(A) BE OWNED, DIRECTLY OR INDIRECTLY, BY CITIZENS OF (NAME OF DEVELOPING COUNTRY) OR OF ANY OTHER COUNTRY ELIGIBLE TO PARTICIPATE IN A SALES AGREEMENT UNDER TITLE I OF P.L. 480, EXCEPT THAT UP TO 49 PERCENT OF SUCH OWNERSHIP INTEREST MAY BE HELD BY CITIZENS OF THE UNITED STATES; AND

(B) NOT BE OWNED OR CONTROLLED, IN WHOLE OR IN PART, BY THE GOVERNMENT OR ANY GOVERNMENTAL SUBDIVISION OF (NAME OF DEVELOPING COUNTRY).

9. NO FINANCING MADE AVAILABLE UNDER THIS AGREEMENT MAY BE USED TO PROMOTE THE PRODUCTION FOR EXPORT OF AGRICULTURAL COMMODITIES OR THE PRODUCTS THEREOF THAT WILL COMPETE, AS DETERMINED BY THE U.S.G., IN WORLD MARKETS WITH SIMILAR AGRICULTURAL COMMODITIES OR THE PRODUCTS THEREOF PRODUCED IN THE UNITED STATES. THE LENDER SHALL COMMUNICATE WITH BORROWER IN A TIMELY FASHION TO IMPLEMENT THIS SECTION.

10. BORROWER SHALL TAKE SUCH STEPS AS MAY BE NECESSARY TO PUBLICIZE IN (NAME OF DEVELOPING COUNTRY) THE AVAILABILITY OF FUNDS UNDER THIS LOAN.

11. THIS AGREEMENT SHALL BE SUBJECT TO PERIODIC AUDIT BY AUTHORIZED REPRESENTATIVES OF THE LENDER TO DETERMINE WHETHER ITS TERMS AND CONDITIONS ARE BEING FULFILLED. BORROWER WILL:

(A) FURNISH THE LENDER SUCH INFORMATION AND REPORTS RELATING TO ACTIVITIES UNDER THIS AGREEMENT AND UNDER

SUBLOANS AS THE LENDER MAY REASONABLY REQUEST;

(B) MAINTAIN OR CAUSE TO BE MAINTAINED, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, BOOKS AND RECORDS RELATING TO ACTIVITIES UNDER THIS AGREEMENT AND TO SUBLOANS, ADEQUATE TO SHOW, WITHOUT LIMITATION, THE RECEIPT AND USE OF FUNDS UNDER THIS LOAN;

(C) AFFORD AUTHORIZED REPRESENTATIVES OF THE LENDER THE OPPORTUNITY AT ALL REASONABLE TIMES TO AUDIT AND INSPECT THE UTILIZATION OF THE LOAN AND SUBLOANS, AND BOOKS, RECORDS, AND OTHER DOCUMENTS RELATING THERETO, WHICH WILL BE MAINTAINED FOR THREE YEARS AFTER THE DATE OF LAST DISBURSEMENT HEREUNDER, AND WITH RESPECT TO SUBLOANS FOR THREE YEARS FROM THE DATE OF DISBURSEMENT BY LENDER OF FUNDS HEREUNDER FOR EACH SUBLOAN; AND

(D) INSTRUCT ITS OWN INDEPENDENT AUDITORS TO AUDIT ANNUALLY EACH SUBLOAN, AND FORWARD THE RESULTS OF THE AUDIT TO THE LENDER.

12. (A) PAYMENTS OF PRINCIPAL AND INTEREST WILL BE MADE IN THE CURRENCY OF (NAME OF DEVELOPING COUNTRY) AND WILL BE APPLIED FIRST TO THE PAYMENT OF INTEREST DUE AND THEN TO THE REPAYMENT OF PRINCIPAL EXCEPT AS THE LENDER MAY OTHERWISE AGREE IN WRITING, PAYMENTS WILL BE DEPOSITED WITH THE REGIONAL CONTROLLER, USAID, AMERICAN EMBASSY, , AND WILL BE DEEMED MADE WHEN RECEIVED IN SAID OFFICE.

(B) PAYMENTS OF PRINCIPAL, INTEREST, AND ANY REFUNDS WILL BE PAID BY BORROWER IN FULL, FREE OF ANY DEDUCTIONS FOR ANY TAXES, CHARGES OR WITHHOLDINGS OF WHATEVER NATURE. IF BORROWER IS PROHIBITED BY LAW FROM MAKING SUCH PAYMENTS FREE OF SUCH DEDUCTIONS OR WITHHOLDINGS, THEN BORROWER WILL PAY WHATEVER ADDITIONAL AMOUNT IS NECESSARY TO MAKE THE ACTUAL AMOUNT RECEIVED BY LENDER EQUAL TO THE GROSS AMOUNT THAT LENDER WOULD HAVE RECEIVED WITHOUT REDUCTION FOR SUCH DEDUCTIONS OR WITHHOLDINGS. BORROWER WILL PAY, DIRECTLY TO THE TAXING AUTHORITY, ANY TAXES, DUTIES, FEES OR CHARGES IMPOSED ON THIS AGREEMENT OR ANY ASPECT OF THE TRANSACTIONS BETWEEN BORROWER AND LENDER CONTEMPLATED BY THIS AGREEMENT

(C) THE DUTY OF BORROWER UNDER SECTION 12 (B) WILL SURVIVE THE REPAYMENT IN FULL OF PRINCIPAL AND INTEREST.

13. UPON PAYMENT OF ALL INTEREST AND ANY REFUNDS THEN DUE, THE BORROWER MAY PREPAY, WITHOUT PENALTY, ALL OR ANY PART OF THE PRINCIPAL. UNLESS THE LENDER OTHERWISE AGREES IN WRITING, ANY PARTIAL PREPAYMENTS WILL BE APPLIED TO THE INSTALLMENTS OF PRINCIPAL IN THE INVERSE ORDER OF THEIR MATURITY.

14. UPON PAYMENT IN FULL OF THE PRINCIPAL AND ANY ACCRUED INTEREST, THIS AGREEMENT, AND ALL OBLIGATIONS OF THE BORROWER AND THE LENDER UNDER IT, WILL CEASE, EXCEPT AS INDICATED IN SECTION 12 (C).

15. (A) AS A CONDITION PRECEDENT TO THE DISBURSEMENT OF FUNDS BY THE LENDER, THE BORROWER:

(1) WILL FURNISH A LEGAL OPINION SATISFACTORY TO THE LENDER FROM COUNSEL SATISFACTORY TO THE LENDER DEMONSTRATING THAT UNDER THE LAWS OF (NAME OF DEVELOPING COUNTRY):

A- BORROWER IS A FINANCIAL INTERMEDIARY, LOCATED OR OPERATING IN (NAME OF DEVELOPING COUNTRY), THAT IS EITHER: A BANK, FINANCIAL INSTITUTION, COOPERATIVE, NONPROFIT VOLUNTARY AGENCY, OR OTHER ORGANIZATION WHICH HAS BEEN DETERMINED BY THE LENDER TO HAVE THE CAPABILITY TO MAKE AND SERVICE A LOAN;

-B- BORROWER HAS THE LEGAL CAPACITY TO BORROW FROM AND REPAY TO THE LENDER, AND TO MAKE AND SERVICE SUBLOANS, IN ACCORDANCE WITH THIS AGREEMENT;

-C- THIS AGREEMENT HAS BEEN DULY AUTHORIZED AND/OR RATIFIED BY, AND EXECUTED ON BEHALF OF, BORROWER, AND THAT IT CONSTITUTES A VALID AND LEGALLY BINDING OBLIGATION OF BORROWER IN ACCORDANCE WITH ALL OF ITS TERMS;

-D- THIS AGREEMENT MAY BE ENFORCED BY LEGAL PROCEEDINGS AGAINST THE BORROWER UPON FAILURE OF THE BORROWER TO MEET ITS OBLIGATIONS UNDER THIS AGREEMENT;

(2) WILL FURNISH A WRITTEN STATEMENT, ACCEPTABLE TO THE LENDER, INDICATING (A) THE STEPS THAT THE BORROWER WILL TAKE TO CARRY OUT THE PROVISIONS OF SECTION 18 OF THIS

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AGREEMENT, REGARDING PUBLICITY, AND (B) INDICATING HOW BORROWER WILL ESTABLISH REASONABLE RATES OF INTEREST APPLICABLE TO SUBLOANS.

THE LENDER'S LOCAL MAIL ADDRESS, AND ALTERNATE ADDRESS FOR TELEGRAMS:

(B) IF BORROWER HAS NOT WITHIN MONTHS FROM DATE OF

OTHER ADDRESSES MAY BE SUBSTITUTED UPON THE GIVING OF NOTICE.

SIGNATURE OF THE AGREEMENT, OR SUCH LATER DATE AS LENDER MAY AGREE TO IN WRITING, MET THE CONDITIONS SPECIFIED IN THIS SECTION, LENDER MAY TERMINATE THIS AGREEMENT BY WRITTEN NOTICE TO BORROWER.

19. BORROWER WILL CARRY OUT THIS AGREEMENT WITH DUE DILIGENCE AND IN CONFORMITY WITH SOUND FINANCIAL AND MANAGEMENT PRACTICES.

16. (A) BORROWER, HAVING SATISFIED THE CONDITIONS PRECEDENT OF SECTION 15 ABOVE, AND HAVING FURNISHED TO THE LENDER THE NAMES OF ITS AUTHORIZED REPRESENTATIVES AND THEIR SPECIMEN SIGNATURES IN ACCORDANCE WITH SECTION 17 BELOW, MAY OBTAIN FROM THE LENDER THE FUNDS NEEDED FOR ITS ESTIMATED OUTLAY OF SUBLOANS DURING THE NEXT (SEE GUIDANCE NOTE) UPON REQUEST OF AN AUTHORIZED REPRESENTATIVE. THE LENDER WILL ARRANGE TRANSFER OF THE FUNDS FROM THE U.S.G. DEPOSITORY BANK IN (NAME OF DEVELOPING COUNTRY).

20. BORROWER WARRANTS THAT THE FACTS AND CIRCUMSTANCES OF WHICH IT HAS INFORMED THE LENDER IN THE COURSE OF REACHING THIS AGREEMENT ARE ACCURATE AND COMPLETE, AND INCLUDE ANY THAT MIGHT MATERIALLY AFFECT THE PERFORMANCE OF THE BORROWER'S RESPONSIBILITIES UNDER THIS AGREEMENT. BORROWER WILL INFORM THE LENDER IN TIMELY FASHION OF ANY FACTS OR CIRCUMSTANCES THAT MIGHT REASONABLY BE BELIEVED TO MATERIALLY AFFECT THE PERFORMANCE OF THE BORROWER'S RESPONSIBILITIES UNDER THIS AGREEMENT.

(B) WHEN BORROWER REQUIRES ADDITIONAL FUNDS HEREUNDER, IT WILL IDENTIFY TO LENDER:

21. BORROWER UPON NOTICE MAY CANCEL ANY PART OF THIS LOAN WHICH HAS NOT BEEN DISBURSED.

(1) FUNDS RECEIVED TO DATE;

22. (A) IT WILL BE AN EVENT OF DEFAULT UNQUOTE IF BORROWER SHALL HAVE FAILED:

(2) HOW FUNDS RECEIVED WERE USED:

(1) TO PAY WHEN DUE ANY INTEREST OR INSTALLMENT OF PRINCIPAL REQUIRED UNDER THIS AGREEMENT, OR

-A- TO WHOM LENT.

(2) TO MAINTAIN ITS BUSINESS AS A FINANCIALLY SECURE GOING CONCERN WITHOUT, INTER ALIA, SELLING A SUBSTANTIAL PART OF ITS ASSETS, ENTERING BANKRUPTCY OR REORGANIZATION PROCEEDINGS OR THE LIKE, FAILING TO PAY ITS DEBTS IN A CURRENT FASHION, OR OTHERWISE IMPAIRING ITS ABILITY TO SERVICE ITS DEBTS, OR

-B- FOR WHAT PURPOSES.

-C- ON WHAT TERMS.

(3) TO COMPLY WITH ANY OTHER PROVISION OF THIS AGREEMENT.

(3) CUMULATIVE RELENDING SO FAR; AND WILL CERTIFY THAT ITS STATEMENTS ARE TRUE AND CORRECT AND IN CONFORMITY WITH THIS AGREEMENT.

(B) IF AN EVENT OF DEFAULT SHALL HAVE OCCURRED, THEN THE LENDER MAY (1) DECLINE TO MAKE FURTHER DISBURSEMENTS OF PRINCIPAL, AND MAY (2) GIVE THE BORROWER NOTICE THAT ALL OR ANY PART OF THE UNREPAID PRINCIPAL WILL BE DUE AND PAYABLE SIXTY (60) DAYS THEREAFTER, WITH INTEREST, AND, UNLESS SUCH EVENT OF DEFAULT IS CURED WITHIN THAT TIME, SUCH UNREPAID PRINCIPAL AND ACCRUED INTEREST HEREUNDER WILL BE DUE AND PAYABLE IMMEDIATELY.

(C) EXCEPT AS THE LENDER MAY OTHERWISE AGREE IN WRITING, NO DISBURSEMENT OF FUNDS BY THE LENDER SHALL BE MADE IN RESPONSE TO A REQUEST RECEIVED AFTER (SUGGEST EIGHTEEN (18) MONTHS) FROM THE DATE OF SIGNING OF THIS AGREEMENT.

23. THE LENDER MAY REQUIRE, WITHIN SIXTY (60) DAYS OF BORROWER'S RECEIPT OF A REQUEST THEREFOR, A REFUND OF ANY PRINCIPAL DISBURSED HEREUNDER WHICH IS NOT USED IN ACCORDANCE WITH THIS AGREEMENT. SUCH RIGHT TO REQUIRE A REFUND WILL CONTINUE, NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, FOR THREE (3) YEARS FROM THE DATE OF THE LAST DISBURSEMENT UNDER THIS AGREEMENT. ANY SUCH REFUND WILL BE AVAILABLE FOR RE-USE UNDER THIS AGREEMENT, IF AUTHORIZED BY THE LENDER IN WRITING, AND OTHERWISE WILL BE APPLIED TO THE INSTALLMENTS OF PRINCIPAL IN THE INVERSE ORDER OF THEIR MATURITY AND THE AMOUNT OF THIS LOAN REDUCED BY THE AMOUNT OF THE REFUND AS APPLIED.

17. REPRESENTATIVES, FOR ALL PURPOSES RELEVANT TO THIS AGREEMENT, WILL BE THE PERSONS HOLDING OR ACTING IN THE OFFICE OF:

-- FOR THE BORROWER: OFFICE OF

-- FOR THE LENDER: OFFICE OF

24. THE BORROWER SHALL MAKE NO TRANSFER OR ASSIGNMENT OF THIS AGREEMENT OR ANY OF ITS RIGHTS HEREUNDER WITHOUT THE WRITTEN APPROVAL OF THE LENDER.

EACH OF WHOM, BY WRITTEN NOTICE, MAY DESIGNATE ADDITIONAL REPRESENTATIVES.

NAMES AND SPECIMEN SIGNATURES OF BORROWER'S

REPRESENTATIVES WILL BE PROVIDED TO THE LENDER, WHICH MAY ACCEPT AS DULY AUTHORIZED ANY INSTRUMENT SIGNED BY SUCH REPRESENTATIVES IMPLEMENTING THIS AGREEMENT, UNTIL RECEIPT OF WRITTEN NOTICE OF REVOCATION OF THEIR AUTHORITY.

18. COMMUNICATIONS BETWEEN BORROWER AND THE LENDER UNDER THIS AGREEMENT, WHICH WILL BE IN ENGLISH UNLESS BOTH PARTIES OTHERWISE AGREE, WILL BE IN WRITING AND WILL BE DEEMED GIVEN WHEN DELIVERED AS FOLLOWS:

25. ANY FAILURE OR DELAY OF THE LENDER IN EXERCISING IN WHOLE OR IN PART ANY OF ITS RIGHTS UNDER THIS AGREEMENT SHALL NOT CONSTITUTE A WAIVER OF ANY SUCH RIGHTS.

BORROWER'S MAIL ADDRESS, AND ALTERNATE ADDRESS FOR TELEGRAMS:

26. NOTWITHSTANDING ANY CANCELLATION, SUSPENSION OF DISBURSEMENT, OR ACCELERATION OF ANY PAYMENTS, THE

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PROVISIONS OF THIS AGREEMENT WILL CONTINUE IN EFFECT UNTIL THE PAYMENT IN FULL OF THE PRINCIPAL AND ACCRUED INTEREST HEREUNDER.

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

(NAME OF BORROWER)

BY:

TYPED

NAME:

TITLE:

UNITED STATES OF AMERICA

BY:

TYPED

NAME:

TITLE:

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GUIDANCE NOTES FOR SECTION 100-IFI AGREEMENT

NOTE FOR SEC. 3. (A) THE INTEREST RATE PAYABLE BY THE IFI/BORROWER WILL BE DETERMINED AS PREVIOUSLY DESCRIBED PER REF (A), Q AND A-6). HOWEVER, THE INTEREST RATE TO BE PAID BY THE IFI IS NOT TO BE LESS THAN THE RATE OF INTEREST BEING PAID TO THE USG BY THE DEPOSITORY BANK AT THE TIME THE FUNDS ARE WITHDRAWN FROM THE DEPOSITORY BANK TO BE DISBURSED TO THE IFI. THUS, DISBURSEMENT FROM THE USG ACCOUNT DOES NOT THEREBY RESULT IN LOWER INTEREST TO THE U.S.G.

(B) THE LANGUAGE QUOTE ON A DATE TO BE SPECIFIED BY THE U.S.G. UNQUOTE PERMITS SELECTION OF A DATE MORE CONVENIENT FOR ACCOUNTING PURPOSES, E.G., JUNE 30, RATHER THAN ON ACTUAL DATE OF FIRST DISBURSEMENT PLUS 6 MONTHS, E.G. FEBRUARY 29, MARCH 29, OR THE LIKE.

NOTE FOR SECTION 4. REPAYMENT DATES UNDER THE VARIOUS LOANS TO IFI'S MUST BE TINED TO RESULT IN MATCHING THE EVENTUAL SCHEDULE FOR CONVERSION TO DOLLARS BY THE HOST GOVERNMENT UNDER THE COUNTRY-TO-COUNTRY AGREEMENT.

NOTE FOR SECTION 5. AS TO THE TIMING OF DISBURSEMENTS, THE BORROWER SHOULD UNDERSTAND THAT THESE MAY BE MADE FROM A REGIONAL U.S. TREASURY OFFICE (E.G., PARIS) BY LOCAL CURRENCY CHECK, FOR INSTANCE. INTEREST WILL START TO ACCRUE ONCE SUCH A CHECK IS ISSUED, THOUGH IT MAY BE

SEVERAL DAYS BEFORE THE CHECK CAN BE DELIVERED IN THE DEVELOPING COUNTRY AT ISSUE.

NOTE FOR SECTION 7. THE REQUIREMENTS OF SECTIONS 6 AND 7 AS TO THE USES OF THE FUNDS DERIVE DIRECTLY FROM THE STATUTORY PROVISIONS OF SECTION 100. IF, COMPATIBLE WITH THESE PROVISIONS, THE IN-COUNTRY POLICY GROUP (IPG, SEE REFS) DECIDES THAT FURTHER FOCUS SHOULD BE ADDED TO THE SCOPE OF SUBLOANS, SUCH FURTHER FOCUS COULD CONSTITUTE A NEW PARAGRAPH, E.G. SUB-SECTION 7-B.

NOTE FOR SECTION 12: IF WISHED, THIS MAY BE WORDED SO

THAT PAYMENTS WILL BE DEPOSITED WITH THE USAID CONTROLLER AT POST, OR WITH THE AMEMBASSY CASHIER IF THIS IS AGREEABLE TO THE CASHIER. RETAIN, IN CASE OF NEED, THE LANGUAGE: EXCEPT AS THE LENDER MAY OTHERWISE AGREE IN WRITING.

NOTE FOR SECTION 15 (B) (2). THE REFERENCE IN THE CONDITIONS PRECEDENT (C/P'S) AT THIS POINT IS TO ACCOMMODATE THE STATUTORY MANDATE OF SECTION 100 (B) THAT THE IFI MUST AGREE TO MAKE LOANS AT REASONABLE RATES OF INTEREST. SECTION 6 OF THE USG-IFI AGREEMENT, ABOVE, CONTAINS THIS GENERAL PLEDGE, AND REVIEW AT THE C/P STAGE, I.E. BEFORE THE U.S. DISBURSES FUNDS, IS INTENDED TO ALLOW MORE SPECIFIC SATISFACTION. IPG'S WILL HAVE TO ASSESS HOW TO SEEK THIS SPECIFIC SATISFACTION: WHETHER THE BORROWER SHOULD BE EXPECTED TO IDENTIFY A RATE, OR A RANGE OF RATES, OR A MANNER OF ESTABLISHING A RATE OR RANGE, CONSISTENT WITH GOOD BUSINESS PRACTICES, ETC., WILL BE FOR LOCAL DECISION.

THE DEFINITION THUS ACHIEVED OF WHAT IS QUOTE REASONABLE UNQUOTE COULD BE SAID TO CONTINUE PAST THE C/P STAGE, DUE TO THE BORROWER'S UNDERTAKING IN SECTION 6.

NOTE FOR SECTION 16. THE MODEL AGREEMENT LEAVES A BLANK IN SECTION 16 FOLLOWING QUOTE THE FUNDS NEEDED FOR ITS ESTIMATED OUTLAY OF SUBLOANS DURING THE NEXT UNQUOTE. AN APPROPRIATE PERIOD IS TO BE INSERTED; THIS MAY RANGE FROM 30 DAYS TO 3 MONTHS TO 6 MONTHS.

SUCH FLEXIBILITY IN ESTABLISHING THIS PERIOD IS APPROPRIATE, SINCE, UNDER THE NOTE TO SECTION 3, THE RATE OF INTEREST CHARGED TO THE IFI MUST AT LEAST EQUAL THE RATE BEING PAID TO THE LENDER BY THE DEPOSITORY BANK AT THE TIME OF THE LOAN. MISSION DISCRETION IN THIS REGARD IS TO BE SUPPORTED BY EVIDENCE IN ITS FILES OF THE EXTENT TO WHICH THE IFI IS A STRONG, VIABLE CONCERN.

THE IPG IS EXPECTED TO USE SOUND FINANCIAL ANALYSIS PROCEDURES IN DETERMINING CRITERIA ACTUALLY TO BE USED FOR DETERMINING HOW ADDITIONAL FUNDS MAY BE OBTAINED. AS TO WHAT IS NEEDED TO OBTAIN ADDITIONAL FUNDS, POSTS MAY MODIFY THE ELEMENTS LISTED IN SEC. 16 (B) WITHIN THE SAME LINE OF INTENT, E.G. INFORMATION PERTAINING TO PREVIOUS SUBLOANS.

NOTE FOR SECTION 18. THE LENDER'S LOCAL ADDRESSES WILL BE THOSE OF THE LOCAL USAID, PER REF (A) PARA. 1V-A.

NOTE ON CASE-ZABLOCKI. THESE ARE NOT INTERNATIONAL AGREEMENTS SUBJECT TO THE CASE-ZABLOCKI ACT (1 U.S.C. 112B) REQUIREMENT TO SUBMIT TO CONGRESS. PLEASE SUBMIT 2 SIGNED ORIGINALS TO AID/W, OFFICE OF THE CONTROLLER, LOAN MANAGEMENT DIVISION, AND ONE ORIGINAL OR CERTIFIED COPY TO AID/FVA/FFP FOR DISTRIBUTION. RETAIN A SIGNED ORIGINAL IN YOUR FILES.

NOTE ON CAPITALIZATION. CAPITALIZE NORMALLY, INCLUDING THE INITIAL LETTER OF WORDS WHICH THE AGREEMENT TREATS AS A DEFINED TERM. THUS: QUOTE BORROWER UNQUOTE, QUOTE SUBLOANS UNQUOTE, QUOTE PRINCIPAL UNQUOTE, THIS QUOTE AGREEMENT UNQUOTE, QUOTE EVENT OF DEFAULT UNQUOTE. THIS HELPS KEEP MEANING CLEAR: 'EVENTS OF DEFAULT, FOR EXAMPLE, ARE LIMITED TO THOSE DEFINED AS SUCH IN SECTION 22 (B)'. .

NOTE ON FORMAT. EXCEPT AS NOTED ABOVE, OR AS APPROVED BY AID/W, YOU ARE EXPECTED TO UTILIZE THE CLAUSES ABOVE. ARMACOST

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MONETIZATION

Intent: The intent of monetization is to meet local currency costs associated with grant food aid projects.

Definition: Monetization simply means sales of grant food aid commodities, i.e., Title II and Section 416 regular and emergency projects. Commodities can be monetized in PVO, cooperative, as well as Government-to-Government projects; monetization can be partial or full.

Description: Existing monetization projects represent a wide variety of possibilities: full monetization by cooperatives for development purposes; full or partial sales of emergency commodities by PVOs or host governments for food distribution; and partial sales in regular Title II or Section 416 project food aid. These projects are to be found world-wide.

Regular Programs: The Food Security Bill of 1985 has recently focused attention on partial monetization of project food aid by the World Food Program, PVOs and cooperatives. This partial monetization of project food aid is the major focus of A.I.D. monetization policy. The Bill legislates that a minimum of five percent of the aggregate dollar value of both regular Title II and Section 416 programs be monetized. For FY 87, this would represent approximately \$11.4 million of Title II resources. Percentage values for Section 416 are more difficult to calculate as there is no proposed dollar budget for Section 416. Tonnages for Section 416 in FY 87 are expected to exceed the 650,000 mt minimum.

Procedure: For partial monetization of Section 416 and Title II project food aid, PVOs and cooperatives will be responsible for submissions of proposals and ultimate implementation and accountability for monetization projects. Field missions will be responsible for oversight as with all PVO/cooperative projects. Monetization proposals will be submitted by PVOs and cooperatives as part of Operational Program Plans/project documents and subjected to the normal review and approval process of food aid projects.

For WFP (World Food Program) projects proposals which include monetization will be reviewed in the normal CFA (Committee on Food Aid) process.

The major issues which must be addressed by regular monetization projects include:

Uses of Local Proceeds - The most appropriate uses of local currency proceeds generated by monetization are:

- o internal transport and storage costs;

- o ancillary inputs which enhance project food aid objectives;

Other Issues:

- o exhaustion of all alternative funding sources
- o possible disincentives to local production and marketing;
- o effects of imports and sales on Usual Marketing Requirement (UMRs - five year average of commercial imports);
- o host government approval of grant food sales program;
- o adequate management and accountability.

Citations: Food Security Act, 1985, Section 1104.
Draft Policy Guidelines 1/87

Doc. 2783E

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FUNDABLE OUT OF THE 14 MILLION DOLLARS; THIS MAY BE THE ONLY WAY SUCH ITEMS CAN BE FUNDED IN TIME OF STRUCTURAL ADJUSTMENT WHEN SOCIAL SERVICES ARE GENERALLY BEING CUT BACK.

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APPROVED BY: AID/AA/FVA:JCBLOCH
AID/DAA/FVA:WOLLINGER ES:GJOE
AID/FVA/FFP/POD:JMARRUMAS (DRAFT) AID/FVA/FFP/II:WPEARSON (DRAFT)
AID/FVA/FFP/II:GFRAIZER (DRAFT) AID/PPC/PB:RBEHL (DRAFT)
AID/ANE/CP:BSIDPAN (INFO) AID/LAC/DP:WHEELER (INFO)
AID/AFR/DP:HMERRILL (INFO)
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E.O. 12356: N/A

TAGS:

SUBJECT: PL 480 TITLE II: MONETIZATION

REF: STATE 073360

1. PER REFTEL, ADDRESSEES ARE AWARE THAT THE 1985 FOOD SECURITY ACT PROVIDES THAT WE MONETIZE, IN THE AGGREGATE, 5 PERCENT OF OUR REGULAR PROGRAMS FOR THE PVOS. IT IS UNDERSTANDABLE THAT THE TARGET WILL NOT BE MET THIS YEAR AS PROGRAMS WERE WELL ADVANCED BEFORE 5 PERCENT REQUIREMENT WAS IMPOSED. WE ARE, HOWEVER, DISAPPOINTED IN THE NUMBER OF FY 87 MONETIZATION REQUESTS RECEIVED TO DATE. FIVE PERCENT OF OUR AGGREGATE REGULAR PROGRAM FOR FY 87 WOULD BE ABOUT 14 MILLION DOLLARS. TO DATE WE HAVE RECEIVED LESS THAN ONE MILLION DOLLARS WORTH OF MONETIZATION REQUESTS THROUGH THE MISSIONS FROM THE PVOS. WHILE MONETIZATION IS ONLY POSSIBLE IN THOSE COUNTRIES WHERE THERE IS AMPLE PURCHASING POWER, WE BELIEVE THAT WE HAVE FAR FROM EXHAUSTED THE MONETIZATION POSSIBILITIES.

2. INCREASED MONETIZATION REPRESENTS AN ADDITIONAL FUNDING SOURCE THAT MAY MAKE IT POSSIBLE TO EXPAND PVO ACTIVITIES IN A TIME OF DECLINING OVERALL RESOURCES.

FIRST PRIORITY WOULD BE GIVEN TO ANCILLARY EXPENSES OF MOVING THE FOOD ITSELF SUCH AS INTERNAL TRANSPORT AND WAREHOUSING. THE PARTICULARLY ONEROUS BURDENS THESE ITEMS IMPOSE IN AFRICA COULD THEREBY BE RELIEVED. SECOND PRIORITY WILL BE GIVEN TO OTHER DEVELOPMENTAL MONETIZATION INITIATIVES PARTICULARLY THOSE ASSOCIATED WITH CHILD SURVIVAL. LOCAL CURRENCY GENERATED BY FOOD SALES CAN BE USED TO PROVIDE THE CONCOMITANT RESOURCES TO MAKE SUCH PROGRAMS GO. SUCH COMPONENTS AS GROWTH MONITORING, NUTRITION EDUCATION AND ORT ARE THUS READILY

3. AT THE SAME TIME, MONETIZING TITLE II COMMODITIES RAISES ECONOMIC ISSUES SUCH AS DISINCENTIVES AND USUAL MARKETING REQUIREMENTS THAT THE PVOS MAY NOT BE ACCUSTOMED TO DEALING WITH IN THE FIELD. WE ASSUME THAT IN MOST CASES THE ACTUAL SALES OF COMMODITIES WILL BE UNDERTAKEN THROUGH USUAL MARKETING CHANNELS WITH BELLWOM DETERMINATIONS ON STORAGE AND DISINCENTIVES CARRIED OUT BY THE MISSION. USUAL MARKETING REQUIREMENTS (UMRS), NORMALLY REQUIRING THE MAINTENANCE OF COMMERCIAL IMPORTS BASED ON A FIVE YEAR AVERAGE, WILL NEED TO BE ESTABLISHED FOR MOST MONETIZATION PROGRAMS; PVOS WILL NEED TO FACTOR THIS INTO THEIR PLANS. THERE IS ALSO A LEGAL REQUIREMENT THAT PVOS DESCRIBE THE USES TO WHICH THEY INTEND TO PUT FUNDS EARNED BY MONETIZATION. THE BOTTOM LINE IS THAT WE HAVE HERE A RESOURCE WHICH WE CANNOT AFFORD TO IGNORE, BUT WHICH WILL MAKE NEW MANAGERIAL DEMANDS ON BOTH PVOS AND MISSIONS.

4. WE ENCOURAGE MISSIONS AND PVOS TO WORK TOGETHER WITH HOST GOVERNMENTS TO DEVELOP PROGRAMS THAT CAN USE MONETIZED TITLE II RESOURCES TO COVER SOME OF THEIR LOCAL CURRENCY COSTS. PVOS ARE OF COURSE STILL EXPECTED TO MEET A SIGNIFICANT PORTION OF PROGRAM COSTS, PARTICULARLY SALARIES, FROM THEIR OWN RESOURCES. WE WOULD HOPE TO SEE NEW PROPOSALS IN RESPONSE TO THIS INITIATIVE BY 8/15/86 TO FIT INTO THE FFP FY 87 PROGRAMMING CYCLE. WE RECOMMEND THAT THESE PROPOSALS BE SUBMITTED AS AMENDMENTS TO THE FY 87 AERS AND MULTI-YEAR OPERATIONAL PLANS CURRENTLY UNDER REVIEW BY FFP. ARMACOST

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DRAFT
POLICY GUIDELINES FOR MONETIZATION
OF PROJECT FOOD AID
(Voluntary Agency and Cooperative Projects)

A. Introduction

Monetization means selling a portion of the commodities granted under Title II and/or Section 416 for project food aid and using the local currencies generated by this sale to fund activities-- i.e., internal transport or ancillary inputs-- which support the objectives of the food aid project. This policy guidance pertains to projects administered by Private Voluntary Agencies and Cooperatives.

The presumption is that the bulk of grant food aid commodities will be targeted for direct distribution to needy individuals. While there may be exceptional circumstances for which full monetization would be appropriate, 100 percent monetization changes the predominant character of project food aid. Thus, full monetization would be considered only when it is clearly demonstrated that the developmental impacts would justify the high cost to the U.S.G. of providing food and transport on a grant basis.

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These guidelines establish a general policy framework for Missions, Private Voluntary Agencies and Cooperatives considering partial monetization of project food aid.

B. Program Guidelines

1. Complementarity The guiding principle of partial monetization is that the sales proceeds generated should complement and strengthen project food aid. Partial monetization must assist in achieving the fundamental objectives of the project. Project food aid is provided on a grant basis intended to compensate for distributional and structural inequities in Third World countries and, therefore, is targeted to selected groups which do not have access to adequate food supplies or which lack the income to purchase food.

2. Alternative Resources Alternative sources of funds must be explored and found to be unavailable or inappropriate. Because of the trade-off between numbers of beneficiaries and greater impact, monetization of grant commodities should normally be considered a last recourse for funding complementary inputs for project food aid. Sales proceeds should not substitute for commitments from host governments, PVOs, or Cooperatives.

Potential alternate funding sources include:

- Host government contributions. Host government- owned local currencies should be investigated as a means of meeting related costs of project food aid. In countries which have an established financial capability to support the non-food costs of project food aid, these resources should be used. Monetization should not substitute for host government resources. These government resources include general budget receipts, as well as local currencies generated by other food aid -- Title I/III for example -- or commodity import programs.
- PVO and Cooperative financing. In the past, these organizations have largely been responsible for both ancillary costs and internal transport costs of their projects. The full range of PVO and Cooperative resources should be determined inadequate before monetization is proposed.
- Operational Program Grants (OPGs). Though a specific OPG should not be sought solely to provide local currency to support a PVO or Cooperative-sponsored food aid project, OPG's in related sectors (health, nutrition) may offer a way of meeting local costs associated with dollar funding requirements.



3. Implementation Capacity Monetization programs will generally be implemented by the participating PVO or Cooperative that has title to the food. The participating organization must have proven capacity to administer partial monetization of a food aid project. Specifically, the organization must meet the following conditions:

- to maximize the U.S. government resource and its complementary impact on project goals, the PVO or Cooperative must be able to demonstrate that commodities will be sold at or near free market value or alternatively that the funds made available for complementary inputs and/or internal transport will be equivalent to that value;
- PVOs or Cooperatives must ensure that all resources generated from commodity sales - less legitimate transaction costs -- will be used for the purchase/provision of approved complementary inputs and/or internal transport, and that they will be able to maintain accurate records of proceeds and uses.

The role of the A.I.D. Mission will remain that of oversight and monitoring as is normally the case with PVO and Cooperative projects.

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4. Disincentives/UMR Depending on the volume of sales and choice of commodities to be sold, monetization of grant commodities could create a disincentive effect. In partial monetization cases, we do not anticipate that the level of tonnage sold will comprise a significant percentage of domestic consumption. Thus, in most cases, a disincentive analysis need not be completed to ensure there are no negative impacts on local production or marketing. However, if in an exceptional case, e.g., one of large volume, the disincentive issue appears to be present, the USAID should examine it in its proposal to AID/W.

Similarly, sales of Title II and Section 416 commodities are subject to consultation before the Consultative Sub-Committee on Surplus Disposal. Such consultations would require a determination of Usual Marketing Requirements(UMR).

5. Program Duration and Size In order to maintain the character of project food aid, only a portion of project commodities should be monetized. The appropriate level will vary by individual situation. Exceptionally large monetization proposals will be treated as extraordinary and will have to be justified on a case-by-case basis.

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For the purpose of coherent programming, projects involving monetization should be planned, justified and reviewed on the basis of life-of-project needs, i.e., they should be programmed in multi-year terms, where appropriate. Consistent with this, these projects should have a specific implementation timetable, with clearly defined starting and termination dates. As in all food aid projects, annual levels will be contingent on commodity availabilities and yearly approvals.

6. Documentation and Design Requirements: Requirements for project documentation and design for monetization need not be as involved as those for DA projects. However, more information is necessary than is generally provided in PVO Operational Plans (OPs) and Cooperative project proposals.

As part of expanded Operational Plans or project document, the PVO or Cooperative should provide the following information: 1) a description of the purpose of the monetization program, including an analysis of the expected impacts, which considers the benefits monetization will bring and how it will enhance achievement of project objectives; 2) a description of the planned uses of local currencies which includes a life-of-project plan with intended outputs, benchmarks of progress, the responsibilities of the participating sponsor, host government, and other participants and a plan for

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assessment of performance; 3) a budget of projected local currencies to be generated and planned uses; 4) a description of the mechanics of the commodity sale including any special ordering of commodities, port handling, inland transport, and provisions for disbursement, control and accounting for proceeds; this should also include a description of the anticipated local sales price and the marketing mechanism through which the commodities will be sold; 5) a discussion of why other sources of funds are either unavailable or inappropriate, and a demonstration that monetization will not substitute for host government or cooperating sponsor resources.

C. Project Administration

The following conditions of implementation should be observed:

1. Overall Size - Determination of the percentage of the project to be monetized should be calculated in value terms (\$ U.S.) not volume.
2. Duty-free status - Title II and Section 416 commodities are imported into recipient countries free of import duties. Where monetization is contemplated, negotiations with host government may be necessary to preserve this duty-free status.

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3. Markings on bags - The normal grant commodities bags should not be used for monetization as they are marked "not for resale". To solve this problem the participating private voluntary agency and the USAID should make a special request either: (1) that the commodities be sent in bulk and bagged in country where these facilities exist; or (2) that the commodity order be split with the part to be freely distributed in marked bags, and the part to be sold in unmarked bags. These procedures are currently followed for sales of emergency commodities.

4. Commodity Mix - In some cases, it may be appropriate to utilize commodities of higher value in local markets for the portion to be monetized. However, the potential for increased currency generations must be balanced against increased administrative and logistical costs, e.g., special orders, differential handling, increased bookkeeping, more difficult accounting, as well as overall commodity availability. In addition, there is a Congressionally mandated minimum tonnage of Title II commodities which is earmarked for PVO, Cooperative, and WFP projects. Within a fixed dollar budget, too many requests for higher value commodities may reduce the total tonnage below this legal minimum. The optimal commodity for monetization would be one which has a relatively lower freight plus commodity cost to the U.S., a relatively higher value in the local market.

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D. Uses of Local Currencies

Internal Transport-- Costs of internal transport are among the most important associated with project food aid. These costs are prohibitively expensive in certain areas of the world which lack adequate transport and infrastructure. However, these costs must be met if these projects are to succeed in reaching targeted groups-- particularly those far distant from ports and major population centers. Payment of the costs of internal transport of grant commodities is the first priority use of local currencies generated by monetization.

Those costs which are appropriately covered as part of internal transport expenses include only those costs which are directly related to transport, handling and storage of U.S. grant food commodities. Indirect costs and overhead costs are not acceptable internal transport costs, e.g. salaries of permanent program staff.

Ancillary Costs--Local currencies generated by monetization can be used for a wide range of development-oriented activities which support the objectives of project food aid. Examples are provided below. Monetization is not intended to be used to meet salaries of permanent project staff. Only in special circumstances will recurrent ancillary costs be supported by

monetization. An example of such circumstances would involve financing of certain costs associated with project phase over from U.S.G. to host country sponsorship. Thus, the proceeds could cover some costs associated with strengthening local capabilities to assume responsibilities for elements of a program as it is phased over.

Uses of local currencies in Maternal Child Health programs would include such inputs as scales, growth surveillance charts, nutrition education and pilot ORT programs.

Uses for local currencies in School Feeding Programs could include purchase of tools and equipment for school gardens, educational aids related to nutrition and equipment for school kitchens.

Uses of monetization in Food for Work could include inputs such as simple tools, cement, fencing or compactors to complement labor intensive infrastructure projects and short-term technical services of, e.g., engineers, foresters and agriculturists.

Cash supplements or substitute cash payments to workers are appropriate under special circumstances. These circumstances are:

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- a. The program or portion of the program supported by payment in cash must be integral and fundamental to the achievement of agreed project food aid goals in the country concerned (e.g., the construction of infrastructure). It must be clear that these goals cannot be achieved in its absence.

- b. It must be demonstrated that payment in food is not a satisfactory alternative. Reasons must be clear and specific (e.g., migrant labor is necessary to construct infrastructure but workers cannot transport food to their distant homes).

SUGAR QUOTA
Section 416 Sugar Quota Compensation Program

Intent: The basic intent of the program is to honor U.S. commitments to sugar exporting countries. The program provides commodity assistance to compensate these countries for foreign exchange losses resulting from reduced sugar exports to the U.S.

Description: Commodities supplied under this program are provided under Section 416. These commodities are additional to any regular or emergency food aid currently being provided to the sugar exporting country. The program is not a precedent for U.S. compensation to countries whose market share is diminished through U.S. actions. Compensation programs were initiated in FY 1986 and scheduling of 1987 programs is expected to extend into early FY 1988.

Thirty-nine countries in Latin America, Africa, and Asia are eligible to be compensated on the basis of legitimate requirements up to the dollar value of the estimated lost revenue. Requests for sugar quota compensation, in the form of a plan of operation and proposed agreement language, are submitted by the requesting country through the A.I.D. Mission or U.S. Embassy to FVA/AID/W. In view of the unique nature of the program, Washington review has been streamlined and decisions and shipments are made as quickly as possible.

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TAGS:

SUBJECT: 12/15/86 ANNOUNCEMENT - SECTION 416
COMMODITIES FOR SUGAR QUOTA COUNTRIES

REFS: (A) (06) STATE 117003 (B) (06) STATE 225209
- (C) (06) 107206

1. SUMMARY: ON 12/15/86 SECRETARY OF AGRICULTURE LYNG ANNOUNCED THE 1987 SUGAR IMPORT QUOTA LEVELS. THE SECRETARY ALSO STATED THE COMMODITY DONATIONS WILL BE AVAILABLE TO COUNTRIES IN FY 1987 WHICH SUFFER ECONOMIC LOSSES AS A CONSEQUENCE OF THE REDUCTION IN SUGAR IMPORT QUOTAS. THE MAIN VEHICLE FOR THIS ASSISTANCE CONTINUES TO BE SECTION 416 (B) OF THE AGRICULTURAL ACT OF 1940, AMENDED, AS WAS THE CASE LAST YEAR, REF (A). EXCEPT AS OTHERWISE STATED HEREIN PROVISIONS FOR DEVELOPING SECTION 416 (B) PROGRAM REQUESTS AND SIGNING AGREEMENTS WILL FOLLOW THOSE PROVIDED UNDER REPEALS. IN RESPONSE TO REQUEST FROM ELIGIBLE COUNTRIES THE USG WILL SEEK TO PROVIDE ASSISTANCE UP TO THE SUGAR QUOTA LEVEL INDICATED IN PARAGRAPH 2, WHICH INCLUDES OCEAN FREIGHT COSTS. THIS ASSISTANCE IS EXPECTED TO BE ADDITIONAL TO LEVELS PROVIDED IN FY 86 AND TO ANY REGULAR AND EMERGENCY FOOD AID PROGRAMS. IF DELIVERIES FOR THE LEVELS ANNOUNCED IN

FY 86 HAVE NOT BEEN COMPLETED, IT MAY BE POSSIBLE TO CONSOLIDATE THESE LEVELS WITH THE NEWLY ANNOUNCED LEVELS INTO A SINGLE AGREEMENT.

2. IN VIEW OF THE ECONOMIC IMPACT THE REDUCTION IN THE SUGAR QUOTAS FOR 1987 MAY HAVE ON SOME SUGAR EXPORTING COUNTRIES ECONOMIES, COMMODITY CREDIT CORPORATION (CCC)

WILL, IN RESPONSE TO SPECIFIC REQUESTS, PROVIDE ON A PRIORITY BASIS, AVAILABLE CCC STOCKS OF COMMODITIES INDICATED IN PARA. 3 UNDER THE COMMODITY DONATION PROGRAM COMMONLY KNOWN AS SECTION 416 (B) DURING 1987 TO CERTAIN SUGAR-EXPORTING COUNTRIES. FOLLOWING ARE THE COUNTRIES AND VALUE AMOUNTS, WHICH ALSO COVER OCEAN FREIGHT COSTS INCLUDED UNDER THIS PROGRAM INITIATIVE (IN MILLION US DOLLARS):

DOMINICAN REPUBLIC	46.3	PHILIPPINES	32.8
GUATEMALA	12.6	PERU	10.8
EL SALVADOR	7.8	PANAMA	7.6
MAURITIUS	6.0	COLOMBIA	6.3
COSTA RICA	5.6	HONDURAS	5.6
SWAZILAND	4.2	THAILAND	3.7
MOZAMBIQUE	3.4	GUYANA	3.2
ZIMBABWE	3.2	BELIZE	2.9
ECUADOR	2.9	JAMAICA	2.9
MALAWI	2.6	BOLIVIA	2.0
INDIA	2.0	BARBADOS	1.6
CONGO	1.8	HAITI	1.6
COTE D'IVOIRE	1.6	MADAGASCAR	1.6
PAPUA NEW GUINEA	1.6	ST. CHRISTOPHER	1.6
TRINIDAD-TOBAGO	1.6	FIJI	1.6

RESPECTIVE U.S. MISSIONS SHOULD OFFICIALLY INFORM COUNTRY GOVERNMENTS OF THIS PROGRAM INITIATIVE AND ASSIST, WHEN NECESSARY AND/OR FEASIBLE, IN DEVELOPING THE FORMAL REQUEST, INCLUDING THE PROPOSED PLAN OF OPERATION (ATTACHMENT A) TO THE SECTION 416 (B) PROGRAM AGREEMENT.

3. IN ASSISTING WITH THE DEVELOPMENT OF THE REQUEST AND PLAN OF OPERATION MISSION SHOULD INFORM COUNTRY GOVERNMENTS THAT THE FOLLOWING COMMODITIES ARE CURRENTLY AVAILABLE AT THE FOLLOWING ESTIMATED VALUES PER METRIC TON:

COMMODITY	US DOLS/MT
WHEAT	116
CORN	86
SORGHUM	81
BARLEY	101
SOYBEANS (L)	191
OATS	260
MILLED RICE	180
NEFM	720
BUTTER	1,000
BUTTEROIL	1,123
CHEESE	
40 LB BLOCKS	1,100
5 LB LOAVES	1,123
NO. 10 TIN CANS	1,525

(L) FOR HUMAN CONSUMPTION

PRICES DO NOT REPEAT NOT INCLUDE SHIPPING WHICH VARIES ACCORDING TO DESTINATION.

IN REVIEWING THE ABOVE COMMODITY LIST, MISSIONS SHOULD KEEP IN MIND THAT WHILE THE CCC CONTINUES TO OWN LARGE QUANTITIES OF WHOLE GRAINS AND DAIRY PRODUCTS, NEW USES OF THESE STOCKS FOR DOMESTIC U.S. PROGRAMS AND LOWER ACQUISITION OF STOCKS SUCH AS BUTTER AND CHEESE MAY AFFECT THE QUALITY AND QUANTITY OF COMMODITIES REMAINING AVAILABLE FOR SECTION 416 (B) PROGRAMMING. SOYBEANS ARE AVAILABLE FOR HUMAN CONSUMPTION ONLY. CHEESE, BUTTER/BUTTEROIL, AND RECENTLY PURCHASED NEFM MAY BECOME

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LIMITED DURING THE YEAR. THEREFORE, IT IS IMPORTANT THAT YOU ADVISE WASHINGTON OF THE COMMODITY(IES) AND QUANTITIES/QUALITIES DESIRED AT THE EARLIEST POSSIBLE DATE SINCE ONLY CCC-OWNED COMMODITIES ARE AVAILABLE FOR THIS PROGRAM. OF COURSE TRADITIONAL P.L. 480 FOOD AID PROGRAMS SUPPLY SPECIFIC QUANTITIES OF AVAILABLE COMMODITIES FROM THE U.S. COMMERCIAL MARKET.

4. BASED ON EXPERIENCE WITH 1986 PROGRAM AND THE GREATLY INCREASED SUGAR QUOTA OFF-SET LEVELS FOR 1987, WE ANTICIPATE DIFFICULTY IN COMPLYING WITH THE REQUIREMENTS FOR THE BELLMON DETERMINATION AND PROTECTING TRADITIONAL COMMERCIAL MARKETS (USUAL MARKET REQUIREMENT). THEREFORE, ALL PROPOSALS FOR COMMODITIES UNDER THIS PROGRAM MUST PROVIDE THE FOLLOWING INFORMATION FOR EACH COMMODITY REQUESTED:

- 1) IN ORDER FOR THE DEPARTMENT OF AGRICULTURE TO DETERMINE THAT THE BELLMON REQUIREMENT HAS BEEN SATISFIED FOR EACH COMMODITY BEING PROVIDED, A SUMMARY STATEMENT MUST BE PROVIDED BY RESPECTIVE U.S. MISSIONS

THAT INCLUDES BACKGROUND INFORMATION INDICATING THAT ADEQUATE STORAGE IS AVAILABLE TO PREVENT SPOILAGE AND WASTE, AND THE DISTRIBUTION OF THE COMMODITY WILL NOT RESULT IN SUBSTANTIAL DISINCENTIVE TO OR INTERFERENCE WITH PRODUCTION OR MARKETING.

- 2) LIST OF COMMERCIAL IMPORTS BY COUNTRY OF ORIGIN FOR THE PREVIOUS FIVE YEARS AND ESTIMATED FOR FY 87. BACKGROUND INFORMATION ON PRODUCTION, CONSUMPTION AND TRADE IS HELPFUL ESPECIALLY IF MISSIONS HAVE REASON TO PROPOSE REDUCTION OR WAIVER OF INDICATED UMR.

5. MISSION SHOULD ALSO NOTE THAT IF IMPORTING GOVERNMENT INTENDS TO MONETIZE DONATED COMMODITIES, LOCAL CURRENCY PROCEEDS MUST BE USED FOR ACTIVITIES CONSISTENT WITH PROVIDING FOOD ASSISTANCE TO NEEDY PEOPLE. PLAN OF OPERATION (WHICH IS INCORPORATED IN THE AGREEMENT) SHOULD DESCRIBE THE PROGRAM AND INCLUDE INFORMATION ON ACTIVITIES TO BE SUPPORTED WITH LOCAL CURRENCIES. A REPORT TO CONGRESS ON THE LOCAL CURRENCY USE IS REQUIRED ANNUALLY. SEPTEL TO FOLLOW RE REPORTING REQUIREMENT.

6. YOUR EXTENDED SUPPORT IN DEVELOPING THE ABOVE NOTED PROGRAMS FOR 1986 IS GREATLY APPRECIATED. WITH PAST EXPERIENCE, WE ARE HOPEFUL PROGRAMMING FOR 1987 CAN BE EXPEDITED BOTH IN THE FIELD AND IN WASHINGTON. SHULTZ UNQUOTE SHULTZ UNQUOTE SHULTZ

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dated June 21, 1986

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AID/FVA/FFP/II:ABRAUNSTEIN:JJ:3243Q
06/18/86 235-2844
AID/FVA/FFP/II:WPEARSON

STATE/EB:JTUCKER {SUBS}		USDA/FAS:MCHAMBLISS {DRAFT}
OMB/IAD:GMOSEY {SUBS}		AID/PPC/PB:LTANNER {SUBS}
AID/FVA/FFP/POD:EJEFFERSON{SUBS}		AID/FVA/FFP/II:MDWYRE {DRAFT}
AID/ES:GJOE		

PRIORITY NAIROBI, BRIDGETOWN PRIORITY, BELIZE PRIORITY, LA PAZ PRIORITY, BOGOTA PRIORITY, BRAZZAVILLE PRIORITY

AIDAC NAIROBI FOR REDSO/EA ABIDJAN FOR EMBASSY AND REDSO/W

E.O. 12356: N/A

TAGS:

SUBJECT: SECTION 416 SUGAR QUOTA OFFSET: STREAMLINED PLAN OF OPERATION AND SECTION 416 AGREEMENT

BARBADOS FOR EMBASSY AND RDO

REF: {A} STATE 117093 {B} STATE 148721

1. SUMMARY: THIS MESSAGE PROVIDES INFORMATION ON:

- {A} COUNTRY PROGRAMS APPROVED TO DATE IN PRINCIPLE BY THE INTER-AGENCY DCC,
- {B} PLAN OF OPERATION REQUIREMENTS UNDER SECTION 416,
- {C} SAMPLE SECTION 416 AGREEMENT,
- {D} DEFINITIVE FY 86 COMMODITY PRICES FOR PURPOSES OF THIS PROGRAM,
- {E} INCLUSION OF BOTH OCEAN TRANSPORT AND COMMODITY COSTS UNDER DOLLAR ALLOCATION. END SUMMARY.

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2. TO DATE, THE FOLLOWING COUNTRY PROGRAMS HAVE BEEN APPROVED IN PRINCIPLE BY THE INTER-AGENCY DCC:

- {A} LATIN AMERICA: BOLIVIA, GUATEMALA, GUYANA, HAITI, JAMAICA, PERU, AND BELIZE.
- {B} ASIA: THAILAND
- {C} AFRICA: MOZAMBIQUE, ZIMBABWE, IVORY COAST, MADAGASCAR, MALAWI, MAURITIUS AND SWAZILAND.

3. PROVISIONS OF AID REGULATION 10 PREVAIL UNLESS OTHERWISE STATED IN THIS MESSAGE. REGULATION 10 BEING POUCHED TO ALL POSTS THAT HAVE NOT YET PARTICIPATED IN OR INQUIRED ABOUT REGULAR SECTION 416 PROGRAM.

4. REFTELS SET OUT GUIDELINES FOR THE SUBJECT PROGRAM. IN PARTICULAR, REF {A} PARA 3 STATES THAT BECAUSE OF THE UNIQUE NATURE OF THIS ASSISTANCE, PROGRAMMING CRITERIA WHICH MAY OTHERWISE LIMIT APPROVALS MAY NOT APPLY. NONETHELESS, THE GOVERNING AID REGULATION 10 FOR SECTION 416 PROGRAMS SETS OUT REQUIREMENTS OF COOPERATING SPONSORS {E.G. HOST GOVERNMENT}, INCLUDING A SPECIFIC PLAN OF OPERATION IN SEVENTEEN POINTS {APPENDIX I}. WHILE THIS REGULATION CONTINUES TO APPLY TO ALL SECTION 416 PROGRAMS, UNLESS OTHERWISE PROVIDED, THE INTER-AGENCY DCC HAS APPROVED STREAMLINED PLAN OF OPERATION REQUIREMENTS FOR THIS SPECIAL SUGAR QUOTA OFFSET PROGRAM. THIS WILL PERMIT COOPERATING GOVERNMENT AND USG TO AGREE ON COMMODITY SUPPLY AND MONETIZATION AS APPROPRIATE.

5. STREAMLINED PLAN OF OPERATION

A. THE FOLLOWING POINTS WILL APPLY:

- 1. NAME AND ADDRESS OF APPLICANT.
- 2. COUNTRY
- 3. KIND AND QUANTITY OF COMMODITIES REQUESTED {INCLUDING PROCESSING, PACKAGING STATEMENT AS APPLICABLE -E.G. 50 LB SACKS FOR NFD; FLOUR FOR WHEAT; CANS OR LOAVES FOR CHEESE, ETC.}
- 4. DELIVERY SCHEDULE
- 5. DESCRIPTION OF PROGRAM

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- {A} DIRECT FEEDING DESCRIPTION, IF ANY.
- {B} MONETIZATION:
 - {1} GENERAL STATEMENT AS TO PROCEDURE INTENDED FOR GENERATION AND MANAGEMENT OF LOCAL CURRENCIES.
 - {2} GENERAL STATEMENT AS TO THE USES OF GENERATED CURRENCIES. AGREEMENT OF GOVERNMENT TO SUBMIT SUMMARY STATEMENT VERIFYING THAT LOCAL CURRENCIES HAVE BEEN USED FOR OBJECTIVES STATED.
- 6. USUAL MARKETING REQUIREMENTS {UMR}-SECTION 416 DONATIONS ARE NOT TO SUBSTANTIALLY DISTORT OR DISPLACE LOCAL COMMERCIAL SALES OR NORMAL PATTERN OF INTERNATIONAL TRADE/IMPORTS. DISCUSS THESE TWO IMPLICATIONS OF PROPOSAL. SHOULD A UMR BE REQUIRED, WHERE ONE DOES NOT ALREADY EXIST UNDER SECTION 416 OR TITLE I, POST WILL BE ASKED TO PROVIDE INFORMATION BY COMMODITY ON LATEST FIVE-YEAR COMMERCIAL IMPORT DATA WITH ESTIMATES FOR FY 86. CONSULTATIONS ON ANY UMR'S WILL BE EXPEDITED. A UMR WILL BE REQUIRED FOR ANY COMMODITY SOLD.
- 7. RECORD KEEPING, ACCOUNTABILITY, AND REPORTING PROCEDURES FOR:
 - {A} COMMODITIES FOR DIRECT FEEDING, IF ANY.
 - {B} COMMODITIES FOR COMMERCIALIZATION/MONETIZATION.
 - {C} LOCAL CURRENCY PROCEEDS.
- 8. ADEQUACY OF PORT FACILITIES FOR QUANTITIES SHIPPED.
- 9. IN-COUNTRY TRANSPORT AND STORAGE FACILITIES.
- 10. OBTAIN ASSURANCE FROM HOST GOVERNMENT THAT COMMODITIES WILL BE RECEIVED IN COUNTRY AND NOT BE EXPORTED.
- 11. STATEMENT THAT COUNTRY IS IN COMPLIANCE WITH BELMONT REQUIREMENT THAT COMMODITIES CAN BE IMPORTED WITHOUT INTERRUPTION/DISINCENTIVE TO DOMESTIC PRODUCTION/MARKETING AND CAN BE STORED/DISTRIBUTED WITHOUT SIGNIFICANT LOSSES.

B. ANY COMMENTS ON ABOVE GUIDELINES SHOULD BE TAILORED TO COUNTRY-SPECIFIC PROPOSALS AS DEVELOPED OR FINALIZED.

b. SAMPLE SECTION 416 AGREEMENT FOR SUGAR QUOTA COUNTRIES:

A. TEXT FOLLOWS:

IN ORDER TO EFFECT THE DISTRIBUTION OF AGRICULTURAL COMMODITIES, THE AGENCY FOR INTERNATIONAL DEVELOPMENT {A.I.D.}, THE COMMODITY CREDIT CORPORATION {CCC} AND GOVERNMENT OF { } AGREE AS FOLLOWS:

1. CCC AGREES TO DONATE TO THE GOVERNMENT OF { } AGRICULTURAL COMMODITIES OF THE KIND AND AMOUNT SPECIFIED IN SECTION 2 PURSUANT TO THE AUTHORITY OF SECTION 416 OF THE AGRICULTURAL ACT OF 1949, AS AMENDED. CCC SHALL DELIVER SUCH COMMODITIES IN ACCORDANCE WITH THE DELIVERY SCHEDULE SPECIFIED IN SECTION 2.

2. AGRICULTURAL COMMODITIES TO BE DONATED TO THE GOVERNMENT OF { } ARE AS FOLLOWS:

PRODUCT PACKAGE	QUANTITY MTS {LBS 000}	DELIVERY MONTH	FOREIGN PORT
-			

NOTE: SHOULD THE ABOVE SCHEDULE CHANGE, THE GOVERNMENT OF { } WILL PROMPTLY INFORM CCC AND COORDINATE A REVISED DELIVERY SCHEDULE. THE PERSON TO CONTACT IS CHIEF, EXPORT OPERATIONS BRANCH, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE/USDA, KANSAS CITY COMMODITY OFFICE {KCCO}, P.O. BOX 205, KANSAS CITY, MISSOURI 64141, TELEPHONE {816} 926-6723.

3. THE PAYMENT OF ALL COSTS ASSOCIATED WITH THE REPROCESSING, PACKAGING, TRANSPORTING, HANDLING AND OTHER CHARGES INCURRED IN THE DISTRIBUTION OF THE COMMODITIES WILL BE APPORTIONED AS FOLLOWS:

- A. CCC AGREES TO DONATE THE AGRICULTURAL COMMODITIES WITHOUT CHARGE AND TO PAY THE FOLLOWING COSTS: OCEAN TRANSPORTATION {IF APPLICABLE}, SURVEY FEES, AND REPACKAGING OF DAMAGED COMMODITIES; PROCESSING, HANDLING, AND TRANSPORT COSTS TO U.S. PORT{S} OF ALLOCATION.

- B. THE GOVERNMENT OF { } AGREES TO PAY THE

FOLLOWING COSTS: INLAND TRANSPORTATION, HANDLING AND DISTRIBUTION WITHIN { }. THE COOPERATING SPONSOR AGREES TO ARRANGE FREIGHT FORWARDING AND BOOKING.

- C. NOTWITHSTANDING SECTION 210.5 (D) (2) (I), A.I.D. REGULATION 10, THE GOVERNMENT OF { } AGREES TO ARRANGE OCEAN TRANSPORTATION AND FREIGHT FORWARDING TO ENSURE THAT AT LEAST 60 PERCENT OF THE CARGO TONNAGE UNDER THIS AGREEMENT WILL BE CARRIED ON U.S. - FLAG VESSELS.

4. THE QUALITY OF AGRICULTURAL COMMODITIES TO BE DONATED BY THE CCC AND THE PACKAGING DESCRIPTIONS WILL BE IN ACCORDANCE WITH THE SPECIFICATIONS IN ATTACHMENT B TO THIS AGREEMENT.

5. THE TERMS AND CONDITIONS SET FORTH IN THE APPROVED PLAN OF OPERATION (ATTACHMENT A) ARE INCORPORATED INTO AND MADE A PART OF THIS AGREEMENT.

6. IN LIEU OF THE NO-SALES PROVISION OF AID REGULATION 10, UP TO ONE HUNDRED PERCENT MONETIZATION IS PROVIDED UNDER THIS AGREEMENT ON A SPECIAL CASE BASIS FOR SUGAR QUOTA OFF-SET OBJECTIVES.

7. PROVISIONS SET FORTH IN A.I.D. REGULATION 10 PREVAIL UNLESS OTHERWISE PROVIDED IN THIS AGREEMENT. END TEXT.

8. AGREEMENT IS SIGNED BY USDA/CCC AND MAY BE POUCHED TO EMBASSY FOR SIGNING BY EMBASSY/MISSION AND HOST GOVERNMENT. ALTERNATIVELY, AGREEMENT MAY BE SIGNED BY USDA, AID AND FOREIGN GOVERNMENT REPRESENTATIVES IN WASHINGTON, AT YOUR OPTION.

9. PLEASE REVIEW PLAN OF OPERATION AND SAMPLE AGREEMENT WITH HOST GOVERNMENT AND CABLE PROPOSED PLAN OF OPERATION TO WASHINGTON. PLAN OF OPERATION WILL BECOME ATTACHMENT A TO SECTION 416 AGREEMENT.

10. PRICES FOR SUGAR QUOTA OFFSET PROGRAMMING IN FY 1986. THESE PRICES SUPERCEDE THOSE GIVEN IN REF. A.

A. GRAINS/PRODUCTS (COMPUTED BY USDA FROM ESTIMATED EXPORT PRICES FOR P.L. 480 AND PROGRAMMING PROJECTIONS.)

<u>COMMODITY</u>	<u>DOLLARS/METRIC TON</u>
WHEAT	130
WHEAT FLOUR	180

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MILLED RICE	180
CORN	108
SORGHUM	104

B. DAIRY PRODUCTS {PROVIDED BY USDA FAS/DL AND PD AND ASCS.}

<u>COMMODITY</u>	<u>DOLLARS/METRIC TON</u>
BUTTEROIL	1,250
BUTTER	1,050
CHEESE {CHEDDAR/PROCESSED}	1,100
NFDM {FORTIFIED}	700
ULTRA HIGH TEMPERATURE {UHT} MILK	649

9. AS NOTED ABOVE, AN ADDITIONAL PRODUCT AVAILABLE THROUGH FY 1986 IS UHT WHOLE LIQUID MILK IN QUART CONTAINERS.

STATE 352097 DATED NOVEMBER 16, 1985 PROVIDES GENERAL INFORMATION ON THIS UNIQUE PRODUCT. IF APPROPRIATE, WOULD APPRECIATE IT IF EMBASSY/MISSION COULD CALL TO THE ATTENTION OF HOST GOVERNMENT THAT THIS PRODUCT IS AVAILABLE AND ADVISE WASHINGTON OF ANY INTEREST.

10. POST SHOULD CLARIFY FOR HOST GOVERNMENT THAT THE SUGAR QUOTA OFFSET DOLLAR ALLOCATION IS TO COVER BOTH COMMODITY AND OCEAN TRANSPORT {OT} VALUES. WITH SPECIFIC REFERENCE TO THE OT COSTS, THE DOLLAR ALLOCATION CAN EITHER COVER FULL TRANSPORT COSTS, IF THE RECIPIENT REQUESTS THE USG TO PAY THE FULL COST, OR CAN COVER ONLY THE OCEAN FREIGHT DIFFERENTIAL COST {I.E., THE ADDITIONAL COST OF USING U. S. SHIPS IN COMPLIANCE WITH THE U. S. CARGO PREFERENCE REQUIREMENT OF 60 PERCENT AS OF APRIL 1, 1986}. IF THE GOVERNMENT ELECTS TO PAY THE ENTIRE OT COST, INCLUDING THE COST OF SHIPPING REQUIRED ON U. S. SHIPS, THEN THE FULL DOLLAR ALLOCATION CAN PROVIDE COMMODITIES.

11. SEPARATE CABLE WILL FOLLOW WITH TRANSPORT COSTS AND USG ESTIMATE OF COMMODITY QUANTITY ALLOWABLE UNDER PROGRAM WHERE POSTS HAVE IDENTIFIED A PROGRAM AND

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COMMODITY.

12. FOR THOSE COUNTRIES THAT HAVE PROVIDED ESTIMATED SHIPPING SCHEDULES FOR DELIVERY BY JULY/AUGUST, PLEASE BE ADVISED THAT ONCE SECTION 416 AGREEMENT IS SIGNED DELIVERY TO U.S. PORT CAN TAKE FOUR WEEKS FOR WHOLE GRAINS AND 6-8 WEEKS FOR PROCESSED COMMODITIES.

13. GOVERNMENTS SHOULD IDENTIFY A U.S. BASED FREIGHT FORWARDER FOR THIS PROGRAM, OR INDICATE IF THEY WISH A.I.D. TO MANAGE FREIGHT FORWARDING. 44

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Structural Adjustment Support Program

Intent: Provide PL 480 and Section 416 food to targeted recipients in countries engaged in economic structural adjustment programs. The food would be provided to vulnerable groups whose real incomes, purchasing power and food consumption are significantly declining due to the economic situation in a country. In some cases it might also encourage recipient governments to implement reforms which they would not otherwise undertake.

Description: Country eligibility - Missions considering requesting this type of food aid assistance must determine that the recipient host country meets the following eligibility criteria: 1) The country is a low-income or middle-income country (priority will be given to low income countries); 2) Evidence exists of substantial food consumption and malnutrition problems among particular vulnerable groups; 3) The country has sufficient institutional infrastructure -- either public sector or PVOs -- to target and distribute food effectively to vulnerable population groups; 4) The country is committed to a policy environment which is consistent with achieving food self-reliance; 5) The country is currently or in the process of implementing structural adjustment/economic reforms.

Once country eligibility is determined, the Mission should submit a country proposal which contains the following analyses:

- 1) Problem: identification and assessment of the country economic situation, food policy environment and food availability;
- 2) Target group: identification of target groups and documentation of the severity and magnitude of their food consumption problems;
- 3) Food self-reliance: assessment of host country's commitment to a policy of food self-reliance;
- 4) Current program response: analysis of the adequacy of existing in-country resources and programs to address identified consumption problems;
- 5) Recommended intervention: description of how additional food aid will be used to address the problems described;
- 6) Compatibility with structural adjustment program: analysis of how the food aid project will enhance the capacity of the country to carry out its structural adjustment program;
- 7) Phase-over/ Phase-out Plan;

- 8) Budget Plan;
- 9) Monitoring and Evaluation Plan;
- 10) Disincentive Analysis;
- 11) Usual Marketing Requirements Analysis;

The proposal will be submitted for DCC approval under existing procedures.

Citations: State cable 19380; State cable 296276

Doc. 2783E

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DRAFTED BY: AID/FVA/PPE:H JUKIN:SEM 39400

APPROVED BY: AID/AA/FVA:J C BLOCH

AID/ES:G JOE

AID/FVA/PPE:B RILEY

AID/DAF/FVA:W ECLINGER

AID/FVA/PPE:L STAMBERG (DRAFT)

AID/FVA/PPE:F DUNCAN (DRAFT)

AID/FVA/FFP:T REESE (DRAFT)

AID/DAF/FVA:J SINGER (DRAFT)

USDA/FAS:M CHAMBLISS (DRAFT)

STATE/EB:C BILLO (DRAFT)

OMB/IT:D SPECKHARD (DRAFT)

TREASURY/IDP:R YATED (DRAFT)

AID/LAC/DP:R QUEENER (SUBJ)

AID/AFR/DP:J PATTERSON (SUBJ)

AID/PPC/PB:L TANNER (SUBJ)

AID/FVA/FFP:J MARKINGS (INFO)

AID/ANE/DP:B SIDMAN (DRAFT)

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E.O. 12356: N/A

TAGS: N/A

SUBJECT: ADDITIONAL U.S. FOOD AID FOR COUNTRIES
IMPLEMENTING STRUCTURAL ADJUSTMENT PROGRAMS

REFERENCES: A) STATE 296276; B) STATE 317646; C) STATE
334505 DTD 10/31/85, PL 480, TITLE II REVISED
REQUIREMENTS FOR TITLE II OPERATIONAL PLAN; D) STATE
077930 DTD 3/13/86, FOOD FOR PROGRESS (FFP) ACT OF 1985.

I. SUMMARY

AID/W ENCOURAGES US AIDCS TO SUBMIT PROJECT PROPOSALS
WHICH WOULD TARGET ADDITIONAL PL 480 TITLE II
COMMODITIES TO VULNERABLE POPULATION GROUPS WHOSE REAL
INCOMES, PURCHASING POWER AND FOOD CONSUMPTION ARE
SIGNIFICANTLY DECLINING DUE TO THE ECONOMIC SITUATION IN
COUNTRY. THIS INITIATIVE RESPONDS TO CONCERN OVER THE
ABILITY OF CERTAIN POPULATION GROUPS IN DEVELOPING
COUNTRIES TO MAINTAIN ADEQUATE FOOD SECURITY AND
NUTRITIONAL LEVELS IN THE FACE OF CONTINUING ECONOMIC
CRISIS AND ECONOMIC RESTRUCTURING MEASURES THAT MAY, IN
THE SHORT-TO-MEDIUM TERM, HAVE ADVERSE EFFECTS ON THE
REAL INCOMES OF POORER SEGMENTS OF THE POPULATION.
PROJECT PROPOSALS SHOULD BE CONSISTENT WITH TITLE II

REGULATIONS AND GUIDANCE, AND EMPHASIZE CAREFUL ANALYSIS
AND SELECTION OF TARGET GROUPS, DIRECT FOOD DISTRIBUTION
TO SELECTED RECIPIENTS, USE OF EXISTING FOOD DISTRIBUTION
INFRASTRUCTURES, AND LIMITED PROJECT TIME FRAMES.

IN PREPARING PROJECT PROPOSALS, USAIDS SHOULD CONSULT

WITH APPROPRIATE GOVERNMENT AGENCIES, PVCS, AND
MULTILATERAL ORGANIZATIONS I.E., WORLD BANK, IMF,
UNICEF CONCERNING THE POTENTIAL AVAILABILITY OF
ADDITIONAL U.S. FOOD AID AND THE NEED FOR TARGETED
FEEDING ACTIVITIES IN CONJUNCTION WITH THE INITIAL
IMPLEMENTATION OF STRUCTURAL ADJUSTMENT/ECONOMIC REFORM
PROGRAMS.

II. PURPOSE/OBJECTIVES

A. ADDITIONAL FOOD AID RESOURCES WILL BE MADE AVAILABLE
SPECIFICALLY FOR PROJECTS WHICH PROVIDE FOOD DIRECTLY TO
VULNERABLE GROUPS, I.E. URBAN POOR, LANDLESS LABORERS -
AND WITHIN THESE GROUPS, PARTICULARLY YOUNG CHILDREN AND
PREGNANT WOMEN - WHO ARE MOST SERIOUSLY AFFECTED BY
ECONOMIC CRISIS AND ADJUSTMENT MEASURES, IN ORDER TO
OFFSET SHORT-TO-MEDIUM TERM REDUCTIONS IN REAL INCOME,
FOOD CONSUMPTION, AND NUTRITIONAL WELLBEING. IT IS
ANTICIPATED THAT THE AVAILABILITY OF ADDITIONAL FOOD AS
A SAFETY NET FOR THESE GROUPS MAY ALSO FACILITATE THE
ADOPTION OF NECESSARY REFORMS BY RECIPIENT GOVERNMENTS.

B. PROJECT OBJECTIVES SHOULD INCLUDE:

1. ASSISTING COUNTRIES TO ANALYZE THE FOOD CONSUMPTION
AND NUTRITIONAL EFFECTS OF THE CURRENT ECONOMIC
SITUATION INCLUDING ECONOMIC REFORM MEASURES.
2. IDENTIFYING VULNERABLE GROUPS MOST SERIOUSLY
AFFECTED BY THE ECONOMIC SITUATION.
3. TARGETING OF FOOD TO THOSE GROUPS IDENTIFIED IN
ORDER TO MAINTAIN THEIR FOOD SECURITY.
4. EFFECTIVE MONITORING OF THE EFFECTS OF THE TARGETED
FOOD ACTIVITIES AS WELL AS THE IMPACT OF THE ECONOMIC
SITUATION AND POLICY REFORMS ON THE REAL INCOMES AND
FOOD CONSUMPTION OF THE TARGET POPULATION.

III. COUNTRY ELIGIBILITY: COUNTRIES SHOULD MEET THE
FOLLOWING ELIGIBILITY CRITERIA:

1. THE COUNTRY IS A LOW-INCOME OR MIDDLE-INCOME
COUNTRY; PRIORITY WILL BE GIVEN TO LOW INCOME COUNTRIES.
2. EVIDENCE EXISTS OF SUBSTANTIAL FOOD CONSUMPTION AND
MALNUTRITION PROBLEMS AMONG PARTICULAR VULNERABLE GROUPS.
3. THE COUNTRY HAS SUFFICIENT INSTITUTIONAL
INFRASTRUCTURE (EITHER PUBLIC SECTOR OR PVCS) TO
EFFECTIVELY TARGET AND DISTRIBUTE FOOD TO VULNERABLE
POPULATION GROUPS.
4. THE COUNTRY IS COMMITTED TO A POLICY ENVIRONMENT
WHICH IS CONSISTENT WITH ACHIEVING FOOD SELF-RELIANCE.
5. THE COUNTRY IS CURRENTLY OR IN THE PROCESS OF
IMPLEMENTING STRUCTURAL ADJUSTMENT/ECONOMIC REFORMS.

IV. COMMODITY AVAILABILITY

PL 480 TITLE II COMMODITIES ARE AVAILABLE TO SUPPORT NEW
PROJECTS. AS IN ALL PL 480 TITLE II AGREEMENTS,
MULTI-YEAR COMMITMENTS CANNOT BE SHAPANTEED, AND ARE
SUBJECT TO ANNUAL FUNDING AND COMMODITY CONSTRAINTS.
HOWEVER, WE WILL CONSIDER RENEWING TITLE II COMMODITIES
FOR UP TO 3 YEARS AND EXPECT PROJECT PROPOSALS TO
INCLUDE A MULTIYEAR PLAN FOR UP TO 3 YEARS, AS
APPROPRIATE, WITH A DETAILED PHASE OUT SCHEDULE.

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V. MONETIZATION

MONETIZATION WILL BE CONSISTENT WITH CURRENT TITLE II POLICY, WHEREBY TYPICALLY A RELATIVELY SMALL PROPORTION OF COMMODITIES MAY BE MONETIZED TO FINANCE COSTS ESSENTIAL FOR EFFECTIVE DISTRIBUTION OF THE FOOD.

VI. PROJECT DESIGN AND DOCUMENTATION

A. PROJECTS CAN INVOLVE THE DESIGN OF TOTALLY NEW FEEDING ACTIVITIES USING PVO OR HOST GOVERNMENT DISTRIBUTION MECHANISMS OR THE REDESIGN OF EXISTING ACTIVITIES (E.G., LARGER RATIONS) TO MEET INDIVIDUAL OR HOUSEHOLD FOOD DEFICITS. OBJECTIVES SHOULD BE CLEARLY STATED AND CONSISTENT WITH PARA II B OF THIS CABLE. TARGET GROUPS AND TARGETING MECHANISMS MUST BE WELL-DEFINED. MONITORING AND EVALUATION PLANS SHOULD BE INTEGRATED INTO THE PROJECT DESIGN.

B. COUNTRY PROPOSALS SHOULD INCLUDE THE ANALYSES LISTED BELOW. IN SOME INSTANCES, SOME ANALYSES MAY ALREADY HAVE BEEN DONE AND CAN BE DRAWN UPON IN DEVELOPING

PROPOSALS.

1. PROBLEM ANALYSIS: IDENTIFICATION AND ASSESSMENT OF COUNTRY ECONOMIC SITUATION, FOOD POLICY ENVIRONMENT AND FOOD AVAILABILITY AS IT DIRECTLY AFFECTS THE FOOD CONSUMPTION AND NUTRITIONAL WELL-BEING OF TARGET GROUPS. CRITICAL ELEMENTS OF STRUCTURAL ADJUSTMENT PROGRAMS SHOULD BE REVIEWED AS TO THEIR EFFECT ON FOOD CONSUMPTION AND NUTRITION. HOWEVER, THESE ELEMENTS SHOULD BE DESCRIBED IN THE CONTEXT OF REMEDIES TO ADDRESS THE MORE DEEP-SEATED UNDERLYING CAUSES OF FOOD SECURITY PROBLEMS MAKING THE REMEDIES NECESSARY.

2. TARGET GROUP ANALYSIS: IDENTIFICATION OF TARGET GROUPS AND DOCUMENTATION OF THE SERIOUSNESS AND MAGNITUDE OF THEIR FOOD CONSUMPTION PROBLEMS AND NUTRITIONAL STATUS. QUANTITATIVE DATA SHOULD BE PRESENTED TO THE EXTENT AVAILABLE. FOR THE MOST PART BENEFICIARIES WILL BE LOW-INCOME GROUPS INCLUDING THE URBAN POOR AND LANDLESS LABORERS. SPECIAL ATTENTION WILL BE GIVEN TO THE MOST VULNERABLE MEMBERS OF THESE GROUPS INCLUDING YOUNG CHILDREN, PREGNANT AND LACTATING WOMEN.

3. FOOD SELF-RELIANCE ASSESSMENT: ASSESSMENT OF HOST COUNTRY'S COMMITMENT TO A POLICY OF FOOD SELF-RELIANCE.

4. CURRENT PROGRAM RESPONSE: ANALYSIS OF THE ADEQUACY OF EXISTING IN-COUNTRY RESOURCES AND PROGRAMS TO ADDRESS IDENTIFIED CONSUMPTION/NUTRITION PROBLEMS.

5. RECOMMENDED INTERVENTION: DESCRIPTION OF HOW ADDITIONAL FOOD AID WILL BE USED TO ADDRESS THE PROBLEMS DESCRIBED; WHAT TARGETING STRATEGIES AND SPECIFIC MECHANISMS WILL BE USED TO ENSURE RATIONS REACH THE TARGET GROUPS; AND WHAT ADDITIONAL COMPONENTS BESIDES FOOD WILL BE REQUIRED TO ENSURE PROGRAM SUCCESS; E.G., STAFF TRAINING, NUTRITION EDUCATION, ORT, ETC. THIS SECTION SHOULD NOTE IN PARTICULAR THE NUMBER, DESCRIPTION AND LOCATION OF THE PROJECT'S TARGET GROUPS; AND THE TYPE AND QUANTITY OF COMMODITIES REQUIRED TO ACHIEVE PROJECT OBJECTIVES.

6. COMPATIBILITY WITH STRUCTURAL ADJUSTMENT PROGRAM: ANALYSIS OF HOW FOOD AID PROJECT WILL ENHANCE THE CAPACITY OF COUNTRY TO CARRY OUT ITS STRUCTURAL

ADJUSTMENT PROGRAM.

7. PHASE-OVER/PHASE-OUT PLAN. INCLUDE TIME SCHEDULE OF

PHASE-OVER/PHASE-OUT AND PLAN FOR HOST GOVERNMENT TO ASSUME FOLLOW-ON RESPONSIBILITIES IF APPROPRIATE. ALL PROJECTS SHOULD BE CONSIDERED TEMPORARY, TO ADDRESS SHORT-TO-MEDIUM TERM NEEDS OF TARGET AREAS. THREE YEARS WILL BE CONSIDERED A REASONABLE TIME FRAME FOR PROJECT DURATION.

8. BUDGET PLAN: IDENTIFY AND INCLUDE FUNDING REQUIREMENTS AND SOURCES FOR LOGISTICS, ADMINISTRATIVE AND NON-FOOD COMPONENTS OF PROJECTS.

9. MONITORING AND EVALUATION PLAN: THE MONITORING AND EVALUATION PLAN WILL INCLUDE INDICATORS TO MEASURE ANNUAL PROGRESS IN REACHING PROGRAM OBJECTIVES AND TO DETERMINE PROGRAM EFFECTIVENESS UPON COMPLETION. PROJECT PROGRESS, ACHIEVEMENTS AND CONSTRAINTS EACH YEAR WILL BE INCLUDED IN THE ANNUAL REPORTS ATTACHED TO HER SUBMISSIONS.

10. BELLWON DETERMINATION ANALYSIS: PROPOSALS MUST ESTABLISH THAT ADDITIONAL FOOD AID WILL NOT DEPRESS FOOD PRICES IN THE RECIPIENT COUNTRY OR SLOW THE RISE IN LOCAL FOOD PRICES TO A LEVEL REMUNERATIVE TO THE FARMER. IN OTHER WORDS, THE INCREMENTAL FOOD AID IN A GIVEN COUNTRY WILL BE DESIGNED IN SUCH A WAY THAT DISINCENTIVE EFFECTS DO NOT HINDER EFFORTS, WHERE APPROPRIATE, TO ENCOURAGE GROWTH IN LOCAL FOOD PRODUCTION.

11. USUAL MARKETING REQUIREMENT (UMR) ANALYSIS.

12. A.I.D.'S REVISED REQUIREMENTS FOR TITLE II OPERATIONAL PLANS (REF. C) CALL FOR SIMILAR DOCUMENTATION AND SHOULD BE HELPFUL IN PREPARING PROPOSALS UNDER THIS PROGRAM.

VII. TECHNICAL ASSISTANCE. AID/W ANTICIPATES THAT MISSIONS WILL REQUIRE OUTSIDE TECHNICAL ASSISTANCE MAINLY TO ASSIST IN ASSESSING THE EXTENT OF FOOD CONSUMPTION AND NUTRITION PROBLEMS; IDENTIFYING TARGET GROUPS; AND RECOMMENDING APPROPRIATE FOOD AID DISTRIBUTION MECHANISMS. FVA HAS IDENTIFIED SEVERAL EXPERTS THROUGH THE INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE AND USDA THAT CAN BE CONTRACTED FOR THIS TYPE ANALYSIS AND WILL ASSIST MISSIONS IN ARRANGING TECHNICAL TEAMS. FUNDING FOR TECHNICAL ASSISTANCE MUST BE PROVIDED THROUGH MISSION CE, PD AND 3 OF PROJECT FUNDS. SHULTZ

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FOOD NEEDS ASSESSMENT

Intent: The intent of food needs assessment is to upgrade Agency information on individual country food needs in order to improve food aid programming.

Description: The FVA Food Needs Assessment Project provides technical assistance to AID/W as well as A.I.D. field missions worldwide in estimating food needs. The project was designed in response to requirements for improved emergency food need assessments in Africa during the recent drought. It is currently being expanded to non-emergency food need assessments worldwide.

The Project includes the following components:

- 1) Methodology - FVA has developed a simple but effective methodology for doing needs assessments. This is available in the form of a printed manual and Lotus computer program on diskettes to all A.I.D. offices, Missions, and Host Governments. The Manual is available in French and Spanish as well as English. The diskettes are available in English and Spanish and will also be translated into French by the end of the calendar year;
- 2) Training - the Project provides for training -- both overseas and in AID/W -- in adapting the methodology to the specific country or regional context;
- 3) Data base - FVA and the Africa Bureau have established a data base on the food situation based on Mission calculations in all African countries which receive food aid. This is updated monthly or when needs change significantly. As the methodology is adapted to other regions, we will add countries to the system as appropriate;
- 4) Coordination/comparative analysis - FVA periodically communicates and compares numbers with FAO, USDA/ERS and other sources to ensure that A.I.D. is using the most accurate information for programming purposes.

Citations: State cable 371982

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Department of State

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TELEGRAM

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ORIGIN OFFICE FVPP-01

INFO AAMI-02 AICO-02 AFEA-03 AFSA-03 AFRA-03 AFFW-04 AFCW-03
AFDP-06 FPA-02 WNDP-03 WPLA-01 LACL-02 LACA-03 LACO-01
LADP-04 FVA-01 OFDA-01 AMAD-01 PPPB-02 RAY-01 STPO-01
STFM-02 SAST-01 FFP-04 EL-01 ANNE-03 RELO-01 TELE-01
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DRAFTED BY: AID/FVA/PPE: P. RADER: AW: 2515E

APPROVED BY: AID/FVA/PPE: B. RILLY

AID/FVA/PPE: D. RHOAD (DRAFT) AID/AFR/DP: G. CONEY (PHONE)
AID/ARE/DP: L. ROGERS (PHONE) AID/LAC/DP: R. QUEEN (PHONE)
S&T/PO: G. GOWER (PHONE) AID/OFDA: C. BARCOCA (PHONE)
AID/PPC/PB: L. TANNER (PHONE) AID/EC: G. JOE

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SUBJECT: FOOD NEEDS ASSESSMENTS - AVAILABLE TECHNICAL ASSISTANCE

1. SUMMARY. THIS CABLE PROVIDES INFORMATION ON TECHNICAL ASSISTANCE SERVICES AVAILABLE TO MISSIONS AND GOVERNMENTS FOR FOOD NEEDS ASSESSMENTS AND REQUESTS INTERESTED MISSIONS TO RESPOND AS SOON AS POSSIBLE. END SUMMARY.

2. DURING THE 1984/85 FOOD EMERGENCY IN AFRICA, AID/FVA DEVELOPED A WORKING FIELD METHODOLOGY FOR UNDERTAKING FOOD NEEDS ASSESSMENTS. THE METHODOLOGY TRIES TO BALANCE PROCEDURES THAT ARE CONCEPTUALLY RIGOROUS WITH THOSE THAT ARE PRACTICAL AND COST EFFECTIVE IN COUNTRIES WHERE DATA ARE SCARCE.

3. TO DISSEMINATE THE METHODOLOGY, FVA HAS PREPARED A MANUAL FOR FOOD NEEDS ASSESSMENT AND DISTRIBUTED IT TO ALL MISSIONS IN AFRICA. IT IS AVAILABLE IN BOTH ENGLISH AND FRENCH. COMPLEMENTARY COMPUTER SOFTWARE FOR THE IBM-PC AND THE IBM PC AND WORKSHEETS FOR USE WITHOUT COMPUTERS ARE ALSO AVAILABLE.

4. OVER THE LAST TWO YEARS, FVA HAS SUPPLIED A NUMBER OF MISSIONS AND SELECTED HOST COUNTRY GOVERNMENTS IN AFRICA WITH TECHNICAL ASSISTANCE IN USING THIS METHODOLOGY TO IMPROVE ESTIMATES OF FOOD NEEDS IN THEIR RESPECTIVE COUNTRIES.

5. NOW THAT THE FOOD EMERGENCY HAS ABATED IN AFRICA, FVA IS ABLE TO EXPAND THIS TECHNICAL SUPPORT WORLDWIDE. WE ARE PARTICULARLY INTERESTED IN EXPLORING THE APPLICABILITY OF THE METHODOLOGY TO NON-AFRICAN COUNTRIES AND MAKING APPROPRIATE ADAPTATIONS WHERE POSSIBLE SO AS TO PROVIDE A WORKING TOOL FOR ASSESSING FOOD PROBLEMS IN ANY COUNTRY.

6. THE TECHNICAL ASSISTANCE CAN BE TAILORED TO THE SPECIFIC NEEDS OF THE MISSIONS INVOLVED. SAMPLES OF USUAL ACTIVITIES INCLUDE:

A. TRAINING MISSION STAFF OR REPRESENTATIVES OF HOST COUNTRIES TO: (1) UNDERSTAND THE CONCEPTUAL BASE FOR THE ASSESSMENT PROCESS; (2) IDENTIFY AND ACCESS THE TYPES OF DATA AND INFORMATION NECESSARY FOR ASSESSMENT; AND (3) PERFORM SOME OF THE MORE COMPLICATED TECHNICAL CALCULATIONS.

B. TEACHING RELEVANT STAFF TO USE THE FOOD NEEDS ASSESSMENT SOFTWARE (IF COMPUTERS ARE AVAILABLE) OR THE WORKSHEETS (IF NO COMPUTERS ARE AVAILABLE), INCLUDING A PRESENTATION ON THE BASIC PACKAGE AND ITS OPTIONS; AS WELL AS HANDS ON SESSIONS IN ITS OPERATION.

C. WORKING ON ANALYTICAL ISSUES THAT ARE UNIQUE TO THE COUNTRY AND ARE NOT COVERED IN THE GENERIC FOOD NEEDS ASSESSMENT MANUAL, AND TRYING TO DETERMINE THE BEST TECHNIQUES FOR ADDRESSING THESE ISSUES.

D. HELPING ANALYSTS DEVELOP COUNTRY-SPECIFIC COEFFICIENTS FOR VARIABLES SUCH AS MORGING FOR ESTIMATING THE AMOUNT OF SEED SAVED, WASTE RATES AND MILLING RATES, AMONG OTHERS.

10. THIS TECHNICAL ASSISTANCE CAN BE PROVIDED ON A SHORT TERM BASIS AND USUALLY CAN BE ACCOMPLISHED WITHIN A WEEK.

11. MISSIONS ARE REQUESTED TO RESPOND TO FVA/PPE IF THEY HAVE AN INTEREST IN RECEIVING TECHNICAL ASSISTANCE SUPPORT IN THE AREA OF FOOD NEEDS ASSESSMENT. SINCE WE

MUST PLAN THE USE OF FY 87 FUNDS, PLEASE RESPOND BY DECEMBER 30 AND INDICATE PREFERRED TIMING.

12. COPIES OF THE NEEDS ASSESSMENT MANUAL AND SOFTWARE ARE ALSO AVAILABLE TO MISSIONS ON REQUEST.

13. THE AID METHODOLOGY HAS NOW BEEN WIDELY FIELD TESTED IN AFRICA AND REVISED ON THE BASIS OF FIELD RESPONSES AS WELL AS REVIEW BY OTHER USA AND INTERNATIONAL AGENCIES WITH FOOD NEEDS ASSESSMENT EXPERIENCE. MISSIONS SHOULD BE AWARE THAT CONSULTATIONS WITH STAFF OF THE FAO GLOBAL INFORMATION AND EARLY WARNING SYSTEM (IEWS) INDICATE THAT THE AID AND FAO APPROACHES ARE QUITE SIMILAR AND CLOSER COORDINATION SHOULD FACILITATE DATA COMPARISONS BETWEEN THE TWO INSTITUTIONS. SMULTZ

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Food For Peace

GENERAL FRAMEWORK

The food aid program is the U.S. Government's most direct effort to combat hunger and meet food shortages abroad. Food aid has been best known historically for meeting the emergency and short-term needs of the hungry. The importance and effectiveness of this use of food aid are well recognized. In recent years, however, there has been a growing recognition that food aid can also play a role in longer-term development - in addressing those problems which prevent developing countries from meeting their own food needs. There is now greater acceptance of the idea that poverty - not shortage of food - is the principal cause of hunger, i.e., that those groups lacking income are the most vulnerable in times of need. The recent drought in Africa highlighted the need for developmental efforts to overcome the underlying causes of famine. A.I.D. will continue to strengthen its recent efforts to increase the longer-term developmental impact of food aid.

A.I.D.'s STRATEGY FOR INCREASING THE DEVELOPMENTAL IMPACT OF FOOD AID

Food aid serves a variety of objectives -- humanitarian, economic development, foreign policy and U.S. market development. It has too often been viewed, however, in isolation from our development assistance programs overseas. A.I.D. is developing several mutually reinforcing approaches to increase the effectiveness and development impact of food aid:

- o We are encouraging recipient governments to undertake policy reform, which will encourage increased availability of food. We will continue to work to identify particular areas of policy reform where food aid can be most effective.
- o We are directly promoting private initiatives with food aid. We believe that the private sector has been under-utilized in past food aid and development efforts and that there is great potential for growth in this sector.
- o We are emphasizing integration of food aid with dollar development assistance, as well as an integrated regional approach to food aid programs themselves. We will increasingly program food aid by country and region as an integrated package -- using different types of food aid in combination to address food-related issues.
- o We are continuing to improve our country-level food needs assessments. In this way, we can determine: first, whether a country is in food surplus or deficit; second,

which commodities are needed; and third, the type of deficit, i.e., whether food is needed for emergency feeding, for balance-of-payments support, or for a food safety net while difficult economic reforms are being undertaken.

- o We are continuing to strengthen the child survival component of our food aid programs. We will incorporate such activities as oral rehydration therapy, growth monitoring, nutrition and health education and birth spacing into our feeding programs to improve their impact on at-risk children.
- o In our effort to encourage development with food aid, we are looking more to income-generating activities. We will increasingly seek to share and adapt in the African context the lessons and benefits of food for work programs in Asia over the past 30 years.
- o We will strengthen our analysis of possible disincentive effects of food aid to ensure that our programs do not disrupt local production and marketing.

FOOD AID OPERATIONS AND ACTIVITIES

There are two U.S. statutory sources of food aid: Public Law 480 of the Agricultural Trade and Development Act of 1954 and Section 416 of the Agricultural Act of 1949. P.L. 480 provides for two basic types of food aid, concessional (Title I) and grant (Title II). Title I makes food available to friendly countries on concessional credit for sale in local commercial markets. Title II makes food available on a grant basis which can then be distributed free of charge. Title II is provided through private and voluntary organizations (PVOs), the United Nations Food and Agriculture Organization (UN/FAO), World Food Program and through various government-to-government programs designed to benefit needy people directly.

Section 416 is a second source of grant food aid. This program allows the use of additional U.S. Government surplus commodities for Title II type programs. It is programmed separately from P.L. 480 but can be used in virtually all types of grant food aid programs.

Food aid --of all types-- is provided only when adequate storage facilities are available and when distribution of the food will not result in a substantial disincentive to the recipient country's own production or interfere with its food marketing system. A.I.D. is strengthening its analyses in this important area.

CONCESSIONAL FOOD AID

Title I and Title III

Title I of P.L. 480 authorizes concessional credits on a year-by-year basis for sales of U.S. farm products to developing countries. These credits are repayable in dollars, at concessional interest rates of not less than two percent during an extended grace period and three percent thereafter.

The period of repayment is 20-40 years. For the longer repayment periods the grace period on principal repayment is up to ten years. In addition, many agreements require an initial cash downpayment of five percent. In general, recipients must cover all costs associated with transporting the food from the United States to their own country. Recipient countries must agree to undertake self-help measures aimed, where appropriate, at expanding food production and improving food storage and distribution facilities. Concessional sales of U.S. farm products are not intended to replace commercial exports from the United States or other friendly countries.

To provide a more flexible response to severe, unforeseen food shortages, the President can authorize in specific cases the financing of ocean freight for P.L. 480 Title I commodities. The same terms that pertain to the financing of the Title I commodities apply to ocean freight as well. We provided ocean freight financing to Somalia, Mozambique and Sudan in FY 1986 and 1987.

Local currency proceeds from the sale of food within the recipient country finance self-help measures and other development projects to stimulate equitable economic growth. Special efforts are made to use these self-help measures and local currency generations to meet recipient country priorities and to complement activities financed with U.S. and other donor resources. A.I.D. strongly encourages the use of such local currency financing to stimulate private enterprise development.

Sections 106 and 108 of Title I provide specifically for this use. Section 108 calls for the United States to negotiate Title I sales agreements which lead to repayment in local currencies (totaling a minimum of 10% of sales agreements on an aggregate basis, worldwide). These U.S.-owned local currencies are used to capitalize a loan fund which is drawn upon by intermediate financial institutions (IFIs) which, in turn, make loans to the private sector. Private and voluntary organizations and cooperatives may qualify as IFIs. This program, launched in late FY 1986; will expand in FY 1987 and FY 1988.

In late FY 1986, agreement in principle was reached with the Tunisian Government to carry out the first Section 108, local currency lending program, as part of Title I assistance. This agreement is expected to result in a revolving fund of approximately \$1,000,000 in local currency for use in private agricultural sector lending. Similar agreements were signed early in FY 1987 with Sri Lanka (\$1,200,000), and Jamaica (\$7,000,000). Additional programs are being developed in a substantial number of other countries in Latin America, the Caribbean, Asia and the Near East that have expressed interest in this activity.

Section 106 refers to host government-owned proceeds generated by Title I sales which are jointly programmed for private sector activities. (An additional 15% of the aggregate value of Title I sales contracts is to be set aside for this provision.). Self-help measures in an increasing number of Title I programs include financing of Section 106 activities.

A.I.D. policy encourages decreased government controls on agriculture and the removal of impediments to private sector activities in designing Title I-related activities. Thus, we have emphasized marketing Title I commodities through the private sector rather than through government parastatal agencies.

Food for Development programs, authorized under Title III and financed under Title I, offer special incentives to low-income countries. Title III programs differ from Title I in that they are approved on a multiyear basis and offer loan forgiveness. Recipient countries agree to undertake additional development programs which, in many cases, involve changes in policies designed to improve the quality of life of the poor, particularly in rural areas. Title III agreements include supply commitments of up to five years subject to annual review and the availability of commodities and appropriations. Title III loan repayments are forgiven when commodities or local currencies equivalent to the dollar sales value of the commodities purchased are used for agreed development purposes. Current legislation requires that 10% of the Title I budget be programmed under Title III.

At least 75% of the volume of Title I food aid must be allocated to countries eligible for assistance from the International Development Association -- currently those with per capita incomes at or below \$790 per year. Eligibility for Food for Development (Title III) programs is limited entirely to this group of countries. Title III programs are currently being undertaken and will continue in Bangladesh, Bolivia and Haiti. We expect that the total of these three programs will meet the 10% requirement for FY's 1986, 1987, and 1988.

Food for Progress is a relatively recent program with separate statutory authorization enacted in the Food Security Act of 1985. It targets countries that have made commitments to agricultural policy reform during a period of economic hardship. Food for Progress is designed to expand free enterprise elements of the economies of developing countries through changes in commodity pricing, marketing, import availability and increased private sector involvement. The program is carried out through loans and grants, drawing on resources made available under either P.L. 480 Title I or Section 416 of the Agriculture Act of 1949. Two African pilot projects -- in Guinea (\$6 million) and Madagascar (\$6 million) -- were launched in FY 1986 with commodities provided under Section 416. Levels for FY 1987 for these two programs remain approximately the same. The total Food for Progress program will be expanded in FY 1987 and FY 1988.

Title I Budget

For FY 1988, a Title I program level of \$852.0 million is proposed. On the basis of prices projected by the Department of Agriculture and the mix of commodities tentatively programmed, this amount will finance shipments of about 5.9 million tons of food aid. Current estimated trends indicate lower future prices which will allow provision of more food aid at lower cost. For FY 1987, allocations against the \$928.9 million program level are expected to total nearly 6.3 million tons; in FY 1986, final sales registered were 6.1 million tons at a program level of \$988.7 million.

GRANT FOOD AID

Title II

Title II of P.L. 480 authorizes donations of food to meet famine or other urgent relief requirements to combat malnutrition (especially in children) and to promote economic and community development. These grants cover both the cost of commodities and associated ocean freight and overland transport costs. Title II programs are designed to supplement and reinforce other developmental and nutritional activities, and are conducted within a framework of increasing local management and funding.

Title II programs have traditionally included regular supplemental and emergency feeding programs sponsored by private and voluntary organizations (PVOs), host governments and the World Food Program (WFP). The three major program categories are food for work, maternal and child health, and school feeding. Each has different objectives but all are targeted to the most vulnerable groups in the countries where they are undertaken.

A.I.D. has sponsored many comprehensive evaluations of regular and emergency programs over the past several years and has learned a great deal about the elements necessary for increased impact and effectiveness. In the coming years, we will emphasize application of these evaluation findings to strengthen program targeting, design and monitoring. We also will seek new innovative uses of Title II commodities to increase program impact.

- We will continue to encourage PVOs to design well-targeted multi-year programs with clear, measurable and time-limited objectives.
- We will seek to assure adequate nutrition among low-income groups affected by economic reforms or adverse economic conditions.
- We will encourage and help PVOs to monetize Title II and Section 416 commodities as a source of local currency when required for transport, storage and complementary inputs.
- We will support Section 206 government-to-government programs, which allow sales of Title II commodities on the local market with proceeds used for development projects and self-help measures in the poorest countries, primarily in Africa.

Title II Budget

For FY 1988, a Title II program level of \$535 million is proposed, including \$196.3 million for ocean transportation and overland delivery to landlocked countries. On the basis of projected prices, this should be adequate to finance delivery of the legislatively mandated minimum of 1.9 million metric tons of food. The legislated subminimum for development activities of voluntary agencies and international organizations for FY 1988 is now 1.425 million metric tons. New Title II developmental initiatives are being encouraged to allow compliance at this level. By law, processed commodities must comprise at least 75% of the tonnage in non-emergency developmental activities. The proposed commodity mix for FY 1988 will comply with this mandate. In FY 1987, it is planned that a Title II program valued at \$534 million will provide over 2 million metric tons of food. The Title II program in FY 1986 provided 2.3 metric tons of food valued at \$758.7.

Section 416

Section 416 is a second source of grant food aid. The program uses surplus commodities held by the Commodity Credit Corporation (CCC) to support title II type programs. Section 416 commodities can be used in a wider range of countries than

Title II, including middle-income developing countries, and can be used in virtually all types of food aid programs -- Food for Progress, PVO-sponsored supplemental feeding programs, as well as emergency and government-to-government programs.

In FY 1986, programs in 37 countries were signed for over 165,000 metric tons of commodities. Though multi-year programs are allowable, the amount of tonnage programmed under Section 416 depends largely on annual CCC inventories. Therefore, program levels for FYs 1987 and 1988 will depend upon the size of the CCC inventory and approved program requests.

WORLD FOOD PROGRAM

In 1988, over 391,000 metric tons of food valued at \$70 million will be allocated to regular feeding programs of the United Nations Food and Agriculture Organization-sponsored World Food Program. The United States, together with 11 other major donors, pledges food, services (such as ocean transportation costs) and cash to the World Food Program every two years for projects similar to those sponsored by U.S. voluntary agencies. In FY 1987, approximately 465,000 metric tons of food, valued at over \$88 million, is projected for shipment through the World Food Program for support of regular and emergency activity; in FY 1986, over 743,000 metric tons, valued at nearly \$127 million, were shipped through the WFP. Both P.L. 480 and Section 416 commodities are made available to the WFP through an annual U.S. pledge.

Illustrative Programs

The Philippines offers an example of both innovative use of supplemental feeding programs and an integrated, developmental approach to food aid programs. A food aid strategy, developed in FY 1987 for implementation over the next three years, directly supports the joint Philippine-U.S. goals of political stability and economic revitalization. It includes an integrated package of concessional and grant food aid to meet specific macro-economic, developmental and nutritional needs while guarding against production disincentives and major market distortions. Among other components, the program will include investment of Title I local currencies in sectors most in need of economic revitalization and PVO-implemented feeding programs for groups adversely affected by the economic situation.

In Africa and Latin America, by FY 1988, Title II programs will include new initiatives which respond to the continuing economic crisis in these regions. For example, Food for Work activities in Haiti, Guatemala and Bolivia will be used to cushion growing urban unemployment, providing a mechanism for

targeting the neediest households while also contributing to political stability and upgrading the quality of life in urban slums. Project activities will include basic infrastructure development such as potable water, sidewalks, drainage and sanitation facilities. Most projects are identified by the local community and include complementary inputs from local government and private, voluntary organizations.

Sri Lanka offers an example of one notably effective use of Section 416 in an emergency situation, in response to a serious breach in a dam in the Kantalai District. The Sri Lankan government responded quickly with relief efforts which included 2,000 pounds of Section 416 food to assist the 5,000 affected families. The food distribution was coupled with classes in nutrition.

SUPPORTING DOLLAR PROGRAMS

A.I.D. dollar support funded through the Development Assistance accounts is a small but essential part of the Agency's effort to ensure that food aid programs are soundly designed, well targeted, and effectively administered. The P.L. 480 Title II Outreach Project will continue in FY 1988, at a requested funding level of \$4.0 million, to help cover logistic and material support costs of U.S. voluntary agencies engaged in improving and expanding people-to-people programs in the poorest areas of Africa and Latin America. The Title II Program Enhancement Project, with proposed funding of \$1.5 million in FY 1988, will continue to help PVOs improve the development impact of the Title II resources they administer by strengthening their capability to design and implement essential components of supplementary feeding programs.

The Food Needs Assessment Project will continue to help A.I.D. missions and host governments improve collection and analysis of food sector data in order to ensure more accurate and timely estimates of food aid needs. FY 1988 funding is projected at \$350,000.

Another dollar-supported activity, financed under P.L. 480, is the Farmer-to-Farmer Program which sends U.S. farmers to developing countries worldwide to provide short-term technical and managerial assistance. This program is currently being implemented through Volunteers in Overseas Cooperative Assistance (VOCA).

PL 480 Title I/III
FY 1988 Proposed Country and Commodity Allocations a/

Country	TOTAL 1986	TOTAL 1987	TOTAL 1988	WHEAT	WHEAT FLOUR	RICE	FEEDGRAIN	VEGETALS	TOTAL FOOD	COTTON b/	TALLOW	UNDESIGNATED													
Per Capita GNP (000) \$ Mil	NTGE	Of Which Title III (000) \$ Mil	NTGE	Of Which Title III (000) \$ Mil	NTGE	Of Which Title III (000) \$ Mil	NT	NT	NTGE	NT	NT	NT													
							\$ Mil (000)																		
Bangladesh	575	82.0 (82.0)	325	52.0 (52.0)	449	60.0 (60.0)	398	43.0																	
Bolivia	171	20.0 (20.0)	180	20.0 (20.0)	185	20.0	185	20.0																	
Egypt	1,530	213.6	1,408	185.0	1,589	180.0	1,046	113.0	396	543	67.0														
El Salvador	242	44.0	216	42.0	200	33.0	111	12.0																	
Ghana	13	6.0	24	8.0	24	6.0																			
Guinea	25	6.0	47	8.0	17	3.0			22	4.0															
Guyana	23	2.4	45	5.0	37	4.0			17	3.0															
Haiti	100	15.0 (15.0)	147	18.0 (15.0)	147	18.0 (15.0)	139	15.0																	
Honduras	112	13.9	90	12.0	99	12.0																			
Indonesia	250	29.8	275	30.0	93	10.0	93	10.0																	
Kenya	86	10.0	74	8.0	46	5.0																			
Liberia	57	11.0	55	10.0	56	10.0																			
Madagascar	31	8.0	57	8.0	46	5.0			56	10.0															
Maldives Islands	7	0.7	0	0.0	0	0.0																			
Morocco	390	40.0	245	40.0	223	40.0	93	10.0																	
Mozambique	116	11.4	0	0.0	0	0.0			28	5.0	48	4.0													
Pakistan	126	50.0	128	50.0	299	80.0					54	21.0													
Philippines	289	32.3	0	0.0	0	0.0					120	10.0													
Senegal	47	9.5	28	5.0	28	5.0					179	70.0													
Sierra Leone	53	8.0	29	4.0	30	4.0					299	80.0													
Somalia	66	16.5	17	10.0	13	5.0					0	0.0													
Sri Lanka	260	33.0	138	15.5	148	16.0					28	5.0													
Sudan	360	45.0	441	50.0	335	40.0					11	2.0													
Yemen	74	10.0	73	10.0	28	5.0																			
Zaire	60	18.8	83	14.0	84	13.0					28	5.0													
Zambia	59	10.0	61	10.0	62	10.0					31	5.5													
											10	4.0													
											47	8.0													
												13	2.0												
SUBTOTAL	5,122	746.9 (117.0)	4,266	614.5 (87.0)	4,258	586.0 (95.0)	2,792	301.5	473	648	80.0	249	44.5	204	17.0	306	119.0	4,199	562.0	9	9.0	33	13.0	15.0	2.0

a/ PL 480 Title I/III only; levels do not include Food for Progress. Not less than .12 of PL 480 funds available will be used to carry out activities in support of the Farmer to Farmer program.

b/ The cotton is shown as Metric Tons, the conversion factor used is: 4.522917 Hales = 1 metric tons

PL 480 Title I/III
 FY 1988 Proposed Country and Commodity Allocations a/

Country	TOTAL 1986		TOTAL 1987		TOTAL 1988		WHEAT		WHEAT FLOUR		RICE		FEEDGRAINS		VEGETALS		TOTAL	COTTON b/		TALLOW		UNDESIGNATED							
1971 or more Per Capita GNP	NTBE (000)	Of Which NTBE Title III:(000)	NTBE (000)	Of Which NTBE Title III:(000)	NT (000)	Of Which NT Title III:(000)	NT (000)	NTBE (000)	NT (000)	NTBE (000)	NT (000)	NT (000)	NT (000)	NTBE (000)	NT (000)	NTBE (000)	NT (000)	NT (000)	NT (000)	NT (000)	NT (000)	NT (000)	NT (000)						
Costa Rica	117	16.2	129	16.0	139	15.0	139	15.0									139	15.0											
Dominican Rep	83	12.9	193	30.0	166	20.0	93	10.0									166	20.0											
Ecuador	48	5.0	0	0.0	0	0.0						60	5.0	13	5.0														
Guatemala	102	15.4	139	19.0	126	18.0											0	0.0											
Jamaica	261	32.6	317	38.4	266	30.0						24	2.0	8	3.0		115	14.0		11	4.0								
Peru	169	20.0	155	20.0	93	10.0					17	3.0	84	7.0	8	3.0	266	30.0											
Tanzania	168	15.5	92	10.0	46	5.0											93	10.0											
SUBTOTAL	948	117.6	0.0	1,025	133.4	0.0	836	98.0	(0.0)	611	66.0	0	0	0.0	17	3.0	37	31.0	335	130.0	5,024	656.0	9	9.0	46	17.0	15	2.0	
TOTAL ALLOCATED: (Title III)	6,070	864.5	(117.0)	5,291	747.9	(87.0)	5,094	684.0	(95.0)	3,403	367.5	473	648	80.0	266	47.5	37	31.0	335	130.0	5,024	656.0	9	9.0	46	17.0	15	2.0	
RESERVE		0.0		999	85.0		806	85.6																					
TOTAL COMMODITY: ALLOCATIONS	6,070	864.5	(117.0)	6,290	832.9	(87.0)	5,900	769.6	(95.0)																				
INITIAL PAYMENT		(19.5)		(16.7)		(15.3)																							
OCEAN FREIGHT DIFFERENTIAL		108.5		104.0		97.7																							
OCEAN FREIGHT FINANCING		12.7		8.7		0.0																							
CARRY-OUT		22.5																											
PROGRAM LEVEL	6,070	988.7		6,290	928.9		5,900	852.0																					

a/ PL 480 Title I/III only; levels do not include Food for Progress. Not less than .1% of PL 480 funds available will be used to carry out activities in support of the Farmer to Farmer program.
 b/ The cotton is shown as Metric Tons, the conversion factor used is: 4.392917 bales = 1 metric tons

FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(\$000)

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
NEAR EAST - TOTAL	15,336	13,803	1,533	0	11,636	10,231	1,184	221	8,665	7,487	1,178	0
Egypt	6,617	6,617	---	---	4,422	4,201	---	221	2,454	2,454	---	---
Gaza	629	629	---	---	543	543	---	---	525	525	---	---
Lebanon	1,144	---	1,144	---	0	---	---	---	0	---	---	---
Morocco	5,769	5,380	389	---	5,611	4,427	1,184	---	4,664	3,486	1,178	---
West Bank	1,177	1,177	---	---	1,060	1,060	---	---	1,022	1,022	---	---
LATIN AMERICA - TOTAL	63,197	38,671	11,302	13,224	53,462	34,595	10,128	8,739	52,495	35,912	11,870	4,713
Bolivia	12,183	10,573	1,138	472	10,285	8,528	1,292	465	10,136	8,091	1,600	445
Costa Rica	263	---	263	---	221	---	221	---	240	---	240	---
Dominican Rep.	1,748	1,489	259	---	1,903	1,713	190	---	1,577	1,294	283	---
Ecuador	1,691	582	1,032	77	918	449	271	198	646	378	268	---
El Salvador	10,447	1,845	4,577	4,025	5,201	1,588	2,535	1,078	8,708	1,636	2,804	4,268
Guatemala	5,821	5,467	354	---	5,311	4,421	890	---	7,713	5,901	1,812	---
Guyana	240	---	---	240	0	---	---	---	0	---	---	---
Haiti	14,251	7,043	888	6,320	15,354	7,005	1,351	6,998	8,481	7,801	680	---
Honduras	4,601	3,334	1,267	---	5,012	3,394	1,618	---	4,365	2,659	1,706	---
Jamaica	2,577	386	101	2,090	422	149	273	---	274	---	274	---
Mexico	282	---	282	---	0	---	---	---	0	---	---	---
Panama	78	---	78	---	67	---	67	---	47	---	47	---
Paraguay	292	---	292	---	250	---	250	---	249	---	249	---
Peru	8,708	7,952	756	---	8,511	7,348	1,163	---	10,054	8,152	1,902	---
St. Kitts	8	---	8	---	2	---	2	---	2	---	2	---
St. Lucia	7	---	7	---	5	---	5	---	3	---	3	---
ASIA - TOTAL	209,831	122,578	78,102	9,151	146,060	105,515	37,579	2,966	141,770	112,521	29,249	0
Afghanistan	8,897	---	---	8,897	2,966	---	---	2,966	---	---	---	---
Bangladesh	31,828	15,979	15,849	---	22,360	15,476	6,884	---	20,395	13,915	6,480	---
Bhutan	526	---	526	---	623	---	623	---	531	---	531	---
India	103,213	91,098	12,115	---	84,260	74,765	9,495	---	93,295	83,956	9,339	---
Indonesia	4,280	3,862	418	---	4,593	4,091	502	---	4,411	3,494	917	---
Kampuchea	1,551	---	1,551	---	0	---	---	---	0	---	---	---
Nepal	2,205	---	2,205	---	1,965	---	1,965	---	2,490	---	2,490	---
Pakistan	42,032	---	42,032	---	16,135	---	16,135	---	6,946	---	6,946	---
Philippines	8,330	8,218	112	---	9,186	9,146	40	---	11,202	10,626	576	---
Solomon Islands	254	---	---	254	0	---	---	---	0	---	---	---
Sri Lanka	6,715	3,421	3,294	---	3,972	2,037	1,935	---	2,500	530	1,970	---
EUROPE - TOTAL	2,322	2,322	0	0	2,282	2,282	0	0	0	0	0	0
Poland	2,322	2,322	---	---	2,282	2,282	---	---	0	---	---	---

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FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(\$000)

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
AFRICA - TOTAL	187,383	128,829	36,332	22,222	102,737	43,719	39,708	19,310	77,107	41,537	27,703	7,867
Angola	3,315	450	---	2,865	0	---	---	---	0	---	---	---
Benin	1,208	772	436	---	1,369	961	408	---	1,649	1,228	421	---
Botswana	5,939	---	4,666	1,273	8,050	---	5,044	3,006	3,499	---	3,499	---
Burkina Faso	7,440	6,153	1,287	---	6,965	5,831	1,134	---	6,382	5,457	925	---
Burundi	1,586	1,502	84	---	181	---	181	---	272	---	272	---
Cameroon	713	---	713	---	830	---	830	---	773	---	773	---
Cape Verde	4,311	---	388	3,923	2,330	---	680	1,650	1,859	---	493	1,366
C.A.R.	311	---	311	---	653	---	653	---	989	---	989	---
Chad	3,669	1,471	2,198	---	3,511	1,589	1,922	---	1,848	482	1,366	---
Comoro Is.	441	---	441	---	920	---	920	---	791	---	791	---
Congo	117	---	117	---	122	---	122	---	140	---	140	---
Eq. Guinea	457	---	457	---	380	---	380	---	361	---	361	---
Ethiopia	73,841	73,841	---	---	4,311	4,311	---	---	3,389	3,389	---	---
Ethiopian Refugee	4,504	4,504	---	---	904	904	---	---	0	---	---	---
Gambia	2,759	775	160	1,824	2,421	641	341	1,439	2,418	625	352	1,441
Ghana	12,730	6,901	5,829	---	10,673	6,342	4,331	---	8,379	5,869	2,510	---
Guinea	56	---	56	---	120	---	120	---	90	---	90	---
Guinea Bissau	395	---	395	---	1,683	---	860	823	1,336	---	537	799
Ivory Coast	118	---	118	---	177	---	177	---	249	---	249	---
Kenya	2,694	2,668	26	---	1,787	1,718	69	---	2,546	2,480	66	---
Lesotho	7,818	3,692	4,126	---	7,907	3,420	4,487	---	5,809	2,816	2,993	---
Liberia	0	---	---	---	193	---	193	---	181	---	181	---
Madagascar	1,649	1,649	---	---	1,397	1,397	---	---	1,374	1,374	---	---
Malawi	365	---	365	---	490	---	490	---	504	---	504	---
Mali	6,680	961	1,981	3,738	4,986	256	2,931	1,799	5,162	680	2,681	1,801
Mauritania	2,109	2,040	69	---	4,324	1,076	898	2,350	5,887	2,785	1,168	1,934
Mauritius	143	---	143	---	272	---	272	---	514	---	514	---
Mozambique	9,631	5,231	---	4,400	8,246	4,711	---	3,535	1,618	1,618	---	---
Niger	4,563	3,805	758	---	1,628	---	1,628	---	1,059	---	1,059	---
Rwanda	3,938	3,790	148	---	3,298	3,169	129	---	3,477	3,403	74	---
Sao Tome	606	---	606	---	611	---	611	---	257	---	257	---
Senegal	4,480	3,464	1,016	---	4,178	3,232	946	---	3,836	3,045	791	---
Seychelles	198	198	---	---	119	---	119	---	78	78	---	---
Sierra Leone	1,088	1,032	56	---	1,108	1,036	72	---	809	719	90	---
Somalia	7,870	---	7,870	---	7,090	---	7,090	---	1,707	---	1,707	---
Sudan	5,046	847	---	4,199	703	305	116	282	2,739	2,543	196	---
Swaziland	290	---	290	---	293	---	293	---	183	---	183	---
Tanzania	1,413	1,163	250	---	5,382	858	98	4,426	1,404	694	184	526
Togo	2,167	1,757	410	---	2,333	1,716	617	---	2,744	2,115	629	---
Uganda	490	---	490	---	568	---	568	---	569	---	569	---
Zaire	163	163	---	---	127	127	---	---	137	137	---	---
Zambia	72	---	72	---	97	---	97	---	89	---	89	---

FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
(\$000)

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
Subtotal - Regions	478,069	306,203	127,269	44,597	316,177	196,342	88,599	31,236	280,037	197,457	70,000	12,580
Regular	309,839	217,349	80,712	11,778	269,594	185,870	75,000	8,724	280,037	197,457	70,000	12,580
Emergency	168,230	88,854	46,557	32,819	46,583	10,472	13,599	22,512	0	---	---	---
Near East	15,336	13,803	1,533	0	11,636	10,231	1,184	221	8,665	7,487	1,178	0
Regular	15,336	13,803	1,533	---	11,415	10,231	1,184	---	8,665	7,487	1,178	---
Emergency	0	---	---	---	221	---	---	221	0	---	---	---
Latin America	63,197	38,671	11,302	13,224	53,462	34,595	10,128	8,739	52,495	35,912	11,870	4,713
Regular	51,874	38,062	6,908	6,904	44,517	34,207	9,647	663	52,495	35,912	11,870	4,713
Emergency	11,323	609	4,394	6,320	8,945	388	481	8,076	0	---	---	---
Africa	187,383	128,829	36,332	22,222	102,737	43,719	39,708	19,310	77,107	41,537	27,703	7,867
Regular	76,774	42,906	28,994	4,874	79,956	37,309	34,586	8,061	77,107	41,537	27,703	7,867
Emergency	110,609	85,923	7,338	17,348	22,781	6,410	5,122	11,249	0	---	---	---
Asia	209,831	122,578	78,102	9,151	146,060	105,515	37,579	2,966	141,770	112,521	29,249	0
Regular	165,855	122,578	43,277	---	133,706	104,123	29,583	---	141,770	112,521	29,249	---
Emergency	43,976	---	34,825	9,151	12,354	1,392	7,996	2,966	0	---	---	---
Europe	2,322	2,322	0	0	2,282	2,282	0	0	0	0	0	0
Regular	0	---	---	---	0	---	---	---	0	---	---	---
Emergency	2,322	2,322	---	---	2,282	2,282	---	---	0	---	---	---
Reserve					124,566				77,906			
Stock Adjustment	(37,316)	(37,316)			(47,100)	(47,100)			(19,746)	(19,746)		
Transport Costs	317,113				139,967				196,268			
Farmer to Farmer	789				534				535			
PROGRAM TOTAL	758,655				534,144				535,000			

N.B. All country/regional levels reflect commodity costs only.

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FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
Metric Tons

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	WFP	BTB	Total	Volags	WFP	BTB	Total	Volags	WFP	BTB
NEAR EAST - TOTAL	61,446	55,140	6,306	0	49,312	40,627	6,685	2,000	38,376	31,527	6,849	0
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Egypt	21,108	21,108	---	---	15,694	13,694	---	2,000	8,130	8,130	---	---
Gaza	2,627	2,627	---	---	2,627	2,627	---	---	2,627	2,627	---	---
Lebanon	4,515	---	4,515	---	0	---	---	---	0	---	---	---
Morocco	28,234	26,443	1,791	---	26,029	19,344	6,685	---	22,658	15,807	6,849	---
West Bank	4,962	4,962	---	---	4,962	4,962	---	---	4,961	4,961	---	---
LATIN AMERICA - TOTAL	316,000	168,790	62,774	84,436	275,289	163,319	49,363	62,607	271,475	180,494	61,757	29,224
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Bolivia	51,583	43,910	5,753	1,920	47,536	40,647	4,968	1,921	52,561	40,647	9,994	1,920
Costa Rica	1,003	---	1,003	---	919	---	919	---	777	---	777	---
Dominican Rep.	8,145	7,309	836	---	9,261	8,461	800	---	8,639	7,284	1,355	---
Ecuador	5,919	1,719	3,500	700	4,675	1,575	1,300	1,800	2,678	1,378	1,300	---
El Salvador	56,339	7,193	28,833	20,313	25,773	7,194	13,956	4,623	49,523	7,860	14,359	27,304
Guatemala	27,777	24,557	3,220	---	24,796	20,396	4,400	---	38,518	29,622	8,896	---
Guyana	1,003	---	---	1,003	0	---	---	---	0	---	---	---
Haiti	84,953	31,830	4,123	49,000	90,947	31,684	5,000	54,263	41,801	38,301	3,500	---
Honduras	20,313	12,747	7,566	---	23,998	14,731	9,267	---	21,794	12,070	9,724	---
Jamaica	15,651	3,500	651	11,500	2,950	1,350	1,600	---	1,682	---	1,682	---
Mexico	1,477	---	1,477	---	0	---	---	---	0	---	---	---
Panama	445	---	445	---	315	---	315	---	150	---	150	---
Paraguay	1,180	---	1,180	---	975	---	975	---	1,066	---	1,066	---
Peru	40,149	36,025	4,124	---	43,109	37,281	5,828	---	52,261	43,332	8,929	---
St. Kitts	38	---	38	---	10	---	10	---	10	---	10	---
St. Lucia	25	---	25	---	25	---	25	---	15	---	15	---
ASIA - TOTAL	1,056,357	493,557	524,000	38,800	705,544	455,146	227,398	23,000	675,341	498,954	176,387	---
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Afghanistan	37,900	---	---	37,900	23,000	---	---	23,000	---	---	---	---
Bangladesh	240,600	120,000	120,600	---	173,375	120,000	53,375	---	173,524	120,000	53,524	---
Bhutan	2,256	---	2,256	---	2,599	---	2,599	---	2,276	---	2,276	---
India	347,460	302,048	45,412	---	292,978	257,322	35,656	---	328,488	291,537	36,951	---
Indonesia	21,672	20,382	1,290	---	25,369	23,970	1,399	---	24,818	21,100	3,718	---
Kampuchea	2,400	---	2,400	---	0	---	---	---	0	---	---	---
Nepal	7,982	---	7,982	---	7,200	---	7,200	---	9,761	---	9,761	---
Pakistan	317,886	---	317,886	---	111,943	---	111,943	---	49,805	---	49,805	---
Philippines	38,926	38,296	630	---	46,635	46,409	226	---	64,860	61,508	3,352	---
Solomon Islands	900	---	---	900	0	---	---	---	0	---	---	---
Sri Lanka	38,375	12,831	25,544	---	22,445	7,445	15,000	---	21,809	4,809	17,000	---
EUROPE - TOTAL	4,943	4,943	0	0	4,943	4,943	0	0	0	0	0	0
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Poland	4,943	4,943	---	---	4,943	4,943	---	---	0	---	---	---

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FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
Metric Tons

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	MFP	GTG	Total	Volags	MFP	GTG	Total	Volags	MFP	GTG
AFRICA - TOTAL	846,156	571,615	150,103	124,438	485,655	180,186	181,466	124,003	397,154	191,550	146,804	58,800
Angola	13,240	1,000	---	12,240	0	---	---	---	0	---	---	---
Benin	5,175	2,940	2,235	---	6,348	3,768	2,580	---	6,768	3,888	2,880	---
Botswana	20,821	---	16,461	4,360	36,602	---	26,162	10,440	18,510	---	18,510	---
Burkina Faso	29,695	24,828	4,867	---	28,159	24,428	3,731	---	29,829	25,668	4,161	---
Burundi	5,925	5,565	360	---	810	---	810	---	1,358	---	1,358	---
Cameroon	2,270	---	2,270	---	3,900	---	3,900	---	3,500	---	3,500	---
Cape Verde	22,768	---	1,235	21,533	19,199	---	4,199	15,000	18,200	---	3,200	15,000
C.A.R.	1,380	---	1,380	---	2,600	---	2,600	---	4,700	---	4,700	---
Chad	17,683	8,676	9,007	---	18,414	11,407	7,007	---	9,242	2,735	6,507	---
Comoro Is.	1,976	---	1,976	---	4,155	---	4,155	---	4,254	---	4,254	---
Congo	380	---	380	---	510	---	510	---	540	---	540	---
Eq. Guinea	1,915	---	1,915	---	1,700	---	1,700	---	1,650	---	1,650	---
Ethiopia	327,313	327,313	---	---	15,699	15,699	---	---	18,600	18,600	---	---
Ethiopian Refugee	45,000	45,000	---	---	5,900	5,900	---	---	0	---	---	---
Gambia	9,784	2,546	768	6,470	12,296	2,546	1,750	8,000	12,496	2,546	1,950	8,000
Ghana	47,296	22,141	25,155	---	42,165	23,196	18,969	---	34,295	20,704	13,591	---
Guinea	380	---	380	---	900	---	900	---	699	---	699	---
Guinea Bissau	1,677	---	1,677	---	8,253	---	3,252	5,001	7,452	---	2,452	5,000
Ivory Coast	420	---	420	---	770	---	770	---	1,170	---	1,170	---
Kenya	9,695	9,654	41	---	6,373	6,273	100	---	9,480	9,380	100	---
Lesotho	30,552	14,952	15,600	---	31,527	14,327	17,200	---	27,878	12,852	15,026	---
Liberia	0	---	---	---	780	---	780	---	800	---	800	---
Madagascar	5,496	5,496	---	---	6,330	6,330	---	---	6,331	6,331	---	---
Malawi	1,250	---	1,250	---	1,700	---	1,700	---	1,950	---	1,950	---
Mali	42,844	4,080	8,425	30,339	22,399	1,540	10,859	10,000	30,864	6,154	14,710	10,000
Mauritania	8,340	7,971	369	---	28,058	4,158	3,900	20,000	41,760	17,043	4,717	20,000
Mauritius	800	---	800	---	1,300	---	1,300	---	2,600	---	2,600	---
Mozambique	66,421	26,421	---	40,000	43,372	15,000	---	28,372	9,900	9,900	---	---
Niger	16,575	12,802	3,773	---	6,031	---	6,031	---	6,673	---	6,673	---
Rwanda	14,302	13,802	500	---	14,653	14,023	630	---	15,956	15,626	330	---
Sao Tome	2,022	---	2,022	---	2,400	---	2,400	---	1,408	---	1,408	---
Senegal	22,984	16,228	6,756	---	22,839	16,269	6,570	---	22,622	16,072	6,550	---
Seychelles	703	703	---	---	572	---	572	---	383	---	383	---
Sierra Leone	4,100	3,900	200	---	3,845	3,445	400	---	3,440	2,940	500	---
Somalia	33,110	---	33,110	---	38,942	---	38,942	---	10,215	---	10,215	---
Sudan	12,556	3,060	---	9,496	3,969	1,169	610	2,190	11,176	9,928	1,248	---
Swaziland	940	---	940	---	600	---	600	---	400	---	400	---
Tanzania	6,224	4,534	1,690	---	27,715	2,416	299	25,000	4,501	2,946	755	800
Togo	8,728	6,588	2,140	---	10,170	6,570	3,600	---	10,504	6,454	4,050	---
Uganda	1,713	---	1,713	---	2,150	---	2,150	---	3,250	---	3,250	---
Zaire	1,415	1,415	---	---	1,150	1,150	---	---	1,400	1,400	---	---
Zambia	288	---	288	---	400	---	400	---	400	---	400	---

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FY 1988
P.L. 480 CONGRESSIONAL PRESENTATION
TITLE II
Metric Tons

Region/Country	FY 86 Actual Program Levels				FY 87 Estimated Program Levels				FY 88 Proposed Program Levels			
	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG	Total	Volags	WFP	GTG
Subtotal - Regions	2,284,902	1,294,045	743,183	247,674	1,520,743	844,221	464,912	211,610	1,382,346	902,525	391,797	88,024
Regular	1,461,841	878,139	423,828	159,874	1,235,679	801,944	372,013	61,722	1,382,346	902,525	391,797	88,024
Emergency	823,061	415,906	319,355	87,800	285,064	42,277	92,899	149,888	0	---	---	---
Near East	61,446	55,140	6,306	0	49,312	40,627	6,685	2,000	38,376	31,527	6,849	0
Regular	61,446	55,140	6,306	0	47,312	40,627	6,675	---	38,376	31,527	6,849	0
Emergency	0	---	---	---	2,000	---	---	2,000	0	---	---	---
Latin America	316,000	168,790	62,774	84,436	275,289	163,319	49,363	62,607	271,475	180,494	61,757	29,224
Regular	236,439	165,183	35,820	35,436	211,572	161,387	46,464	3,721	271,475	180,494	61,757	29,224
Emergency	79,561	3,607	26,954	49,000	63,717	1,932	2,899	58,886	0	---	---	---
Africa	846,156	571,615	150,103	124,438	485,655	180,186	181,466	124,003	397,154	191,550	146,804	58,800
Regular	406,800	164,259	118,103	124,438	363,253	151,786	153,466	58,001	397,154	191,550	146,804	58,800
Emergency	439,356	407,356	32,000	---	122,402	28,400	28,000	66,002	0	---	---	---
Asia	1,056,357	493,557	524,000	38,800	705,544	455,146	227,398	23,000	675,341	498,954	176,387	0
Regular	757,156	493,557	263,599	---	613,542	448,144	165,398	---	675,341	498,954	176,387	---
Emergency	299,201	---	260,401	38,800	92,002	7,002	62,000	23,000	0	---	---	---
Europe	4,943	4,943	0	0	4,943	4,943	0	0	0	0	0	0
Regular	0	0	0	0	0	---	---	---	0	---	---	---
Emergency	4,943	4,943	---	---	4,943	4,943	---	---	0	---	---	---
Reserve					658,930				440,563			
Stock Adjustment	(127,200)	(127,200)			(193,100)	(193,100)			(90,253)	(90,253)		
Transport Costs												
PROGRAM TOTAL	2,157,702				1,986,573				1,732,656			
(MTGE)	(2,344,346)				(2,163,936)				(1,900,000)			

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Title I
PL 480, Title I, Section 101

Intent: The intent of Title I is to provide long-term credit at low interest to friendly countries to assist in the financing of specific commodity imports -- usually food -- from the U.S. The program is designed to augment the aggregate supply of food in a country and to be marketed through private commercial channels. In this way the program also promotes long term commercial trading relationships between the U.S. and the recipient country.

Description: Title I programs are negotiated between the U.S. and friendly countries on an annual basis. Title I agreements authorize commercial sales transactions between the importing country and a U.S. commercial supplier. The CCC (Commodity Credit Corporation) of the Department of Agriculture makes a loan for the purchase of the commodities and pays the difference in shipping costs for the quantity of the commodities shipped on U.S. -- as opposed to foreign -- vessels. The remaining costs of ocean freight are paid by the importing country except in extraordinary circumstances.

Loan terms differ depending upon the recipient country's ability to repay. Terms range from a 20 year repayment period with 2 years grace and repayment in dollar credit to a 40 year repayment period with 10 years grace and repayment in convertible local currency credits. Interest rates for all programs are 2 percent during the grace period and 3 percent thereafter. For most programs there is a small percentage payment made initially. Currently all but Section 108 programs require repayments in dollars.

The Legislation requires that 75 percent of the Title I budget be allocated to countries with annual per capita incomes below the poverty criterion of the International Development Association -- currently \$790 per year.

Title I is targeted to countries which require balance of payments assistance. A major concern in Title I reviews is that these concessional sales do not disrupt commercial markets and world prices. The Title I agreement must establish UMRs (Usual Marketing Requirements) based on the average level of commercial imports for the same commodity over the past five years. The Title I commodities are to be additional to this average, although a waiver can be obtained when foreign exchange constraints are overwhelming.

In the past, local currency generated by Title I sales has often gone to general budget support. There has been a move in recent years to encourage the use of local currencies in specific

development areas. In addition, self-help measures have been considerably strengthened and disincentive effects on local production are being analyzed more carefully.

Citations: A.I.D. Handbook 9

Doc. 2783E

TITLE III

Intent: Title III Food for Development programs are intended to support a wide range of development activities in agricultural and rural development, nutrition, health services and population planning. However, Title III's main focus is on activities which support increased food production and increased food availability to poor consumers.

Description: Title III of PL 480 authorizes concessional food sales to eligible recipient countries over a multi-year period. It includes a provision for forgiveness of the repayment obligation when local currency proceeds and/or commodities are used for agreed upon development uses. Title III is geared to those low-income (under \$790 per capita income in 1987), food-deficit countries which have the potential to significantly raise agricultural production, pursue agricultural based strategies, and are committed to efforts to stimulate rural growth. Consistent with this commitment, Title III's multi-year commodity supply assurance and the potential for forgiveness of loan repayments should provide incentives for recipients to agree to significant policy and institutional reforms and development program improvements.

Title III is most suited to countries where the causes of food and agricultural production are understood by key policy makers in LDCs who are willing to enter into a long range effort - including policy reforms and program adjustments - to correct rural-urban imbalances and pursue the broadly-based growth of the rural economy. The recipient country government should be committed to, and hopefully have made some progress towards:

1. Developing the institutional capacity for food and agricultural planning and policy analysis;
2. Developing human resources and institutions which (a) generate and apply innovations designed to raise agricultural productivity and rural incomes; and, (b) evaluate and adapt technologies transferred from developed countries and international institutions;
3. Encouraging (a) policy and management reforms that make public enterprises more responsive to market forces; (b) greater private sector initiatives in the same spheres; and (c) the reduction of inappropriate public enterprise roles in the economy.

Citation: Title III Program Guidance, 1/28/83

TITLE II, SECTION 206

Intent: Title II Section 206 programs seek to alleviate the underlying causes of a country's food problems; to increase the availability of food and the effectiveness of food distribution to the country's neediest population groups; and to support health programs and projects, including the immunization of children.

Description: The principal feature of these government-to-government programs is their development orientation. Section 206 programs provide food aid on a grant basis; permit multi-year commitments subject to an annual review of program performance and commodity availability; incorporate policy conditionality; and generate local currency to support development activities consistent with legislative requirements, country priorities, and Mission CDSS objectives.

Illustrative program initiatives include efforts to increase food and agricultural production; establish a reliable food data collection and reporting system; improve the country's food distribution system to enhance food consumption among low-income groups; develop a food emergency preparedness plan; and to remove constraints to more effective participation by the private sector in food production and distribution.

Funding for Section 206 programs is available through the Title II unallocated reserve. Due to the demands placed on the reserve in recent years to meet emergency needs, Section 206 programs have been few in number and small in size. In years when there are higher levels of Title II commodities available for programming, more Section 206 programs will be possible.

Section 206 programs are generally tailored to the needs of lower income developing countries requiring food assistance with priority given to those experiencing chronic food deficits. Lower income countries are those meeting the World Bank's IDA loan eligibility criteria, which is currently a 1985 per capita income of dollars 790 or less. Candidate country programs are those in which emphasis is given to integrating food aid and non-food aid assistance programs to promote food self-reliance and food security as well as economic growth.

Section 206 programs differ from Title I programs in that they are grant as opposed to credit programs; are generally limited to lower income developing countries; are usually approved on a multi-year basis, subject to commodity and funding availability; and place special emphasis on directly addressing the root causes of the recipient country's food problems and supporting precautionary measures that help avert food shortages.

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Section 206 programs differ from multi-year Title III programs in that they are grant as opposed to credit programs with a credit-forgiveness feature; are more modest in program size [10,000 to 20,000 metric tons]; give priority to chronic food deficit countries; and again place special emphasis on addressing the root causes of the recipient country's food problems and supporting precautionary measures that help avert food shortages. The USG pays for the transport costs of Section 206 commodities whereas these are usually paid by the recipient government for Title I and Title III commodities.

Citations: STATE 015992 dated 1/20/80
STATE 170920 dated 6/29/81
Revised Section 206 Program Guidance, 4/87

2783E 4/3/87

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AID/FVA/PPM:D.RHOAD:AW:2719E
01/08/87 235-1940
AID/A-AA/FVA:W.POLLINGER

AID/FVA/PPM:L.STAMBERG
AID/AFR/DP:C.COWEY {DRAFT}
AID/LAC/DP:R.QUEENER {DRAFT}
AID/FVA/FFP:W.PEARSON {DRAFT}

| AID/FVA/FFP:T.REESE {DRAFT}
| AID/AFR/DP:B.SIDMAN {DRAFT}
| USDA/FAS:M.CHAMBLISS {DRAFT}
AID/ES:G.JOE

ROUTINE

AIDWIDE

AIDAC

E.O. 12356: N/A

TAGS: N/A

SUBJECT: GUIDANCE FOR IMPLEMENTATION OF SECTION 206
GOVERNMENT-TO-GOVERNMENT DEVELOPMENT PROGRAMS

REF: STATE 396227

1. SUMMARY: IN KEEPING WITH OUR EFFORTS TO INCREASE THE USE OF FOOD AID RESOURCES TO PROMOTE ECONOMIC DEVELOPMENT, THIS CABLE PROVIDES REVISED GUIDANCE AND ESTABLISHES STREAMLINED REVIEW PROCEDURES FOR PLANNING AND IMPLEMENTING PL 480 TITLE II SECTION 206 PROGRAMS. THE PRINCIPAL FEATURE OF THESE PROGRAMS IS THEIR DEVELOPMENT ORIENTATION. SECTION 206 PROGRAMS: ARE GOVERNMENT-TO-GOVERNMENT; PROVIDE FOOD AID ON A GRANT BASIS; PERMIT MULTI-YEAR COMMITMENTS SUBJECT TO ANNUAL REVIEW OF PROGRAM PERFORMANCE AND COMMODITY AND FUNDING AVAILABILITY; INCORPORATE POLICY CONDITIONALITY; AND GENERATE LOCAL CURRENCY TO SUPPORT DEVELOPMENT ACTIVITIES CONSISTENT WITH LEGISLATIVE REQUIREMENTS, COUNTRY PRIORITIES, AND MISSION CDSS OBJECTIVES. THIS MESSAGE DOES NOT DEAL WITH NON-GOVERNMENT-TO-GOVERNMENT MONETIZED TITLE II PROGRAMS. END OF SUMMARY.

2. OBJECTIVES AND AUTHORITY: THE MOST BASIC PURPOSE OF

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TITLE II SECTION 206 PROGRAMS IS TO ASSIST COUNTRIES IN ALLEVIATING THE UNDERLYING CAUSES OF THEIR FOOD PROBLEMS AND THEIR NEED FOR "EMERGENCY" FOOD ASSISTANCE. TITLE II, SECTION 206 OF PUBLIC LAW 480 ESTABLISHES THE FRAMEWORK FOR GOVERNMENT-TO-GOVERNMENT MONETIZED PROGRAMS. THE SECTION'S REQUIREMENTS DO NOT APPLY TO NON-GOVERNMENTAL PROGRAMS, NOR TO PROGRAMS WITH GOVERNMENTS FOR URGENT OR EXTRAORDINARY RELIEF. IT STATES:

QUOTE: EXCEPT TO MEET FAMINE OR OTHER URGENT OR EXTRAORDINARY RELIEF REQUIREMENTS, NO ASSISTANCE UNDER THIS TITLE SHALL BE PROVIDED UNDER AN AGREEMENT PERMITTING GENERATION OF FOREIGN CURRENCY PROCEEDS UNLESS {1} THE COUNTRY RECEIVING THE ASSISTANCE IS UNDERTAKING SELF-HELP MEASURES IN ACCORDANCE WITH SECTION 109 OF THIS ACT, {2} THE SPECIFIC USES TO WHICH THE FOREIGN CURRENCIES ARE TO BE PUT ARE SET FORTH IN A WRITTEN AGREEMENT BETWEEN THE UNITED STATES AND THE RECIPIENT COUNTRY, AND {3} SUCH AGREEMENT PROVIDES THAT THE CURRENCIES WILL BE USED FOR {A} ALLEVIATING THE CAUSES OF THE NEED FOR THE ASSISTANCE IN ACCORDANCE WITH THE PURPOSES AND POLICIES SPECIFIED IN SECTION 103 OF THE FOREIGN ASSISTANCE ACT OF 1961, {B} PROGRAMS AND PROJECTS TO INCREASE THE EFFECTIVENESS OF FOOD DISTRIBUTION AND INCREASE THE AVAILABILITY OF FOOD COMMODITIES PROVIDED UNDER THIS TITLE TO THE NEEDIEST INDIVIDUALS IN RECIPIENT COUNTRIES, OR {C} HEALTH PROGRAMS AND PROJECTS, INCLUDING THE IMMUNIZATION OF CHILDREN. THE PRESIDENT SHALL INCLUDE INFORMATION ON CURRENCIES USED IN ACCORDANCE WITH THIS SECTION IN THE REPORTS REQUIRED UNDER SECTION 408 OF THIS ACT AND SECTION 657 OF THE FOREIGN ASSISTANCE ACT OF 1961

UNQUOTE

THUS, AS DEVELOPMENT-ORIENTED FOOD AID, SECTION 206 PROGRAMS HAVE THE FACILITY TO STRENGTHEN FOOD SELF-RELIANCE AND FOOD SECURITY; PERMIT MORE STABLE ECONOMIC GROWTH AND TRADE DEVELOPMENT; FACILITATE FOOD AID PLANNING AND BUDGETING; ALLEVIATE PERSISTENT HUMAN HUNGER AND SUFFERING; AND REDUCE THE POTENTIAL FOR POLITICAL INSTABILITY AND UNREST IN THE RECIPIENT COUNTRY.

3. PROGRAM LEVELS: PL 480 COMMODITIES UNDER SECTION 206 ARE AVAILABLE THROUGH THE ANNUAL UNALLOCATED TITLE II RESERVE. THIS RESERVE IS AUTHORIZED FOR EMERGENCY, REFUGEE AND SECTION 206 PROGRAM NEEDS. PRIORITY IS GIVEN TO USING THE RESERVES FOR EMERGENCIES AND REFUGEE

RELIEF, BUT THE USG CAN EXPAND SECTION 206 PROGRAMMING IN YEARS, SUCH AS FY 1987, WHEN PROJECTED EMERGENCY AND RELIEF REQUIREMENTS SUGGEST MORE FUNDING WILL BE AVAILABLE FOR SECTION 206 PROGRAMS.

PROGRAM LEVELS SHOULD BE DEVELOPED WITH DUE REGARD FOR IMPORT NEEDS, OTHER DONOR PROGRAMS, FOREIGN EXCHANGE AVAILABILITIES, THE RECIPIENT'S COMMITMENT TO REFORM, AND THE NEED TO SUPPORT THAT COMMITMENT WITH EXTERNAL RESOURCES. USUAL PROGRAM LEVELS WOULD RANGE IN SIZE FROM 10,000 MTS TO 20,000 MTS PER YEAR.

4. ELIGIBILITY: SECTION 206 PROGRAMS ARE GENERALLY TAILORED TO THE NEEDS OF LOWER INCOME DEVELOPING COUNTRIES REQUIRING FOOD ASSISTANCE WITH PRIORITY GIVEN TO THOSE EXPERIENCING CHRONIC FOOD DEFICITS. LOWER INCOME COUNTRIES ARE THOSE MEETING THE WORLD BANK'S IDA LOAN ELIGIBILITY CRITERIA, WHICH IS CURRENTLY A 1985 PER CAPITA INCOME OF DOLLARS 790 OR LESS.

CANDIDATE COUNTRY PROGRAMS ARE THOSE IN WHICH EMPHASIS IS GIVEN TO INTEGRATING FOOD AID AND NON-FOOD AID ASSISTANCE PROGRAMS TO PROMOTE FOOD SELF-RELIANCE AND FOOD SECURITY AS WELL AS ECONOMIC GROWTH. NOTE: SELF-RELIANCE IN FOOD IS DEFINED AS THE ABILITY OF A COUNTRY TO ASSURE CONTINUING FOOD SECURITY TO ITS POPULATION FROM A COMBINATION OF DOMESTIC PRODUCTION AND IMPORTATION OF FOOD AT COMMERCIAL TERMS PAID FROM FOREIGN EXCHANGE EARNINGS. BOTH SHORT- AND LONG-RUN FOOD SECURITY ARE NECESSARY. SHORT-RUN FOOD SECURITY IMPLIES THE ABILITY TO MAINTAIN NORMAL CONSUMPTION LEVELS IN THE FACE OF AN EMERGENCY FOOD SHORTAGE. LONG-RUN FOOD SECURITY IS DEFINED AS THE ABILITY OF A COUNTRY TO ASSURE A NUTRITIONALLY ADEQUATE FOOD SUPPLY TO ITS POPULATION ON A CONTINUING BASIS. END NOTE.

SECTION 206 PROGRAMS CAN BE USED, FOR EXAMPLE, WHERE THE INTENT IS TO STRENGTHEN SUCH ELEMENTS OF THE HOST COUNTRY'S FOOD SYSTEM AS THE FOOD DATA COLLECTION AND REPORTING SYSTEM; FOOD AND AGRICULTURAL POLICIES; THE FOOD DISTRIBUTION SYSTEM; THE FOOD SECURITY PROGRAM; AND FOOD EMERGENCY PREPAREDNESS PLANNING. THE EXPECTATION WOULD BE THAT IMPROVEMENTS IN SUCH AREAS WOULD BE FORTHCOMING WITH THE SUPPORT PROVIDED THROUGH SELF-HELP MEASURES, POLICY DIALOGUE, AND THE PROGRAMMING OF SALES PROCEEDS.

SECTION 206 PROGRAMS DIFFER FROM TITLE I PROGRAMS IN THAT THEY ARE GRANT AS OPPOSED TO CREDIT PROGRAMS; ARE

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GENERALLY LIMITED TO LOWER INCOME DEVELOPING COUNTRIES; ARE USUALLY APPROVED ON A MULTI-YEAR BASIS, SUBJECT TO COMMODITY AND FUNDING AVAILABILITY; AND PLACE SPECIAL EMPHASIS ON DIRECTLY ADDRESSING THE ROOT CAUSES OF THE RECIPIENT COUNTRY'S FOOD PROBLEMS AND SUPPORTING PRECAUTIONARY MEASURES THAT HELP AVERT FOOD SHORTAGES.

SECTION 206 PROGRAMS DIFFER FROM MULTI-YEAR TITLE III PROGRAMS IN THAT THEY ARE GRANT AS OPPOSED TO CREDIT PROGRAMS WITH A CREDIT-FORGIVENESS FEATURE; ARE MORE MODEST IN PROGRAM SIZE {10,000 TO 20,000 METRIC TONS}; GIVE PRIORITY TO CHRONIC FOOD DEFICIT COUNTRIES; AND AGAIN PLACE SPECIAL EMPHASIS ON ADDRESSING THE ROOT CAUSES OF THE RECIPIENT COUNTRY'S FOOD PROBLEMS AND SUPPORTING PRECAUTIONARY MEASURES THAT HELP AVERT FOOD SHORTAGES. THE USG PAYS FOR THE TRANSPORT COSTS OF SECTION 206 COMMODITIES WHEREAS THESE ARE USUALLY PAID BY THE RECIPIENT GOVERNMENT FOR TITLE I AND TITLE III COMMODITIES.

5. FEATURES: THE PRINCIPAL FEATURE OF A SECTION 206 PROGRAM IS ITS DEVELOPMENT ORIENTATION. SECTION 206 PROGRAMS INCLUDE SELF-HELP MEASURES THAT CONTRIBUTE TO MISSION EFFORTS TO INFLUENCE POLICY REFORM AND IMPLEMENTATION. SECTION 109 SHMS UNDER A TITLE I AGREEMENT WOULD SATISFY THE STATUTORY REQUIREMENT BUT MISSION MAY WISH TO HAVE SEPARATE SHMS FOR THE SECTION 206 PROGRAM. THEY GENERATE LOCAL CURRENCIES FROM SALES PROCEEDS THAT ARE JOINTLY PROGRAMMED FOR SPECIFIC DEVELOPMENT ACTIVITIES. SIGNIFICANT EMPHASIS IS PLACED ON THE INTEGRATION OF SECTION 206 RESOURCES WITH OTHER U.S. BILATERAL ASSISTANCE {DA, ESF, INCLUDING AGRICULTURAL PRODUCTION-AND MARKETING-ORIENTED PVO PROJECTS AND OTHER FOOD AID RESOURCES} AS WELL AS OTHER DONOR PROGRAMS DIRECTED TOWARDS THESE ENDS. A PRIVATE SECTOR ORIENTATION IS ENCOURAGED.

6. PROGRAM DESIGN: HANDBOOK 9 EMPHASIZES THE DEVELOPMENT ORIENTATION OF GOVERNMENT-TO-GOVERNMENT SECTION 206 PROGRAMS. THROUGH GENERATION OF LOCAL CURRENCIES THAT CAN BE PROGRAMMED FOR ACTIVITIES THAT SUPPORT POLICY REFORM EFFORTS, SECTION 206 PROGRAMS CAN HELP ADDRESS ROOT CAUSES OF THE RECIPIENT COUNTRY'S FOOD PROBLEMS AND SUPPORT PRECAUTIONARY MEASURES THAT HELP AVERT FOOD SHORTAGES. PROGRAM ELEMENTS INCLUDE COMMODITIES, SELF-HELP MEASURES, LOCAL CURRENCY USE, AND PROVISION OF BENEFITS TO THE NEEDIEST POPULATION GROUPS. PROGRAMS MUST BE CONSISTENT WITH LEGISLATIVE REQUIREMENTS AS WELL AS APPROVED COUNTRY STRATEGY. LOCAL CURRENCY FUNDED

ACTIVITIES SHOULD BE DEVELOPED CONSISTENTLY WITH ESTABLISHED A.I.D. POLICY.

{A} SELF HELP MEASURES: SECTION 109 OF PUBLIC LAW 480 PERMITS A BROAD RANGE OF ACTIVITIES IN THE AREAS OF AGRICULTURE, POPULATION, LITERACY AND HEALTH. HOWEVER, FOOD AND AGRICULTURAL POLICIES REQUIRE SPECIAL CONSIDERATION. PRIORITY SHOULD BE GIVEN TO SUCH AREAS AS PRICING POLICIES; PRODUCTION INCENTIVES PROGRAMS FOR SMALL FARMERS; COST EFFECTIVE FOOD DISTRIBUTION PROGRAMS APPROPRIATELY TARGETED TO THE NEEDIEST; IMPROVED PRODUCTION, MARKETING AND STORAGE POLICIES; AND REMOVAL OF CONSTRAINTS TO MORE EFFECTIVE PARTICIPATION BY THE PRIVATE SECTOR IN FOOD PRODUCTION AND DISTRIBUTION.

SECTION 206 SHM'S SHOULD BE STRUCTURED IN A MANNER COMMENSURATE WITH HOST GOVERNMENT AND MISSION IMPLEMENTATION CAPABILITIES. THEY MAY ADDRESS ADOPTION AS WELL AS IMPLEMENTATION OF REFORM MEASURES. ALSO, THEY SHOULD BE ADDITIONAL TO WHAT THE RECIPIENT GOVERNMENT OTHERWISE WOULD HAVE UNDERTAKEN IN THE ABSENCE OF THE PL 480 FOOD AID PROGRAM.

{B} LOCAL CURRENCY USES: IN PROGRAMMING SALE PROCEEDS, PRIORITY SHOULD BE GIVEN TO ACTIVITIES WHICH ADDRESS THE CAUSES OF THE NEED FOR FOOD AID AND IMPROVE THE EFFECTIVENESS OF FOOD DISTRIBUTION TO THE NEEDIEST. APPROPRIATE USES WOULD INCLUDE, FOR EXAMPLE, STRENGTHENING CAPACITY TO COLLECT AND ANALYZE FOOD AND AGRICULTURAL SECTOR DATA; ESTABLISHMENT OF GRAIN STORAGE AND MARKETING INFRASTRUCTURE; CROP PROTECTION AND PREVENTION OF POST-HARVEST LOSSES; FOOD DISTRIBUTION SYSTEMS TARGETED TO ENHANCE FOOD CONSUMPTION AMONG LOW-INCOME GROUPS; AND AGRICULTURAL RESEARCH FOR INDIGENOUS FOOD CROPS.

LOCAL CURRENCIES GENERATED FOR EXPENDITURE ON SPECIFIED DEVELOPMENT ACTIVITIES MUST BE EQUIVALENT TO NOT LESS THAN THE USDA {FAS} DOLLAR VALUE OF THE COMMODITIES. THE EXCHANGE RATE TO BE USED IN CALCULATING THIS LOCAL CURRENCY EQUIVALENT SHALL BE THE RATE AT WHICH THE CENTRAL MONETARY AUTHORITY OF THE IMPORTING COUNTRY, OR ITS AUTHORIZED AGENT, SELLS FOREIGN EXCHANGE FOR LOCAL CURRENCY IN CONNECTION WITH THE COMMERCIAL IMPORT OF THE SAME COMMODITIES.

SPECIFIC USES OF LOCAL CURRENCY MUST BE AGREED TO WITH THE HOST GOVERNMENT AND STATED IN THE AGREEMENT. SUBSEQUENT DECISIONS ON DETAILED PROJECT FUNDING

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REQUIREMENTS CAN BE MADE WITHIN THE BOUNDS OF THESE AGREED SPECIFIC USES. DISBURSEMENT OF FUNDS SHOULD BE JOINTLY AGREED TO BY USAID AND THE HOST GOVERNMENT, AND THE HOST GOVERNMENT MUST ESTABLISH ADEQUATE ACCOUNTING PROCEDURES FOR MONITORING LOCAL CURRENCY USES.

THE 206 PROGRAM PLAN {SEE PARA. 8 BELOW} SHOULD DESCRIBE {I} SPECIFIC USES TO BE STATED IN THE TRANSFER AUTHORIZATION {TA}, AND {II} WHAT THE PROJECT SELECTION CRITERIA FOR DETAILED LOCAL CURRENCY USE MIGHT BE UNDER THE PROPOSED PROGRAM, PARTICULARLY AS THEY OPEN UP OPPORTUNITIES FOR THE PRIVATE SECTOR. IT WOULD BE PREFERABLE TO HAVE CRITERIA, MECHANISMS AND/OR DETAILED USES TO BE STATED IN THE TA, BUT THESE CAN BE STATED IN A MEMORANDUM OF UNDERSTANDING {MOU} COMPATIBLE WITH THE TA IF NEEDED.

{C} MULTI-YEAR COMMITMENTS: PAST EXPERIENCE AND THE NATURE OF THE PROBLEMS ADDRESSED SUGGEST THAT SECTION 206 PROGRAMS SHOULD USUALLY BE UNDERTAKEN ON A MULTI-YEAR BASIS. A MULTI-YEAR COMMITMENT PROVIDES THE RECIPIENT A MAJOR INCENTIVE, AS WELL AS SUFFICIENT TIME, TO ENGAGE IN PROGRAM ACTIONS AND REFORM EFFORTS THAT IT WOULD NOT OTHERWISE PURSUE. A MULTI-YEAR COMMITMENT IS KEYED TO COMMODITY AND FUNDING AVAILABILITY ON A YEAR-TO-YEAR BASIS AND SUBJECT TO SATISFACTORY PROGRAM PERFORMANCE AS THE MAIN CRITERION FOR JUSTIFYING EACH SUBSEQUENT YEAR'S AUTHORIZATION.

{D} UMR APPLICATION: REASONABLE PRECAUTIONS MUST BE TAKEN TO ASSURE THAT COMMODITIES SUPPLIED UNDER TITLE II WILL NOT DISPLACE OR INTERFERE WITH SALES WHICH MIGHT OTHERWISE BE MADE. THE USUAL MARKETING REQUIREMENT {UMR} APPLIES IN THIS REGARD. THE UMR IS HANDLED ON THE SAME BASIS AS TITLE I. IF THE RECIPIENT COUNTRY HAS MADE COMMERCIAL PURCHASES OF THE COMMODITIES TO BE PROGRAMMED UNDER TITLE II, IT MUST CONTINUE TO DO SO, USUALLY AT A LEVEL REFLECTING ITS AVERAGE COMMERCIAL PURCHASES OVER THE LAST FIVE YEARS. THE UMR CAN BE REDUCED OR ELIMINATED IN SPECIAL CASES IF JUSTIFIED BY THE FINANCIAL CONDITION OF THE COUNTRY.

{E} BELLMON DETERMINATION: THE BELLMON AMENDMENT, PL 480 SECTION 401 {B}, APPLIES AND REQUIRES A DETERMINATION THAT ADEQUATE STORAGE FACILITIES ARE AVAILABLE IN THE RECIPIENT COUNTRY AND THAT THE DISTRIBUTION OF THE COMMODITIES IN THE RECIPIENT COUNTRY WILL NOT RESULT IN A SUBSTANTIAL DISINCENTIVE TO OR INTERFERENCE WITH DOMESTIC PRODUCTION OR MARKETING IN THAT COUNTRY.

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{F} ILLUSTRATIVE EXAMPLES OF PROGRAMS THAT CAN BE IMPLEMENTED VIA THE SECTION 206 MECHANISM INCLUDE:

- MEASURES SUPPORTING INCREASED FOOD PRODUCTION, INCLUDING APPROPRIATE FOOD AND AGRICULTURAL POLICIES;
- A RELIABLE FOOD DATA COLLECTION AND REPORTING SYSTEM;
- A WELL DESIGNED AND MANAGED FOOD DISTRIBUTION SYSTEM;
- AN ADEQUATE, COST-EFFECTIVE FOOD SECURITY PROGRAM;
- AND
- AS APPROPRIATE, A FOOD EMERGENCY PREPAREDNESS PLAN.

ACTIVITIES UNDERTAKEN AS PRECAUTIONS AGAINST FOOD SHORTAGES SHOULD BE CONSIDERED FOR SPECIAL EMPHASIS WHERE APPROPRIATE.

MANY IF NOT ALL OF THE ABOVE ELEMENTS ARE USUALLY INCORPORATED IN A COUNTRY FOOD SECTOR STRATEGY DEVELOPED BY THE HOST GOVERNMENT. THE IMPLEMENTATION OF AN FSS ADDS A LARGE MEASURE OF ASSURANCE THAT THE HOST GOVERNMENT IS COMMITTED TO FOOD SELF-RELIANCE AND SECURITY.

IN DESIGNING AND IMPLEMENTING SECTION 206 ACTIVITIES TO SUPPORT ANY OF THESE PROGRAM ELEMENTS, IT IS HIGHLY DESIRABLE TO COORDINATE PROGRAM AND POLICY INITIATIVES WITH THOSE OF OTHER FOOD DONORS. THIS IS ESPECIALLY IMPORTANT WHEN POLICY REFORMS ARE BEING ENCOURAGED.

{G} PL 480-RELATED COSTS: THE USG FINANCES BOTH COMMODITY AND FREIGHT COSTS TO THE POINT OF ENTRY. THIS PROVISION RECOGNIZES THE SEVERE FINANCIAL CIRCUMSTANCES CHARACTERISTIC OF SECTION 206 RECIPIENTS.

7. STREAMLINED PROGRAM DEVELOPMENT AND APPROVAL: THE STREAMLINED APPROVAL PROCESS FOR SECTION 206 PROGRAMS WILL BE COMPATIBLE WITH THAT CURRENTLY FOLLOWED FOR OTHER TITLE II PROGRAMS. A TWO-STEP PROCESS IS ENVISAGED:

{A} CABLE WILL BE ACCEPTABLE AT ANY POINT IN THE PROGRAM CYCLE AS AN INITIATING DOCUMENT. THE CABLE SHOULD CONTAIN BASIC NEW PROJECT INFORMATION FOR PL 480 SUCH AS OUTLINED IN THE AGENCY'S FY 88 PROGRAM AND BUDGET GUIDANCE (STATE 131135 WORLDWIDE, DATED 4/26/86, PARAS. 2 AND 19). A NARRATIVE STATEMENT JUSTIFYING THE PROPOSAL AND BRIEFLY OUTLINING NEED, TYPE OF COMMODITY, POLICY IMPACT, LOCAL CURRENCY USE, SHIPPING SCHEDULE, AND RELEVANCE TO APPROVED STRATEGY SHOULD BE

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INCORPORATED IN THE CABLE.

{B} THE PRIMARY DOCUMENT DESCRIBING AND JUSTIFYING THE ACTIVITY WILL BE A SECTION 206 PROGRAM PLAN INCORPORATING THE PROGRAM DESIGN ELEMENTS DISCUSSED IN PARA. 6 ABOVE. THE PREPARATION AND PRESENTATION REQUIREMENTS FOR THE PROGRAM PLAN ARE TO BE KEPT TO A REASONABLE LENGTH, CROSS-REFERENCING EXTANT POLICY AND STRATEGY STATEMENTS AND PROGRAM DOCUMENTS AS MUCH AS POSSIBLE. FOR EXAMPLE, THE CURRENT APPROVED CDSS AND ACTION PLAN WOULD BE INCORPORATED BY REFERENCE IN THE SECTION 206 PROGRAM PLAN, AS WOULD PROJECT DOCUMENTATION FOR APPROVED PROJECTS WHICH INVOLVE ACTIVITIES TO BE SUPPORTED BY LOCAL CURRENCY GENERATIONS.

AID/W PROCEDURES WILL INCLUDE REVIEW BY THE RELEVANT REGIONAL BUREAU AND PPC AND SUBMISSION OF THE PROPOSAL BY FVA/FFP TO THE DCC FOR APPROVAL. MISSIONS SHOULD AIM FOR SUBMISSION OF PROGRAM PLANS NORMALLY NO LATER THAN THE END OF THE SECOND QUARTER OF THE FISCAL YEAR TO PERMIT REVIEW, APPROVAL AND CALL FORWARDS WITHIN THE YEAR. PROGRAM PLANS SHOULD SPECIFY THE TYPE COMMODITIES REQUIRED TO FACILITATE USG COMMODITY MANAGEMENT.

MISSIONS ARE URGED TO DESIGN PROGRAMS THAT ARE RELATIVELY SIMPLE AND WHICH ARE COMMENSURATE WITH MISSION AND HOST GOVERNMENT CAPACITIES TO IMPLEMENT THEM.

8. SUGGESTED OUTLINE FOR SECTION 206 PROGRAM PLANS :

- SUMMARY
- STATEMENT OF CRITICAL ISSUES
- PROGRAM DESCRIPTION
 - {A} PROBLEM
 - {B} OBJECTIVES
 - {C} SUMMARIES OF RELEVANT ANALYSES {SECTORAL, ECONOMIC, TECHNICAL, SOCIAL AND ENVIRONMENTAL ANALYSES, AS APPROPRIATE}
 - {D} PROGRAM ELEMENTS
 - COMMODITY SELECTION/LEVELS
 - SELF-HELP MEASURES
 - LOCAL CURRENCY USES
- FINANCIAL PLAN
- BELLMON ANALYSIS

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- UMR ANALYSIS
- IMPLEMENTATION PLAN
- MONITORING AND EVALUATION PLAN

9. IMPLEMENTATION PROCEDURES: APPROVED SECTION 206 PROPOSALS ARE FUNDED THROUGH AN ANNUAL TA. FOR MULTI-YEAR PROGRAMS, AN ANNUAL PROGRESS REPORT BASED ON MISSION AND HOST GOVERNMENT REVIEW OF THE KEY PROGRAM COMPONENTS IS THE BASIC DOCUMENT USED BY THE DCC FOR APPROVAL OF THE SUBSEQUENT YEAR'S ALLOCATION AND TA.

SPECIFIC STEPS THAT WILL BE TAKEN UNDER THE SECTION 206 PROGRAM TO WORK TOWARD ACHIEVEMENT OF REFORMS SHOULD BE INCLUDED IN THE TA OR MEMORANDUM OF UNDERSTANDING. PERFORMANCE TARGETS AND QUANTIFIABLE INDICATORS SHOULD BE DEFINED INSOFAR AS POSSIBLE. IN TANDEM WITH THE ESTABLISHMENT OF QUANTIFIABLE INDICATORS, MECHANISMS FOR THE MONITORING AND EVALUATION OF THE PROGRAM ALSO NEED TO BE CLEARLY LAID OUT IN THE TA OR ACCOMPANYING MOU. THESE MECHANISMS NEED TO BE FLEXIBLE OR COMPREHENSIVE ENOUGH TO COVER LOCAL CURRENCY GENERATIONS AS WELL. 44

STATE/EB:C.BILLO {DRAFT}
TREAS/IDP:R.YATES {DRAFT}
OMB:G.MOSER {DRAFT}
AID/GC:C.STEPHENSON {DRAFT}

Project Food Aid

Title II and Section 416 Regular (PL 480 Section 201)

Intent: Traditionally, the intent of project food aid has been to alleviate immediate hunger and malnutrition. In recent years, efforts have been made to use food aid projects to further developmental objectives.

Description There are three basic delivery systems for regular food aid projects:

- (1) Maternal-child health feeding projects (MCH) - offer food supplements to pregnant and lactating mothers and preschool children from low income families. These projects are typically implemented at feeding or health centers managed by indigenous or U.S. organizations. Feeding rations are distributed to mothers and infants and rudimentary lessons in health or nutrition are provided. In better run centers, a growth surveillance system is used to ensure adequate levels of intake and to monitor impact.
- (2) School Feeding Programs (SFP) - provide meals to school age children who are physically present at educational institutions. School Feeding Programs are intended to contribute to development through human capital formation and increased productivity.
- (3) The contribution of Food For Work (FFW) projects to development differs from that of MCH and school feeding programs. In this case, development occurs through income generation and employment for the poor; infrastructure development; and promotion of community organization and development.

Project food aid is implemented by Private Voluntary Organizations (PVOs), cooperatives and the World Food Program (WFP). Section 201 of Title II provides that in FY 1987 1.45 million metric tons of U.S. commodities must be distributed through non-emergency projects by these institutions. Costs of ocean transport and overland transport -- port of entry to point of entry for land-locked countries -- are also provided to these projects.

Sponsors submit Operational Program Plans -- or project documents in the case of cooperatives -- to A.I.D. field missions. They are reviewed and when approved, are forwarded to Washington for the normal DCC approval process. For the WFP, projects are reviewed and approved at the bi-annual CFA meetings in Rome.

Citations: State cable 334505; State cable 073360

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DRAFTED BY: AID/FVA/PPP/11: V. PEARSON; DEN: 23020
 APPROVED BY: AID/FVA/PPP: T. REESE

AID/ES: G JOE ONB/IAB: G FISHER (INFO)
 USBA/FAS: H CHAMBERS (INFO) STATE/EB/OP: C BILLO (INFO)
 AID/PPC/PB: L TAMMER (INFO) AID/FVA/PP/L STAMERS DRAFT)
 AID/FVA/PP/L: J GILMORE DRAFT) AID/SEB/ISN/PE: J ELGIN POME
 AID/FVA/PPP: J VOGLER INFO
 AID/AFR/OP: SPERRILL DFT
 AID/LAC/OP: H JOHNSON DFT
 AID/PPC/PB: L TAMMER DFT
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SUBJECT: PL 480, TITLE II - REVISED REQUIREMENTS FOR
TITLE II OPERATIONAL PLAN

1. AT THE TWO RECENT FOOD FOR PEACE CONFERENCES IN NEW DELHI AND ABIDJAN, CONSIDERABLE TIME AND ATTENTION WAS DEVOTED TO DISCUSSION OF THE BASIC DOCUMENT UPON WHICH ALL TITLE II PVO PROGRAMS ARE BASED - THE PLAN OF OPERATION. THERE WAS GENERAL AGREEMENT THAT BOTH AID AND COOPERATING SPONSORS FOR SOME TIME HAVE TENDED TO NEGLECT THE IMPORTANCE OF THE PLAN OF OPERATION.

2. CURRENTLY, SECTION 211.5 OF AID REGULATION 11 SETS OUT THE REQUIREMENT FOR THE PLAN OF OPERATION AS FOLLOWS.

(A) PLAN OF OPERATION. EACH COOPERATING SPONSOR SHALL SUBMIT TO THE USAID OR DIPLOMATIC POST FOR THE APPROVAL OF AID/V, WITHIN SUCH TIMES AND ON THE FORMS PRESCRIBED BY AID/V, A DESCRIPTION OF THE PROGRAM IT IS SPONSORING OR PROPOSES TO SPONSOR. THIS DESCRIPTION WILL PROVIDE BASIC INFORMATION FOR PREPARATION AND AMENDMENT OF FOOD FOR PEACE PROGRAM AGREEMENTS AND INDIVIDUAL COUNTRY FOOD FOR PEACE PROGRAM AGREEMENTS AND WILL INCLUDE PROGRAM PURPOSE AND GOALS, CRITERIA FOR MEASURING PROGRAM

EFFECTIVENESS, AND OTHER SPECIFIC PROVISIONS IN ADDITION TO THOSE SET FORTH IN THIS PART. FURTHER, THIS DESCRIPTION WILL INCLUDE INFORMATION FROM WHICH IT MAY BE DETERMINED THAT THE DISTRIBUTION OF COMMODITIES IN THE RECIPIENT COUNTRY WILL NOT RESULT IN A SUBSTANTIAL DISINCENTIVE TO DOMESTIC PRODUCTION AND THAT ADEQUATE STORAGE FACILITIES ARE AVAILABLE IN THE RECIPIENT COUNTRY AT THE TIME OF EXPORTATION OF THE COMMODITY TO PREVENT THE SPOILAGE OR WASTE OF THE COMMODITY.

3. WE PROPOSE TO ELIMINATE THE ABOVE FINAL TWO SENTENCES OF THE CURRENT REQUIREMENT OF SECTION 211.5 AND SUBSTITUTE THE FOLLOWING LANGUAGE.

-- THIS PLAN OF OPERATION WILL BE CONSIDERED A PART OF THE FOOD FOR PEACE PROGRAM AGREEMENT AFTER IT IS APPROVED BY AID. WITHIN THE OVERALL OBJECTIVES OF THE APPROVED PROGRAM, ELEMENTS OF THE PROGRAM MAY BE CHANGED BY WRITTEN AGREEMENT OF THE AUTHORIZED REPRESENTATIVES OF THE COOPERATING SPONSOR, ON THE ONE HAND, AND AID AND CCC, WITHIN THEIR RESPECTIVE AREAS OF RESPONSIBILITY, ON THE OTHER, WITHOUT FORMAL AMENDMENT OF THE AGREEMENT. IN CASE OF THE CONFLICT BETWEEN THE TEXT OF THE AGREEMENT AND THE APPROVED PLAN OF OPERATION THE TEXT OF THE AGREEMENT PREVAILS. THIS PLAN OF OPERATION WILL ALSO PROVIDE THE BASIC INFORMATION FOR PREPARATION OF INDIVIDUAL COUNTRY FOOD FOR PEACE PROGRAM AGREEMENTS DEVELOPED AND REVISED ANNUALLY OR PERIOD DESIGNATED WITH THE CO-SPONSORS' COUNTRY AND HOST GOVERNMENT.

IN ADDITION TO ANY OTHER REQUIREMENT OF LAW OR REGULATION, THE OPERATION PLAN WILL INCLUDE THE FOLLOWING INFORMATION:

(A) A DESCRIPTION OF PROGRAM GOALS AND CRITERIA FOR MEASURING PROGRESS TOWARD REACHING THE GOAL. EACH PROGRAM SHOULD BE DESIGNED TO ACHIEVE MEASURABLE OBJECTIVES WITHIN A SPECIFIED PERIOD OF TIME.

(B) PROGRAM DESCRIPTION:

- (1) PROBLEM STATEMENT: WHAT ARE THE CHARACTERISTICS, EXTENT AND SEVERITY OF PROBLEMS THAT THE PROGRAM WILL ADDRESS.

(2) SPECIFICATION OF OBJECTIVES: CLEAR CONCISE STATEMENT OF SPECIFIC OBJECTIVES FOR EACH PROGRAM AND CRITERIA FOR MEASURING PROGRESS TOWARD REACHING OBJECTIVES. IF THERE ARE SEVERAL OBJECTIVES, INDICATE PRIORITIES.

(3) DESCRIPTION OF THE TARGET POPULATION BY PROGRAM, INCLUDING ECONOMIC/NUTRITION RELATED CHARACTERISTICS, THAT IS SUFFICIENT TO PERMIT A DETERMINATION OF RECIPIENT ELIGIBILITY FOR TITLE II COMMODITIES. DESCRIPTION OF THE EDUCATIONAL AND EMPLOYMENT CHARACTERISTICS OF THE TARGET GROUP, AS MAY BE RELEVANT TO PROGRAM OBJECTIVES. THE RATIONALE FOR SELECTION OF THE TARGET GROUP. THE RATIONALE FOR SELECTION OF GEOGRAPHICAL AREAS WHERE PROGRAMS WILL BE CARRIED OUT. CALCULATION OF COVERAGE: PERCENT OF TOTAL TARGET POPULATION REACHED.

(4) DESCRIPTION OF INTERVENTION INCLUDING:

- (a-) RATION COMPOSITION: DESCRIPTION OF RATIOS, RATIONALE FOR SIZE AND COMPOSITION, ASSESSMENT OF EFFECTIVENESS (YIELD, NUTRITION, ACCEPTANCE).

- (b-) COMPLEMENTARY PROGRAM COMPONENTS AND INPUTS: IDENTIFICATION OF EXISTING OR POTENTIAL COMPLEMENTARY PROGRAM COMPONENTS, I.E., EDUCATION, GROWTH MONITORING, TRAINING, ETC., THAT ARE NECESSARY TO ACHIEVE PROGRAM IMPACT, INCLUDING DETERMINATION OF FINANCIAL COSTS AND SOURCES OF FUNDING.

- (c-) INTERVENTION STRATEGY: DESCRIBE HOW THE FOOD AND OTHER PROGRAM COMPONENTS WILL ADDRESS PROBLEMS.

(5) LINKAGES WITH OTHER DEVELOPMENT ACTIVITIES, SUCH AS HEALTH OR AGRICULTURAL EXTENSION SERVICES: DESCRIBE SPECIFIC AREAS OF COLLABORATION RELATIVE TO PROGRAM

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-- (6) MONITORING AND EVALUATION: EVALUATION PLAN, INCLUDING DESCRIPTION OF INFORMATION TO BE COLLECTED FOR PURPOSES OF ASSESSING PROGRAM OPERATIONS AND IMPACT. DESCRIPTION OF MONITORING SYSTEM FOR COLLECTION, ANALYSIS AND UTILIZATION OF INFORMATION. PLANS FOR EVALUATION, AS WELL AS PLANS FOR CONDUCTING INTERNAL REVIEWS (211.5 (C)).

-- (7) TITLE II PROGRAMS ARE BASED ON THE ASSUMPTION OF TIME-LIMITED SUPPORT. THE PLAN OF OPERATION SHOULD COVER A MULTI-YEAR TIME FRAME, NORMALLY THREE TO FIVE YEARS. SUCH A PERIOD SHOULD ALLOW ENOUGH TIME FOR A PROGRAM TO BECOME FULLY OPERATIONAL AND TO PERMIT EVALUATION OF IMPACT AND EFFECTIVENESS AS WELL AS

SPECIFIC MEASUREMENT OF PROGRESS IN ACHIEVING THE STATED PROGRAM GOALS. PLANS FOR AND CONSIDERATIONS INVOLVING PHASE-OVER/PHASE-OUT SHOULD BE DISCUSSED.

(C) DETAILS OF HOST GOVERNMENT, COOPERATING SPONSOR AND OTHER NON-USG SUPPORT FOR THE PROPOSED PROGRAM, WITH SPECIFIC BUDGETARY INFORMATION ON HOW THESE FUNDS ARE TO BE USED (E.G. COMPLEMENTARY INPUTS, TRANSPORT, ADMINISTRATION). WHERE RELEVANT, DISCUSSION OF HOW RECIPIENT CONTRIBUTIONS ARE TO BE HANDLED.

(D) STATEMENT AS TO HOW THE REQUIREMENTS FOR PUBLIC RECOGNITION, CONTAINER MARKINGS, AND USE OF FUNDS SET FORTH IN 211.5 (E), (F) AND (I) BELOW, AND SECTION 211.6 (A) AND (B) WILL BE MET.

(E) A LOGISTICS PLAN THAT DEMONSTRATES THE ADEQUACY AND AVAILABILITY IN A RECIPIENT COUNTRY OF PORT FACILITIES, TRANSPORTATION AND STORAGE FACILITIES TO HANDLE THE FLOW OF COMMODITIES TO RECIPIENTS TO PREVENT SPOILAGE OR WASTE. A FURTHER AFFIRMATION MUST BE MADE AT THE TIME OF EXPORTATION OF THE COMMODITY.

(F) SUFFICIENT INFORMATION CONCERNING THE PLAN OF DISTRIBUTION AND THE TARGET GROUP OF RECIPIENTS SO THAT A DETERMINATION CAN BE MADE AS TO WHETHER THE PROPOSED FOOD DISTRIBUTION WOULD RESULT IN A SUBSTANTIAL DISINCENTIVE TO DOMESTIC FOOD PRODUCTION.

(G) DESCRIPTION OF THE METHOD TO BE USED TO SUPERVISE AND MONITOR THE DISTRIBUTION OF COMMODITIES.

(H) INFORMATION TO SHOW APPROVAL OF FOREIGN GOVERNMENT TO IMPORT THE DONATED COMMODITIES DUTY FREE.

4. THE AID AND PL 480 BUDGET AND PROGRAMMING CYCLES STRETCH OVER A LONG PERIOD MAKING IT DIFFICULT TO SMOOTHLY INTRODUCE NEW PROGRAM REQUIREMENTS SUCH AS THIS. HOWEVER IT IS OUR INTENTION TO MINIMIZE SUCH POTENTIAL DISRUPTION BY INSURING THAT ALL PROGRAM SPONSORS HAVE ADEQUATE TIME TO PREPARE AND PRESENT THEIR NEW PLANS OF OPERATION. THE NEW MULTI-YEAR PLAN OF OPERATION WILL BE REQUIRED FOR ALL REGULAR TITLE II PVO PROGRAMS AS PART OF THE SUBMISSION ALONG WITH THE AER TO THE USAID OR MISSIONS AND AID/WASHINGTON IN THE SPRING OF 1986 FOR FISCAL YEAR 1987 PROGRAM PROPOSALS. IN SUBSEQUENT YEARS, WHEN NEW MULTI-YEAR PLANS OF OPERATION ARE REQUIRED, THEY SHOULD BE PREPARED AND SUBMITTED FURTHER IN ADVANCE OF THE YEAR IN WHICH THEY ARE TO

BEGIN, IN ORDER TO PERMIT ADEQUATE TIME FOR SUBSTANTIVE REVIEW AND APPROVAL. IN ANY EVENT, WE WILL EXPECT OPERATIONAL PLANS TO BE SUBMITTED TO AID/WASHINGTON NO

LATER THAN THE MISSION ACTION PLAN COVERING THE FOLLOWING FISCAL YEAR'S PROGRAM. SINCE A MULTI-YEAR OPERATIONAL PLAN HAS BEEN APPROVED, ONLY AN UPDATING WILL BE REQUIRED ON AN ANNUAL BASIS, UNLESS THERE HAS BEEN A SIGNIFICANT CHANGE FROM THE APPROVED PLAN IN PROGRAM DIRECTIVES, METHODOLOGY, DESIGN OR MAGNITUDES. UPDATES SHOULD BE SUBMITTED EACH YEAR FOR REVIEW WITH THE AERS.

5. GENERALLY SPEAKING, THE RESPONSE TO EMERGENCY SITUATIONS USING TITLE II RESOURCES DOES NOT PERMIT THE SAME DEGREE OF DETAIL AND CERTAINTY OF ANALYSIS THAT WILL BE EXPECTED IN PLANNING TITLE II REGULAR NON-EMERGENCY PROGRAMS. HOWEVER, PLANS OF OPERATION ARE REQUIRED FOR ALL PVO EMERGENCY PROGRAMS ALONG WITH THE AER AND, EFFECTIVE IMMEDIATELY, THEY SHOULD BE PREPARED FOLLOWING THIS NEW FORMAT. ALL OF THE ABOVE BASIC ISSUES SET FORTH IN THE PLAN OF OPERATION FORMAT MUST BE ADDRESSED WHEN PROPOSING TITLE II EMERGENCY PROGRAMS AS WELL AS REGULAR NON-EMERGENCY PROGRAMS.

6. AID/W WILL REQUIRE THAT A FULLY DEVELOPED OPERATIONAL PLAN ACCOMPANY ALL TITLE II PVO PROGRAM REQUESTS FOR REGULAR OR EMERGENCY PROGRAMS. FVA/FFP WILL EXPECT ALL USAIDS AND/OR MISSIONS TO COMMENT ON THE SUBSTANCE AND ADEQUACY OF THE PVO OPERATIONAL PLANS WHEN SUBMITTED TO AID/W ALONG WITH A PROGRAM REQUEST AND TO ADDRESS THE PLAN'S RELATIONSHIP TO AND CONSISTENCY WITH THE MISSION'S COUNTRY DEVELOPMENT STRATEGY. THE INFORMATION IN THIS CABLE HAS BEEN PROVIDED TO THE PVO HEADQUARTERS. PLEASE PROVIDE COPIES TO THE LOCAL TITLE II COOPERATING SPONSORS. SQUALTZ

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FOOD AID BY FUNCTIONAL CATEGORIES

	GRANT ELEMENT	OCEAN FREIGHT PROVIDED	SALES/ MONETIZATION	LOCAL CURRENCY USE PROGRAMMING	POLICY REFORM COMPONENT	PRIVATE SECTOR FOCUS	TARGET COUNTRIES		TARGETTED TO VULNERABLE GROUPS
							RLDCs	Other	
Title I	Up to 65%	with waiver for extraordinary cases	100%	Optional	Optional	Sec. 106/108	75%	x	-
Title III	Loan forgiveness/ Title I debt postponed	with waiver for RLDCs	100%	required	required	-	x		-
Food for Progress	x	x	100%	prohibited	required	x	x	x*	-
Title II Structural Adjust. Program	x	x	partial	same as 201	required	-	x	x*	x
Section 201/PWD	x	x	partial	required: <u>only</u> for internal transport/ ancillary inputs	-	-	x	x	x
Section 206-G to G	x	x	100%	required	required	-	x	x*	-
Section 416	x	optional	partial	required: only for internal transport and uses to help needy	-	-	x	x	x
WFP	x	x	partial- 100%	flexible	under discussion	-	x	x	x
Sugar Quota	x	optional	100%	required	-	-		x	-

* As secondary consideration