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**AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523**

PROJECT MEMORANDUM

**NEW INDEPENDENT STATES: FOOD SYSTEMS RESTRUCTURING
(110-0006)**

Authorized: May 5, 1992

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Food System Restructuring
No. 110-0006

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

APR 24 1992

ACTION MEMORANDUM FOR THE DIRECTOR, NIS TASK FORCE

FROM: NIS, Barbara Turner *BT*

SUBJECT: Authorization of the Food Systems Restructuring Project
(110-0006)

PROBLEM: Your approval is required to authorize the Food Systems Restructuring Project. Total planned life-of-project funding is \$25.0 million of which \$6.0 million is immediately available for obligation. However, at this time you are being asked to authorize only \$3.75 million, which is the amount required to finance the one element of the project which is immediately ready to be implemented - the Armenia Agricultural Extension Collaboration Program (AAEC).

You will be asked to sign a Project Authorization Amendment authorizing the balance of the funds required for implementation of the entire project (\$21.25 million) when all design and development work associated with the project is completed.

The Armenia Agricultural Extension Collaboration (AAEC) Program will be implemented by the U.S. Department of Agriculture. Of the funds you are herewith being asked to authorize, \$1.245 million will be immediately transferred to the USDA under terms of a 632 (b) Inter-Agency Agreement. The funds will finance the first year of operations of an anticipated three year effort. A.I.D. and the USDA will discuss directly providing the funds needed to finance activities to occur during years 2 and 3 (i.e., \$2.505 million), consistent with the general guidance of OMB, key committees on the Hill, and the NIS Coordinator. The project assistance completion date (PACD) for the Food Systems Restructuring Project will be four years from the date of first obligation of funds under the project.

BACKGROUND: The purpose of the Food Systems Restructuring Project (110-0006) is to help ameliorate food shortages problems being faced by the peoples of the New Independent States (NIS) while at the same time facilitating and accelerating the emergence of market-based food production and distribution systems. A number of efforts will be mounted under the project, one of which is the Armenia Agricultural Extension Collaboration Program (AAEC).

The objective of the AAEC Program is to support initial efforts aimed at creating an extension service within Armenia's Ministry of Agriculture that is capable of providing useful service in a market-based agricultural sector. Need for this program has been expressly and frequently articulated by leaders of both the executive and legislative branches of Armenia's government who realize that they have only begun the transition to a market economy.

They understand clearly that a strong and dynamic private agriculture and agribusiness sector will be crucial to their overall economy and understand also that an effective extension service is necessary for the accelerated development of a sound, market-based agricultural sector. They are willing to commit all resources necessary and available to assure the success of this effort.

DISCUSSION: Funds herewith being authorized will finance an anticipated three year program of technical assistance to Armenia's Ministry of Agriculture. Assistance will be provided in a range of organizational development, policy, and technical areas. In the area of organizational development, assistance will be provided on such matters as the mission, structure, and staffing of the Extension Service. Policy advice will be provided on matters centering on the legal framework for commercialization of agriculture and agribusiness. Specific technical issues to be addressed will be: salinity problems in the Ararat Valley, vegetable variety selection, dairy breeding, and post-harvest handling of crops.

Much of the assistance provided during the first year of the effort will be geared toward the identification of steps that can be taken immediately that could result in increased availability of staple foods, and in the implementation of programs aimed at assisting producers and handlers of those foods to take those steps.

The technical assistance will be provided through a mix of long-term and short-term advisors. At this point, plans are to provide the following:

- a long-term Senior Extension Advisor, who will be resident in Yerevan, and who will provide advice primarily on organizational development matters;

- a long-term Agricultural Policy Program Specialist, also resident in Yerevan, who will focus on policy issues;

- four 2-person teams of Technical Specialists with expertise in the technical areas mentioned above which will each make several visits to Armenia to advise on their areas of specialty. Up to three months of service could be provided by each team each year;

- four small "Action Teams" made up of Extension Specialists, American farmers, and agribusiness executives who will focus on providing advice and assistance on specific actions that can be taken to increase availability of four staple crops. Up to 4-6 weeks of service could be provided by these teams each year;

- eight 2-person Regional Field Teams, each of which will be assigned to one of Armenia's 38 regions for six months, and focus on the development of Extension Service capabilities in those areas. Two of the teams will be deployed in the first year of the project. Three teams will be deployed in each of the following years.

Some limited U.S. training may also be provided.

All technical assistance and training made available under this program will be provided through, and managed by, the U.S. Department of Agriculture (USDA). Additional detailed information about the program is provided in the attached USDA document entitled "Proposal for Extension Collaboration in Armenia, March 1992" (Tab A).

BUDGET SUMMARY:

	year 1	LOP
1. Senior Extension Advisor	\$180,000	\$540,000
2. Ag. Policy Prog. Spec.	\$140,000	\$420,000
3. Admin. Support (field)	\$ 9,000	\$ 27,000
4. Action Teams	\$ 46,000	\$138,000
5. Tech. Spec. Teams	\$325,000	\$975,000
6. Reg. Field Teams	\$230,000	\$690,000
7. Other TDY & US training	\$125,000	\$390,000
8. Backstopping/Admin.	\$190,000	\$570,000

Total \$1,245,000 \$3,750,000

DESIGN AND REVIEW PROCESS: The project subactivity attached as the USDA Program Proposal was originally developed by the International Program Staff of the Extension Service of the U.S. Department of Agriculture in response to an announcement for such a program by President Bush in late 1991. While no formal interagency review meeting was held on this subactivity of the Food Systems Restructuring Project, informal approval for it was received from all agencies concerned. The subactivity in all other ways meets A.I.D. regulations and policies. A full Project Memorandum describing the overall project is presently being prepared. That document will be formally reviewed and approved using established procedures for NIS project approvals.

The project Memorandum will clearly show the role of the USDA Extension Service subactivity in supporting the attainment of overall project objectives.

CONGRESSIONAL NOTIFICATION: The CN for the overall Food Systems Restructuring Project (110-0006) expired on 21 March 1992. A copy is attached at Tab B.

SOURCE AND ORIGIN AND NATIONALITY: Goods and services procured under the project shall have their source and origin in the United States (000) for foreign exchange costs or in the cooperating country for local currency costs. A formal determination under Section 604(a) of the Foreign Assistance Act of 1961, as amended, was approved March 30, 1992 by the Deputy Secretary of State to remove the states of the NIS from the category of non-Free World Countries (Tab C). Local procurement within one of the NIS will be conducted in accordance with Chapter 18 of A.I.D. Handbook 1B.

ENVIRONMENTAL CONSIDERATIONS: The program is predominantly a technical assistance effort associated with the establishment and strengthening of Armenia's Agricultural Extension Service. It is not anticipated that the program will have any significant impact on the environment. Programs of this nature are generally categorically excluded from environmental examination under 22 CFR 216 Environmental Procedures, Section 216.2 (c) (1) (i) and (c) (2) (i). All funds for this program are to be transferred to the USDA using established transfer procedures. As such, environmental protection procedures of the USDA will apply to this program. An IEE certification covering this program is attached for your signature (Tab D).

AVAILABILITY OF FUNDS: A total of \$6,000,000 is currently available for obligation for the Food Systems Restructuring Project. A total of \$3,750,000 of those funds will be authorized at this time for this program. Of this amount, \$1,245,000 will be immediately transferred to USDA via a 632 (b) Inter-agency Agreement (IAA) for their use in implementing the first year of activities under the program. Funds for activities to occur during years 2 and 3 of the program will be transferred to the USDA as sufficient funds become available for obligation.

IMPLEMENTATION DETAILS:

Monitoring. Overall supervision and monitoring of this program will be the responsibility of the A.I.D. project officer for the Food Systems Restructuring Project (NIS Task Force). Project implementation will be the responsibility of the USDA, which will submit periodic reports to A.I.D. on the status of these activities. Monitoring will be generally conducted from Washington and will be based upon field reports from USDA personnel working on the program, and upon reports from State Department and A.I.D. personnel posted in or visiting Armenia.

Quarterly reports will be required from the USDA. Project Implementation Reviews will be conducted by A.I.D. on a semi-annual basis for the Food Systems Restructuring Project, and this program will be reviewed as part of that effort. Periodic field assessments will be undertaken as necessary.

Evaluation. The USDA will conduct evaluations of the program as prescribed by USDA policy. Also, this activity will be evaluated as part of the Food Systems Restructuring Project when evaluations of that project are conducted.

Audit. The IAA executed under this project will provide that audit and inspection requirements as set forth in the Inspector General Act of 1978, as amended, shall apply. A.I.D.'s IG shall ensure full compliance with all applicable provisions of the act. In addition, appropriate audit rights will be provided for in an agreement between the USG and Armenia as noted below with respect to taxes.

Host Country Duties and Taxes. A Circular 175 authorization was obtained from the Deputy Secretary of State on February 4, 1992 permitting negotiation of U.S.-NIS states agreements covering these matters (Tab E). Negotiations should commence shortly. These written arrangements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. The written agreements will ensure, inter alia, that A.I.D. funds are not used to pay host country duties or taxes, that site inspections by the IG may be made, and that A.I.D.-financed commodities will be used only for project purposes.

STATUTORY CHECKLIST(S): State completed a checklist for all states of the NIS, except Georgia, on 17 January 1992 and 27 February 1992. Copies of those classified documents are on file in OPS/NISTF. Assistance may be extended to Georgia in the near future; however, this will be done only after a checklist is completed and after "taking into account matters" are reviewed and approved by the Administrator specifically for that state.

Because certain states of the former Soviet Union are indebted to U.S. citizens, the Secretary of State issued a 620(c) determination on 20 January 1992 allowing program activities to proceed based on national security considerations. The determination is attached at Tab F.

All "taking into account" matters were reviewed and approved by the Acting Administrator on March 27, 1992 (Tab G). One matter needed consideration. It was that, pursuant to FAA Section 620(1), OPIC has initiated negotiations but has not yet executed investment guaranty agreements with any of the NIS states (including Armenia) to whom we plan to render assistance, but that, under the circumstances, assistance should be permitted to flow to the NIS.

AUTHORITY: The Secretary of State signed a Section 620(f) determination (tab H) to permit assistance for the states of the former Soviet Union on 10 September 1991. You have authority to authorize this project pursuant to Interim Reorganization delegation of Authority No. 10, dated March 30, 1992 (Tab I).

RECOMMENDATION: That you : a.) sign this memorandum in the space indicated below thereby authorizing the Food Systems Restructuring Project (No. 110-0006) and, b.) sign the attached Initial Environmental Examination Certification thereby indicating your approval of that document.

Approved: _____

Malcolm Banta

Disapproved: _____

Date: _____

MAY 5 1992

Attachments:

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Clearances (Project no. 110-0006)

GC/: TGeiger [Signature]
 OPS/NIS/FM: INesterczuk [Signature]
 OPS/NIS: HJohnson [Signature]
 OPS/NIS: MKorin [Signature]
 OPS/NIS: PO' Farrell [Signature]
 OPS/NIS: BTurner [Signature]
 OPS/NIS: ~~Derogant~~ [Signature]

Date 4/24/92
 Date: 4/24/92
 Date: 4/29/92
 Date: 2/28/97
 Date: 4/29/92
 Date: 4/20/92
 Date: _____

STATE:

D/CISA: KVolker [Signature]

Date: 4/24/92

drafted: NISTF, CEFields 4/28/92

**U.S. AGRICULTURAL ASSISTANCE
TO THE
COMMONWEALTH OF INDEPENDENT STATES**

**U.S. Department of Agriculture in Cooperation with the
U.S. Department of State and the Agency for International Development**

PROJECT PROPOSAL

FOR

EXTENSION COLLABORATION

IN

ARMENIA

MARCH 1992

**Prepared by the International Programs Staff of the
Extension Service, United States Department of Agriculture**

EXTENSION COLLABORATION IN ARMENIA

Summary

Armenia is in the midst of a major transition to a democratic political system and a market economy. Armenia has traditionally been a food deficit country. It is currently cut off from its normal CIS trading partners by armed conflicts in Georgia and with Azerbaijan. Armenia has also lost access to the hard currency formerly available through the centralized banking system in Moscow. As a consequence of these factors, food aid has been needed and is currently being supplied by the United States.

Armenia is the first of the CIS republics to successfully implement a land privatization program. Most agricultural prices have also been "freed." It needs and wishes to follow up these reforms with a commercialization of the agribusiness sector—a much more difficult and complicated process. Armenia's Ministry of Agriculture (MOA) is also being restructured to function in a market economy. As a part of this process the role, functions, organization and staffing of the Ministry's field structure, which interfaces with farmers at the local level, is being critically reviewed.

In October of 1991 Secretary of Agriculture, Edward Madigan, headed an assessment team, including Under Secretary Richard Crowder, to determine how USDA could cooperate most effectively with CIS republics during the transition period. They subsequently asked the Extension Service (ES), USDA, to pursue the possibility of collaborating with the MOA. In January 1992 an Extension Team went to Armenia and recommends that ES cooperate with the MOA and others to:

- o assist in developing legislation, policies and regulations for commercializing the agribusiness sector;
- o facilitate American and Armenian agribusinesses interested in opportunities for joint ventures, investments, and trade;
- o provide advice concerning the MOA's structure and field staff;
- o plan and develop an Extension Service;
- o address specific high priority technical issues;
- o assist regional MOA structures to develop Extension capabilities, address production constraints, and enable farmers to operate successfully in a free market economy; and
- o determine specific actions that can be taken immediately to increase production and retail availability of staple foods for consumer consumption in 1992.

I. PROPOSAL DESCRIPTION

ES, in collaboration with the Armenian MOA, proposes the following project activities:

National Level

ES will provide a Senior Extension Advisor and a Public (Agricultural) Policy Program Specialist to work with the Ministry of Agriculture or his designee in Yerevan as soon as project approvals and administrative procedures permit. These persons will be available to the Ministry for one year initially with the possibility of extensions for up to 3 years.

The Senior Extension Advisor will work collaboratively with Ministry of Agriculture officials, other appropriate Armenian Ministries, research institutes, legislative committees and private sector organizations to:

- o Provide advice and counsel on development, mission, organizational structure, staffing, policy issues, management and program priorities for Armenia's Extension Service.
- o In cooperation with the Minister or his designee, manage and coordinate U.S. in-country efforts to assist in developing Armenia's Extension Service.
- o As requested, provide advice and counsel to Ministry officials, legislative committees and others on a variety of agricultural issues and policies related to Armenia's transition to a market economy, including the organization and functions of the Ministry.
- o Support and facilitate in-country development activities of other USDA agencies and other U.S. Government agencies.
- o Coordinate U.S. in-country agricultural development efforts with other donor countries and development agencies such as The World Bank, EC, OECD, and FAO, and with private sector organizations such as the Armenian Assembly of America and the Armenian General Benevolent Union.

The Public (Agricultural) Policy Program Specialist:

- o Provide advice and counsel to the Ministry of Agriculture, legislative committees, and others on the legal framework for commercialization and agribusiness development in a market economy.

- o **Assist in the development of Extension training materials and programs in the area of commercialization, agribusiness development, farm management and marketing.**
- o **Act as a liaison between American and Armenian business people interested in opportunities for joint ventures, investments, trade and other cooperative activities.**

Specific Technical Issues

ES will provide for four highly specialized research and Extension teams during 1992 and 1993 to address specific high priority technical issues, namely:

- o **Salinity problems in the Ararat Valley**
- o **Vegetable variety selection, production and management (especially tomatoes, cucumbers and peppers including greenhouse production)**
- o **Dairy breeding, production and management**
- o **Post harvest losses and needs for low-cost storage, distribution and wholesale marketing**

One research scientist and one Extension specialist will be needed for each team. These teams will, in collaboration with Armenian Ministry of Agriculture cooperators:

- o **Assess the situation and define specific problems.**
- o **Plan site-specific trials and demonstrations, if necessary.**
- o **Develop training materials and Extension programs to promote adoption of new technologies, recommendations, and approaches.**

Teams will make initial visits of 2 to 4 weeks to assess the situation, define specific problems, and develop a plan of work with their Armenian counterparts. Teams will spend up to three months active effort during 1992 and 1993 to carry out these plans of work.

Regional Teams

Beginning in January of 1993, ES will provide two-person Extension field teams in two of Armenia's 38 Regions for 6 months. These teams will work collaboratively with Regional officials of the MOA to provide training, technical expertise and assistance to:

- o Develop local Extension mission, organization, staffing, training, programs, and operations.
- o Involve local leaders and Extension clientele in program development and implementation.
- o Provide subject matter training to local Extension staff, selected farmers and/or agribusiness managers in farm management, marketing, agricultural economics and the development and management of local, small scale agribusiness input, processing, distribution and marketing firms.
- o Conduct training programs to develop subject matter competence and demonstrate teaching and adoption methods relating to production constraints in the local area.

Three additional sets of Extension Field Teams will be provided for 6 months each in 1993 and 1994.

1992 Action Teams

ES will provide 1992 Action Teams in four areas made up of Extension Specialists, American farmers, and agribusiness executives to determine specific actions that could be taken immediately to increase production and retail availability of these staples for consumer consumption in 1992.

These Teams will spend 1 to 2 weeks in Armenia to pinpoint production and other constraints to increased availability of these specific commodities. Each Team will be expected to develop an Action Plan which could be implemented in 1992.

The interventions described in sections A to C above can be expected to have a significant impact on food availability in Armenia during the 1993 growing season.

The specific technological interventions described in this section could result in dramatic, though moderate, increases in food availability in 1992. ES will focus these efforts on a limited number of staples that are widely grown and consumed in Armenia, including potatoes, vegetables, (tomatoes, peppers and cucumbers), milk, and eggs.

Others

As needed, ES will provide other personnel for short-term technical assistance or will provide short-term practical training experiences for Armenian counterparts in the United States.

II. RATIONALE

Armenian leaders in both the government and the legislature realize that they have only begun the transition to a market economy. They are serious about successfully completing this transition and are willing to dedicate resources at their disposal to this effort. They realize that they are embarking on what for them are uncharted seas, and actively seek our technical assistance and advise, especially in addressing the agricultural aspects of the following needs:

- o Major national reforms that need to be addressed include further price reforms, development of a monetary and fiscal policy, a credit and banking system and further development of the legal framework to allow privatization and commercialization of state industries. Control of inflation and a stable and convertible currency will develop trust in the system domestically and abroad. Without these reforms, progress towards a stable, market-oriented economy will be difficult.
- o Agricultural reform strategies are needed to initiate the evolution of a working agricultural system. This will require changes in agricultural policy that will impact how the agricultural infrastructure functions. Reforms will need to address the issues of economic literacy, utilization of resources and technology, and a system for financing agriculture and the transition to and mix of public/private resource ownership.
- o Working linkages and communication must be established within and between sectors of the Armenian agricultural production, processing and marketing infrastructure. This includes linking privatization with commercialization in the development process. An associated data collection and analysis system must be developed for policy-making and individual decision-making. Western linkages with private sector agribusiness needs to be established in this transition process toward a sustainable food production system.
- o Agricultural research must examine its organizational structure and modify it to allow for integration between institutes and with Extension. A priority setting process is needed. Financing policy and strategies and an accountability process is needed. Private/public sector responsibilities need to be defined.
- o An Extension system is needed in Armenia to provide a sound knowledge and information base for farmer decision-making. Farmers need to improve their skills to be competitive in a free market economy. Agribusiness needs Extension assistance in financial planning and business management skills. U.S. farmers and agribusiness linkages with Extension specialists would accelerate positive outcomes.

III. IMPLEMENTATION

ES Washington-based staff will provide overall policy coordination, planning, program backstopping and recruitment for the project. The ES' Senior Extension Advisor in Yerevan will work closely with Armenia's First Deputy Minister of Agriculture to manage and coordinate in-country implementation. Close coordination will be maintained with Armenia's Ministry of Food Products, Ministry of Trade, Agricultural Research Institutes, the Agricultural Committee of Armenia's legislature, the Armenian General Benevolent Union, the Armenian Assembly of America, any private agricultural association that may emerge, other USDA agencies and other A.I.D. sponsored organizations with projects or programs in Armenia, and other international donors and agricultural development agencies operating in Armenia. Limited administrative support will be needed in-country from the U.S. Embassy.

IV. PROJECT PARTICIPANT IDENTIFICATION

Procedures for selecting in-country participants will be developed jointly by the First Deputy Minister of Armenia's MOA and ES's Senior Extension Advisor.

V. RESOURCES REQUIRED

Funds required for the project as currently planned are \$1.25 million a year for three years for a life-of-project total of \$3.75 million. A detailed budget for the first year is attached.

VI. FOLLOW-UP

Specific follow-up plans have not been developed beyond the project's third year. Any needed follow-up plans would be developed collaboratively by the First Deputy Minister of Armenia's MOA and ES's Senior Extension Advisor.

VII. KEY CONTACTS

Armenia

Gagic Harutunian
Prime Minister, Republic of Armenia

Policy Guidance

Gagik Shahbazian
State Minister of Agriculture

Program Coordination

Vladimir Abrahamian
First Deputy Minister, MOA

Program Administration

U.S.

Richard R. Rankin
Deputy Administrator, Management
Extension Service, USDA

Policy Guidance

Earl Teeter
Program Leader, International Programs
Extension Service, USDA

Program Management

Senior Extension Advisor
(To Be Named)

In-country Program
Administration

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EXTENSION COLLABORATION IN ARMENIA

FIRST YEAR BUDGET

1. <u>Senior Extension Advisor</u>	\$180,000
Salary, Benefits and Post Differential	130,000
International Travel	6,000
Transfer Costs	20,000
In-Country Benefits	10,000
Office Costs and Local Travel	14,000
2. <u>Public Policy Program Specialist</u>	140,000
Salary, Benefits and Post Differential	96,000
International Travel	6,000
Transfer Costs	20,000
In-country Benefits	10,000
Office Costs and Local Travel	8,000
3. <u>Office Manager</u>	9,000
Salary and Benefits	6,000
Office Costs and Local Travel	3,000
4. <u>1992 Action Teams</u>	46,000
Salary and Benefits	10,000
Travel and Per Diem	36,000
5. <u>Specialized Technical Teams (4)</u>	325,000
Salary and Benefits	140,000
Travel and Per Diem	155,000
In-Country Operations	30,000
6. <u>Field Teams (2)</u>	230,000
Salary, Benefits and Post Differential	160,000
International Travel	12,000
Per Diem	40,000
Office Costs and Local Travel	18,000
7. <u>Other TDY's and U.S. Training</u>	125,000
Salary and Benefits	42,000
International Travel	45,000
Per Diem	38,000
8. <u>Backstopping and Administration</u>	190,000
TOTAL	\$1,245,000

MAR 6 1992

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AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY: New Independent States Regional
PROJECT TITLE: Food Systems Restructuring
PROJECT NUMBER: 110-0006
FY 1992 CP REFERENCE: None
APPROPRIATION CATEGORY: Economic Support Fund (ESF)
LIFE-OF-PROJECT FUNDING: \$25,000,000 ESF Grant
INTENDED FY 1992 OBLIGATION: \$6,000,000 ESF Grant

This is to advise that A.I.D. intends to obligate \$6,000,000 for the Food Systems Restructuring Project in the new independent states (NIS) region of the former Soviet Union as follows: \$1,750,000 in FY 1991 Economic Support Fund (ESF) carryover grant funds previously planned for Pakistan, and \$4,250,000 in FY 1992 ESF grant funds. This is a new project which was not included in the FY 1992 Congressional Presentation. Life-of-project funding for this four-year effort will be \$25,000,000.

The purpose of the project will be to increase the efficiency of the food system from the farm gate to the consumer. This will be accomplished by strengthening the ability of entrepreneurs and governments of the new independent states of the former Soviet Union to operate a restructured, open market agricultural input and food distribution system in the agricultural sector.

Annex: Activity Data Sheet

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**AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET**

PROGRAM: New Independent States Regional

CP 81-05 (4-88)

TITLE Food Systems Restructuring		FUNDING SOURCE Economic Support Fund	PROPOSED FUNDING (in thousands of dollars)		
NUMBER 110-0006		PRIOR REFERENCE None	FY 92	6,000	LIFE OF PROJECT (year) 25,000
GRANT <input checked="" type="checkbox"/>	LOAN <input type="checkbox"/>		INITIAL OBLIGATION FY 92	ESTIMATED FINAL OBLIGATION FY 95	ESTIMATED COMPLETION DATE OF PROJECT FY 96
NEW <input checked="" type="checkbox"/>		CONTINUING <input type="checkbox"/>			

Project Purpose: To increase the efficiency of the food system from the farm gate to the consumer.

Background: The dramatic collapse of the Soviet Union presents an historic opportunity for a transition to a more peaceful and stable international order and the gradual integration of the new independent states (NIS) into the community of democratic nations. The United States has a vital interest in the success of this transition. Based on a series of action plans developed in conjunction with the January 1992 Coordinating Conference held in Washington, an initial A.I.D. program for the region has been developed. It has six objectives: to encourage free market economic systems; promote democracy; meet urgent humanitarian needs; convert defense-oriented economies; promote bilateral trade and investment; and increase the efficiency of the energy sector in the new states. This project is a principal component of this program.

The agricultural sector of the NIS is composed of large state monopolistic enterprises with the commodities "owned" by the state. Most are inefficient because priority was given to meeting political or social rather than economic objectives. This inefficiency has had a significant negative impact on the food production, distribution and delivery systems. It is even estimated by some that the land has undergone significant degradation, and losses in the food chain are estimated to be as high as 60 percent for some commodities. Changes are needed to foster open markets and private enterprises in order to increase output and efficiency in the agricultural sector. These changes will also increase international trade and investment as well as increased market opportunities for U.S. agribusinesses.

Project Description: Technical assistance and training will be provided to host-country public and private entities involved in agricultural production, storage, processing, distribution and marketing. Support will go primarily to the private sector, including agribusinesses, cooperatives and farms. Priority areas initially include agricultural policy reform, food and agricultural inputs distribution and marketing, privatization, and environmental concerns.

The program will be implemented through technical assistance grants and contracts and agreements with other U.S. Departments and organizations, U.S. agribusiness firms and cooperatives, private voluntary organizations and universities.

Relationship of Project to A.I.D. Strategy: Democratic, market-oriented economies are a major U.S.G. policy objective in the states of the NIS with agriculture as a priority sector.

Beneficiaries: The direct beneficiaries will be those individuals, firms and government agencies that receive technical assistance and training. The ultimate beneficiaries will be the general population who will have greater choice of food commodities, lower prices and higher quality products through price competition and the resulting increased output and efficiency of the food system.

Host Country and Other Support: The activities under this project will be closely coordinated with the host governments and other donors providing similar or related assistance.

A.I.D.-Financed Inputs	Life of Project (000)
Technical Assistance	14,000
Training	9,000
Commodities	2,000
Total	25,000

U.S. FINANCING (in thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Outlays	Expenditures	Unobligated	
Through September 30, 1991	-	-	-	
Estimated Fiscal Year 1991	-	-	-	
Estimated Through September 30, 1991	-	-	-	
Proposed Fiscal Year 1992	6,000	Future Year Obligations 19,000	Estimated Total Cost 25,000	

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New Independent States
Food Systems Restructuring 110-0006

clearances:

DAA/EUR: DMerrill DM date: 2/6/92
GC/EUR: HMorris HM date: 3/4/92
R&D/TF: BTurner (draft) date: 02/21/92
EUR/OSA: PO'Farrell (draft) date: 02/18/92 3/5/92
EUR/DR: RAnthony (draft) date: 02/03/92
EUR/PDP: SSmith (draft) date: 02/05/92
GC/LP: RLester (draft) date: 02/05/92
EUR/PD: RFanale (draft) date: 02/05/92
EUR/RME/FM: BBrockie (draft) date: 02/04/92
FA/B: LLeDuc (draft) date: 02/05/92
EUR/OSA: JWiles (draft) date: 02/03/92
EUR/OSA: EKvitashvili (draft) date: 02/03/92

ST:D/EEA: CRufenacht CR date: 2/6/92
ST:EUR/ISCA/E: KVolker (draft) date: 02/25/92

drafted: EUR/FSD: JSnell, 1/31/92: 77201

EUR/PDP: EBailly: 76919: CN Coordination

cc-FA/B: JPainter

03/03/92



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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT S/S *P. 24*
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TO: The Deputy Secretary

THROUGH: T - Reginald Bartholomew
 DA/A.I.D., Mark L. Edelmann

FROM: PM - Richard A. Clarke
 DD/POL, Larry Sailer

SUBJECT: Use of Foreign Assistance Act Funds for Procurement
 in Former Soviet Republics

ISSUES FOR DECISION

Whether to conclude that certain former Soviet Republics should no longer be considered as "non-Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 Presidential determination.

ESSENTIAL FACTORS

On October 31, 1991, you approved a determination that Eastern European countries and Mongolia should no longer be considered as "non-Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 determination by President Kennedy. The decision memorandum is attached at Tab A.

Your October determination recognized that certain countries, including the Soviet Union, would continue to be excluded from procurement eligibility. (The other countries were Afghanistan, Libya, Vietnam, Cuba, Cambodia, Laos, Iraq, Iran, North Korea, Syria, and the People's Republic of China). Your determination also recognized that, if warranted by changed conditions with respect to any of these countries, A.I.D. would seek a similar foreign policy determination from the Department.

In view of the break-up of the Soviet Union, the U.S. Government has taken a number of steps to support a peaceful transition toward democratic institutions and market economies in the former Soviet Republics. The President on December 25th proposed conducting full diplomatic relations with Russia, Ukraine, Armenia, Byelarus, Kazakhstan, and Kyrgyzstan; and assistance activities (primarily technical and humanitarian

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A. Agency for International Development
Washington, D.C. 20523

TAB-A

ACTION MEMORANDUM

~~LIMITED OFFICIAL USE~~
(Recontrol 10-1-52)

Controlled
11/27/41

TO: The Deputy Secretary
THROUGH: T-Reginald Bartholomew
BA/A.I.D., Mark L. Edel
FROM: PM-William F. Rops, Acting
D/POL, Larry Sifers, Acting
SUBJECT: Use of Foreign Assistance Act Funds for Procurement
in Eastern European Countries and Mongolia

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OCT 1961
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HAS SEEN

ISSUES FOR DECISION

Whether to conclude that certain countries should be considered as "Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 Presidential determination.

ESSENTIAL FACTORS

Section 604(a) of the Foreign Assistance Act of 1961 prohibits use of foreign assistance funds for procurement outside the United States unless the President determines that "such procurement will not result in adverse effects upon the economy of the United States or the industrial mobilization base ...". On October 18, 1961, President Kennedy made a Determination pursuant to Section 604(a) to permit procurement from sources outside the United States where the procurement is less costly than procurement from United States sources. This 1961 Determination authorized procurement from "less developed countries" generally and, under specific circumstances, from selected industrialized countries. (See Tab A)

¹ This prohibition covers other Foreign Assistance Act procurement as well as A.I.D.-financed procurement, military and counter-terrorism procurement. In practice, however, it has at most a negligible effect in these other areas.

~~LIMITED OFFICIAL USE~~

Controlled
11/27/41

~~RESTRICTED OFFICIAL USE~~ Kenneth S. Zurb
4/27/91

President Kennedy specified, however, that "Procurement outside the United States shall be from Free World sources, in any case." "Free World" has long been construed by A.I.D. to exclude all countries listed in the Foreign Assistance Act as "communist" (Section 620(f)), including the People's Republic of China, Cuba, Vietnam, the Soviet Union, the Baltic Republics, Mongolia, and all the countries of Eastern Europe, with the exception of Yugoslavia.

The characterization of a number of these countries as "non-Free World" for purposes of Section 604(a) no longer makes sense in view of their status as emerging democracies and recipients of A.I.D. assistance. In this category we place Poland, Hungary, Czech and Slovak Federal Republic, Bulgaria, Romania, Albania, Mongolia, and now the Baltic Republics. We recommend that you concur that these countries should no longer be considered as "non-Free World" within the meaning of President Kennedy's determination. This will allow them to participate as eligible sources for A.I.D.-financed procurement, as appropriate.

A.I.D. would continue to exclude certain countries from procurement eligibility because of their status under the anti-terrorism statutes and for other foreign policy reasons. The countries that would remain excluded are Afghanistan, Libya, the Soviet Union, Vietnam, Cuba, Cambodia, Laos, Iraq, Iran, North Korea, Syria, and the People's Republic of China. If warranted by changed conditions with respect to any of these countries, A.I.D. would seek a similar foreign policy determination from the Department, at the level of Under Secretary for International Security Affairs, with respect to the procurement eligibility of that country.

President Bush has delegated to the Secretary of State the authority to make determinations under Section 604(a) with respect to "procurement under Chapter 1 of Part I and Chapter 4 of Part II of the Act" (FAA Development Assistance and Economic Support Fund accounts). (See Executive Order 12738 of December 14, 1990, Section 3(3), amending Executive Order 12163). Such authority has been redelegated to the Under Secretary for International Security Affairs with respect to programs under Part II of the Act (State Dept. Delegation of Authority No. 145, Section 1(a)(1)), and may also be exercised by you (Section 4(d)). Although that delegation is not, technically, needed in order for you to agree with our proposed interpretation of the existing Presidential Determination, it is consistent with such action.

~~RESTRICTED OFFICIAL USE~~

Controlled
Kenneth S. Zurb

4/27/91

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Clearances:

State/D/EEA:RBarry (Draft) date 9/30/91
State/L/PH:ECummings(Draft) per S.Murphy date 9/25/91
State/S/CT:MKraft (Draft) date 10/01/91
State/D/P&R:RBauerlein (Draft) date 9/30/91
State/EUR/EY:SByrnes (Draft) date 10/15/91
State/EAP/CH:RPerito (Draft) date 10/01/91
State/EA/IFD/ODF,LMoriarty (Draft) date 10/01/91
State/INH:JvanWert (Draft) date 10/01/91
AID/GC:(Acting):TGeiger (Draft) date 9/27/91
AID/AA/ENE:CAdelman (Draft) date 10/15/91
AID/AA/FA,(Acting):JOvens (Draft) date 9/25/91
AID/MS/PPE:JMURPHY (Draft) date 9/25/91
E:RFauver

Db

cc (w/attachment): A/A.I.D., Ronald W. Roskens

GC/CCM:XFries:cac:1/14/91:PDFAAP(WordPerfect):EXT. 78332

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Title 3—THE PRESIDENT.

**Memorandum of October 10,
1961**

**DETERMINATION UNDER SECTION
601(a) OF THE FOREIGN ASSIST-
ANCE ACT OF 1961**

**Memorandum for the Secretary of State
The White House,
Washington, October 10, 1961.**

Section 601(a) of the Foreign As-
sistance Act requires that:

Funds made available under this Act may be used for procurement outside the United States only if the President determines that such procurement will be: such in advance of the economy of the United States or the industrial mobilization base with special reference to any area of labor surplus or to the net position of the United States in its balance of payments with the rest of the world, which outweighs the economic or other advantages to the United States of any early procurement outside the United States, and only if the price of any commodity procured is not lower than the market price prevailing in the United States at the time of procurement, adjusted for discounts in the case of transportation to destination, quality, and terms of payment.

This section requires that procurement outside the United States using funds available under the Foreign Assistance Act of 1961 may be undertaken only if I determine that, on balance, there is no net detriment to the United States. It is clear and fundamental agreement with this principle, and trade and foreign policy objectives which I have repeatedly endorsed, including my message on the balance of payments of February 6, 1961, already substantially provide this assurance.

As I indicated in that message, "our foreign economic assistance programs are now being administered in such a way as to place primary emphasis on the procurement of American goods . . . This restriction will be maintained until reasonable overall equilibrium has been achieved." Under this policy, which is embodied in force by my deter-

mination below, the preponderant bulk of foreign assistance procurement will be made in the United States. The security for this is clear: such procurement will contribute generally towards resolving our balance of payments difficulties, and also helps stimulate interest in labor surplus areas.

On the other hand, trade and foreign policy objectives and assistance program goals require limited amounts of procurement outside the United States. Some commodities needed in our assistance programs are not produced in the United States or are not available in the quantities required at the time needed. Procurement from less developed countries, as provided below, is hereby authorized in the exercise of the President's authority under the Foreign Assistance Act of 1961. Procurement of material outside the United States is necessary, in some instances, to carry out projects important to our national security.

Therefore, I hereby direct that funds made available under the Foreign Assistance Act of 1961 for non-military programs not be used for procurement from the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Hong Kong, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, and United Kingdom. Upon consultation by the Secretary of State, however, that inclusion of procurement in these countries would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, the Secretary of State may authorize specific exceptions which involve procurement in the excluded countries.

I also hereby direct that funds made available under the Foreign Assistance Act of 1961 for military assistance programs not be used for procurement outside the United States except to procure items required for military assistance which are not produced in the United States, to make local purchases for administrative purposes, and to use local currency available for military assistance purposes. Upon consultation by the Sec-

retary of Defense, however, that inclusion of procurement outside the United States would seriously impede attainment of military assistance program objectives, the Secretary of Defense may authorize exceptions to these limitations.

In the event that changed domestic or foreign conditions warrant, the Secretary of State in the case of non-military assistance, and the Secretary of Defense in the case of military assistance, shall consult with the Secretary of the Treasury, and other appropriate agencies, and recommend modification as may be appropriate in policies for procurement using funds made available under the Foreign Assistance Act of 1961. In the event that procurement outside the United States under the above conditions seriously threatens to exert adversely the industrial mobilization base or the economy of an area of labor surplus, the Secretary of State in the case of non-military assistance and the Secretary of Defense in the case of military assistance, shall consult with the Secretary of Commerce and other appropriate agencies and recommend such action as may be appropriate.

For the reasons and under the conditions stated above, and pursuant to the requirements of Section 601(a) of the Foreign Assistance Act of 1961 (PL 87-195), I hereby determine that the use of funds made available under the Act for procurement from sources outside the United States will not result in adverse effects upon the economy of the United States or the industrial mobilization base, with special reference to any area of labor surplus or to the net position of the United States in its balance of payments with the rest of the world, which outweighs the economic and other advantages of any early procurement outside the United States. Procurement outside the United States shall be from Free World sources, in any case. The effective date of this determination shall be September 20, 1961.

This determination shall be printed in the **Federal Register**.

JOHN F. KENNEDY

72A Dec 61-10718; Final, Vol. 2, 2861; 6:16 pm]

267.R. 10543

Nov. 9, 1961



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Assistant
Administrator
for Europe

January 18, 1992

TAB-B

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: Acting, AA/OPS, Howard M. Fry *HMF*
FROM: AA/EUR, Carol C. Adelman *CA*
SUBJECT: Assistance to the Independent States
of the former Soviet Union: Statutory
Checklist

Problem: To take into consideration relevant statutory requirements in light of whether ESF funds (and DA funds, to the extent such funding may be made available in the future) should be used to provide technical and other assistance to support the transition of the newly independent states of the former Soviet Union into democratic, free-market societies, and to help meet the energy needs of these societies.

Discussion: The former Soviet Union has undergone revolutionary changes within the past year which have resulted in the creation of twelve independent states, most of whom are loosely associated in a new Commonwealth of Independent States. The United States Government has established diplomatic relations with six of the former republics of the Soviet Union, namely: Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Russia and Ukraine.

On September 10, 1991, the Secretary of State signed a determination, pursuant to §620(f)(2) of the Foreign Assistance Act (FAA) of 1961, as amended, permitting assistance to the Soviet Union. (See Tab A.) Pursuant to that determination, two Congressional Notifications, both of which expired on December 20, 1991, were sent to Congress describing two proposed projects to be implemented by A.I.D. (See Tab B.) These projects have been designed (1) to encourage the transformation of these republics into democratic,

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market-based economies, and (2) to improve energy efficiency and encourage energy market reforms in these societies. ESF funds of \$3.2 million for the Democratic and Economic Initiatives Project and \$1.8 million for the Energy Efficiency and Market Reform Project are now pending authorization and obligation.

Although certain republics of the former Soviet Union would normally be prohibited from receiving assistance since each such republic is indebted to certain U.S. citizens, the State Department plans to issue on January 18, 1992 a determination pursuant to §620(c) of the FAA which would permit assistance to flow to these republics despite this fact. (This determination shall provide, in substance, that failing to provide assistance to these newly formed states is contrary to the national security interest of the United States.) Despite this determination by the State Department, however, certain factors must be "taken into consideration" by you before we may proceed with obligating funds for these two projects.

Please note that since the source of funding for these two proposed projects is the ESF account, the "notwithstanding any other provision of law" language is not available. (This language has been used in the past to permit assistance to proceed in Eastern European countries under the 1991 Appropriation Act despite prohibitions on assistance that would otherwise apply.) Therefore, certain factors must be "taken into consideration" by you before these proposed projects may be obligated from the ESF account (or the DA account, if such funding is later made available.) In fact, you normally take into consideration a number of conditions, to the extent that they may exist, on an annual basis before approving an allocation of assistance to specific countries. However, in light of the fact that the Coordinator's Office wishes to proceed with implementing the proposed projects on an expedited basis, we are presenting certain issues for your consideration at this time on an ad hoc basis.

In order to ensure that all relevant statutory requirements have been met, A.I.D. has developed a "country checklist", describing such requirements with particularity. The items on this checklist have been responded to in substance by the State Department, and its memorandum is attached hereto as Tab C. In the case of the states of the former Soviet Union, only two considerations are relevant in considering whether to provide assistance, and are discussed below. Please bear in mind, however, that statutorily mandated considerations in providing foreign assistance need only be "take into account". The mere existence of such factual considerations does not, in and of itself, prohibit assistance to the country in question.

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

(1) Section 620(i): Failure to enter into an OPIC Guaranty Agreement: As of this date, OPIC is in the process of initiating negotiations with each of the individual republics to whom we plan to render assistance to enter into OPIC investment guarantee agreements. Although such negotiations are in the process of being initiated, they have not yet been finalized and, to date, OPIC has not concluded any bilateral agreements with these new republics. Thus, in light of the fact that this process of negotiation has been initiated but not concluded, we request you to take this into consideration and permit assistance to move forward as planned.

(2) Section 620(u): U.N. Dues: According to U.N. records dated October 31, 1991, the combined arrearage of the U.S.S.R., Byelarus, and Ukraine totals \$196,376,749.00. Dues owed to the U.N. regular budget are as follows: U.S.S.R. (\$46,019,313); Byelarus (\$1,520,157); Ukraine (\$5,758,172). Further, dues are owed for the maintenance of U.N. peace-keeping forces in the following amounts: U.S.S.R. (\$126,773,350); Byelarus (\$5,116,578); Ukraine (\$11,189,179). Thus, the subtotal owed by the CIS for outstanding dues to the U.N. regular budget is \$53,297,642, and for the U.N. peacekeeping forces is \$143,079,107. Payment of this arrearage in U.N. dues is expected although, to our knowledge, specific arrangements to pay have not yet been made. It should also be borne in mind that ESF (and DA) funded assistance to Albania was allowed to proceed, despite its similar arrearages in U.N. dues, based on your consideration of this factor. Therefore, we request you to take the U.N. dues arrearage of these former republics of the Soviet Union into account, and urge you to permit the planned assistance to be implemented as expeditiously as possible.

Recommendation: That you, by your signature below, take into consideration the circumstances described above, and approve the use of ESF funds (and DA funds to the extent necessary in the future), subject to the availability of such funds, for assistance to the six states named above. Such assistance will be authorized by separate action, and shall be subject to the Secretary's determinations under §§620(c) and (f)(2) of the FAA.

Approved: 

Disapproved: _____

Date: 1-18-92

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Attachments:

- TAB A - Section 620(f)(2) determination by the Secretary
 TAB B - Congressional Notifications
 TAB C - State Memorandum dated 1/17/92 re: Statutory Checklist

Clearances:

GC/LP: RLester _____ (phone)	Date: <u>1/16/92</u>
AA/LEG: RRandlett _____ (draft)	Date: <u>1/15/92</u>
ENE/EUR: DMerrill _____ (draft)	Date: <u>1/17/92</u>
EUR.OSA: PO'Farrell _____ (draft)	Date: <u>1/15/92</u>
GC/EUR: MMorris _____ (draft)	Date: <u>1/14/92</u>
STATE/EUR/ISCA/ECON: KVolker (draft)	Date: <u>1/16/92</u>
STATE/D/EEA: CRufenacht _____ (subst)	Date: <u>1/16/92</u>
AA/R&D: RBissell _____ <i>RB</i>	Date: <u>1/18/92</u>

Drafted: GC/EUR, Rumu Sarkar: 1/14/92

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(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROGRAM COUNTRY: The New Independent States (Armenia)
- (B) ACTIVITY: Food Systems Restructuring Project (Armenia Agricultural Extension Collaboration Program) (Proj. No. 110.0006)
- (C) FUNDING: \$3,750,000
- (D) PERIOD OF FUNDING: FY 1992-1994
- (E) STATEMENT PREPARED BY: Robert F. Barnes, NIS Task Force
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion under A.I.D. Regulation 22CFR216 Environmental Procedures 216.2 (c)(1)(ii) and 216.2 (c)(2)(i)
- (G) DECISION OF ENVIRONMENTAL OFFICER:

APPROVED: Michael J. Buckley
DISAPPROVED: _____
DATE: 4-22-92

(H) DECISION OF DIRECTOR/NIS TASK FORCE:
APPROVED: Michael Butler
DISAPPROVED: _____
DATE: 5/5/92

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT OF THE FOOD SYSTEMS RESTRUCTURING PROJECT (ARMENIA AGRICULTURAL EXTENSION COLLABORATION PROGRAM) (110.0006)

- A. DESCRIPTION OF THE PROGRAM:** The Armenia Agricultural Extension Collaboration Program (AAEC) is one element of the Food Systems Restructuring Project (110-0006). This IEE relates solely to the AAEC Program. The program is predominantly a technical assistance and training effort associated with the establishment and strengthening of Armenia's Agricultural Extension Service. It is not anticipated that the program will have any significant impact on the environment. All funds under the program are to be transferred to the U.S. Department of Agriculture (USDA), using established transfer procedures. All prescribed USDA environmental protection procedures will apply to this program.
- B. RECOMMENDED ENVIRONMENTAL ACTION:** Because the program provides only technical assistance and training, a categorical exclusion from A.I.D.'s Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary Requirements is proposed. This proposal is in accordance with A.I.D. Environmental Procedures 22CFR Part 216, Sections 216.2(c)(1)(ii) which generally provides for a categorical exclusion in situations where the purpose of the project does not require A.I.D. to have "knowledge or control over, the details of the specific activities that have an effect on the environment for which financing is provided by A.I.D." Specifically, this activity is categorically excluded under Sections 216.2(c)(2)(i) for education and technical assistance.

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United States Department of State

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Washington, D. C. 20520

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ACTION MEMORANDUM *uc 2/4*
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AID TO: D - Mr. Eagleburger

FROM: EUR - Thomas M.T. Niles
H - Janet G. Mullins

SUBJECT: Circular 175: Request for Blanket Authority to Negotiate and Conclude Assistance Agreements with Former Soviet Republics

ISSUE FOR DECISION

Whether to authorize the negotiation and conclusion of bilateral agreements as appropriate with the former Soviet republics in connection with the provision of assistance.

ESSENTIAL FACTORS

We are proceeding quickly with assistance programs for several of the former Soviet republics. We are moving forward with \$5 million of assistance funded from reprogrammed FY-91 ESF, a \$165 million USDA food aid program, and humanitarian assistance programs under a series of DOD authorities. A more extensive technical assistance program is in preparation and additional assistance will also follow.

A.I.D. believes, and we concur, that we need to obtain agreements with the concerned republics conferring certain essential legal protections for the ESF program. Under the proposed agreements, the republics would:

- provide tax and customs exemptions for U.S.-provided commodities or equipment, and for U.S. nongovernmental personnel responsible for implementing the assistance programs;
- provide immunity for USG assistance personnel from criminal jurisdiction of local courts, and from civil jurisdiction of local courts for official acts;

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- allow USG representatives to inspect utilization of the assistance, and to inspect or audit any records or other documentation in connection with the assistance, wherever such records are located;
- commit to use commodities, supplies or other property solely for agreed-upon purposes;
- in cases in which the republic is responsible for items being used for other purposes, to refund their value to the USG (if the USG deems doing so appropriate); and
- provide exemptions for aircraft and vessels from landing fees, navigation charges, port charges, tolls, and similar charges.

A draft agreement is attached at Tab A. The text would cover assistance provided by various USG agencies, including USDA and DOD as well as A.I.D. We believe application of these protections to the USDA and DOD-provided assistance is prudent given their scope and visibility, and the inter-related nature of assistance efforts being implemented by the various USG agencies.

The draft text provides that we may need to conclude further, more specific agreements in connection with particular assistance activities. In particular, under the Food-for-Progress and section 416(b) programs, USDA will need to conclude separate agreements. This language may also be useful if we later decide to conclude formal economic and technical assistance agreements with respect to A.I.D.-administered programs for the republics. With this in mind, the draft text provides that the provisions of these specific agreements will control in the event their terms conflict. (The need for any additional Circular 175 authority would be considered on a case-by-case basis).

We will continue to consult with the Hill regarding our assistance efforts for the former Soviet republics. We do not believe that specific consultations regarding these agreements are needed at this time. We would, however, inform the staff of relevant committees of our intent to seek such agreements. As we would emphasize to the republics in the course of negotiations, the conclusion of these agreements would not itself commit the United States to provide assistance. After entry into force, each agreement will be reported to the appropriate committees of Congress under the usual Case Act procedures, and H will coordinate any necessary Hill briefings.

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The proposed agreements do not require environmental documentation under either the National Environmental Policy Act of 1969, 42 U.S.C. 4321, or Executive Order No. 12114 (January 4, 1979). The negotiation and conclusion of these agreements will not entail personnel or funding resource requirements for the Department of State.

If you approve, Rich Armitage would be able to begin the process of negotiating these agreements as appropriate during his forthcoming trips to the former Soviet Union.

RECOMMENDATION

That you authorize D/CISA (or, as appropriate, EUR or the relevant post) to negotiate and conclude an agreement with each of the republics based on the text attached at Tab A. Any changes from that text shall be subject to the concurrence of L, EUR and D/EEA (which will obtain clearances from A.I.D. and co-ordinate as appropriate with other agencies). ~~Negotiation and conclusion of agreements with Azerbaijan, Georgia, Moldova, Tajikistan, Turkmenistan, and Uzbekistan will not commence until specifically authorized by you.~~

FEB 04 1992

Approve MR Disapprove _____

** without limitation*

Attachments:

Tab A - Draft Agreement

Tab B - Memorandum of Law

shown in Rec,

WITHOUT LIMITATION SHOWN IN REC.

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Drafted:AID/GC:HMorris::L/EUR:TFBuchwald^{WTB}
X-6295 1/21/92

Cleared:

D/EEA - Mr. Lehovitch^{WTB}
P - Ms. van Voorst^{WTB}
EUR/ISCA - Ms. Griffiths^{WTB}
M/FMP - Ms. Kent
D/CISA - Mr. Nelson
L/SFP - Ms. Jacobson
S/P - Ms. Heslin
DOD - Mr. Wolthius
USDA - Mr. Goldthwait
PM - Mr. Martel

H - Mr. Bradtke^{WTB}
C - Mr. Wilson
M - Mr. Johnson
L - Mr. Kreczko
L/PM - Mr. Murphy
L/T - Mr. Taft
AID - Mr. Roskens
AID/EUR - Mr. Merrill
AID/AA/R&D Mr. Bissel^{WTB}

Doc. No. 1415 (30)

UNCLASSIFIED



United States Department of State

Washington, D.C. 20520

MEMORANDUM OF LAW

Subject: Circular 175: Request for Blanket Authority for Negotiation and Conclusion of Assistance Agreements with the Twelve Former Soviet Republics

The accompanying Circular 175 action memorandum requests blanket authority to negotiate and conclude agreements with each of the twelve former Soviet republics (the "countries") to obtain certain legal protections in connection with U.S. assistance programs.

The proposed agreements do not imply or promise any particular level of assistance. Instead, they establish terms and conditions regarding assistance that may be provided by the U.S. government in accordance with applicable laws and regulations. These terms and conditions include tax and customs exemptions for U.S.-provided commodities or equipment, and for nongovernmental personnel responsible for implementing assistance programs; provision to USG assistance personnel of status equivalent to that accorded administrative and technical staff under the Vienna Convention on Diplomatic Relations; authorization by each of the countries for USG representatives to inspect utilization of the assistance, and to inspect or audit any records or other documentation in connection with the assistance, wherever such records are located; commitment by each of the countries to use commodities, supplies or other property solely for agreed-upon purposes; in cases in which the republic is responsible for items being used for other purposes, to refund their value to the USG (if the USG deems doing so appropriate); and provide exemptions for aircraft and vessels from landing fees, navigation charges, port charges, tolls, and similar charges.

Legal authority to negotiate and conclude the agreements is provided by the President's constitutional responsibilities for the conduct of foreign relations (Article II, Section I, Clause I) and the Secretary of State's authority for the day-to-day conduct of foreign relations (22 U.S.C. section 2656).

In addition, with respect to assistance provided under the Foreign Assistance Act of 1961, as amended, section 635(b) of that Act provides that the President may make and perform agreements with any friendly government or government agency "in furtherance of the purposes and within the limitations of this Act." This authority has been delegated to the Secretary of State by Executive Order No. 12163 (Sept. 29, 1979), as amended.

For the foregoing reasons, there is no legal objection to the proposed negotiation and conclusion of executive agreements with each of the twelve countries as described in the accompanying action memorandum. Any changes in that text shall be subject to the concurrence of L, EUR and D/EEA.

Todd F. Buchwald

Todd F. Buchwald
Todd F. Buchwald, Acting
Assistant Legal Adviser for
European and Canadian Affairs

X-6295 1/21/92
cleared: L/T:GTaft
L/SFP:LJacobson
L/FM:SMurphy
Doc. No. 1415 (33)

**AGREEMENT BETWEEN
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND
THE GOVERNMENT OF _____
REGARDING COOPERATION TO FACILITATE
THE PROVISION OF ASSISTANCE**

The Government of the United States of America and the Government of _____:

Recognizing the interests of the Government of the United States of America and the Government of _____ in cooperating to facilitate the provision of humanitarian and technical economic assistance to benefit the people of _____; and

Recognizing the need to make certain practical arrangements to help ensure the effectiveness of that assistance;

Have agreed as follows:

ARTICLE I

TAXES AND OTHER CHARGES

(a) Commodities, supplies or other property provided or utilized in connection with United States assistance programs may be imported into, exported from, or used in _____ free from any tariffs, dues, customs duties, import taxes, and other similar taxes or charges imposed by _____, or any subdivision thereof.

(b) Any United States Government or United States private organization that has responsibility for implementing United States assistance programs, and any personnel of such private organization who are not nationals of or ordinarily resident in _____ and that are present in _____ in connection with such programs, shall be exempt from (1) any income, social security or other taxes imposed by _____, or any subdivision thereof, regarding income received in connection with the implementation of United States assistance programs, and (2) the payment of any tariffs, dues, customs duties, import taxes, and other similar taxes or charges upon personal or household goods imported into, exported from, or used in _____ for the personal use of such personnel or members of their families.

(c) The access and movement of aircraft and vessels operated by or for the Government of the United States of America in connection with United States assistance programs in _____ shall be free of landing fees, navigation charges, port charges, tolls and similar charges by _____, or any subdivision thereof.

ARTICLE II

STATUS OF PERSONNEL

Civilian and military personnel of the United States Government present in _____ in connection with United States assistance programs shall be accorded status equivalent to that accorded administrative and technical staff personnel under the Vienna Convention on Diplomatic Relations of April 18, 1961.

ARTICLE III

INSPECTION AND AUDIT

Upon reasonable request, representatives of the Government of the United States of America may examine the utilization of any commodities, supplies, other property, or services provided under United States assistance programs at sites of their location or use; and may inspect or audit any records or other documentation in connection with the assistance wherever such records or documentation are located during the period in which the United States provides assistance to _____ and for three years thereafter.

ARTICLE IV

USE OF ASSISTANCE

Any commodities, supplies, or other property provided under United States assistance programs will be used solely for the purposes agreed upon between the Governments of the United States of America and _____. If use of any commodities, supplies or other property occurs for purposes other than those agreed upon under such programs, which the Government of the United States of America determines could reasonably have been prevented by appropriate action of the Government of _____, the Government of _____ upon request shall refund in United States dollars to the Government of the United States of America the amount disbursed for such commodities, supplies, or other property. The Government of the United States of America may, in its discretion, make available the amount refunded to finance other costs of the assistance activity involved.

ARTICLE V

OTHER AGREEMENTS

The Government of the United States of America and the Government of _____ recognize that further arrangements or agreements may be necessary or desirable with respect to particular United States assistance activities. In case of any inconsistency between this Agreement and any such further written agreements, the provisions of such further written agreements shall prevail. Nothing in this Agreement shall be construed to derogate from the privileges and immunities granted to any personnel under other agreements.

ARTICLE VI

ENTRY INTO FORCE

This Agreement shall enter into force upon signature by both parties.

DONE AT _____, this ____ day of _____, 1992.

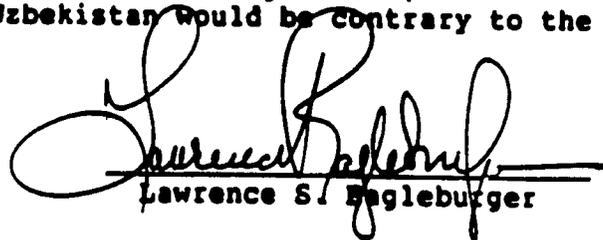
FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF
[NAME]:

**Finding under Section 620(c) of the
Foreign Assistance Act of 1961, as amended**

Pursuant to section 620(c) of the Foreign Assistance Act of 1961, as amended (the "Act"), section 1-201(a)(12) of Executive Order 12163, as amended, and section 4(d) of State Department Delegation of Authority No. 145, as amended, I hereby find that application of the restriction contained in section 620(c) of the Act with respect to Armenia, Azerbaijan, Byelarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan would be contrary to the national security.

January 20, 1992
Date


Lawrence S. Eagleburger



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

1992 MAR 25 A 9:16

MAR 25 1992

~~FROM~~ ACTING

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/OPS, Scott Spangler *sm8*
FROM: AA/R&D, Richard Bissell *rb*
AA/EUR, David N. Merrill *DM*
SUBJECT: Assistance to the Newly Independent States of the Former Soviet Union: Statutory Checklist

Problem: To take into consideration relevant statutory requirements in light of whether ESF funds (and DA funds, to the extent such funding may be made available in the future) should be used to provide technical and other assistance to support the transition of newly independent states of the former Soviet Union into democratic, free-market societies.

Discussion: A memorandum to you from the AA/EUR dated January 18, 1992 requested you to "take into account" certain statutorily mandated considerations before assistance to the newly independent states of the former Soviet Union could be authorized. Your consideration was limited, at that time, to the following republics of the former Soviet Union with whom the U.S. was establishing diplomatic relations: Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Russia and the Ukraine. The State Department is now establishing full diplomatic relations with the remaining republics of the former Soviet Union (with the exception of Georgia), namely, Moldova, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan. Thus, once again, we request that you take into consideration the factors described below before assistance to these republics may be authorized.

On September 10, 1991, the Secretary of State signed a determination, pursuant to §620(f)(2) of the Foreign Assistance Act (FAA) of 1961, as amended, permitting assistance to flow to the Soviet Union. (See Tab A.) Additionally, Deputy Secretary Eagleburger made a determination, dated January 20, 1992, under Section 620(c) of the FAA which permits assistance to the republics notwithstanding

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certain indebtedness to U.S. citizens that would otherwise prohibit these republics from receiving foreign assistance. This determination provides, in substance, that failing to provide assistance to these newly formed states is contrary to the national security of the United States. (See Tab B.) Pursuant to these determinations, assistance to the individual republics that formerly constituted the Soviet Union may be permitted provided that other statutory requirements are satisfactorily met.

Assistance to the republics is now being considered in the following areas: (1) increasing the levels of assistance for the previously authorized Democratic and Economic Initiative Project and the Energy Efficiency and Market Reform Project as well as developing activities in (2) private sector initiatives, (3) democratic pluralism initiatives, (4) housing sector reform, (5) health care improvement, (6) food systems restructuring, (7) economic restructuring and financial sector reform, and finally, (8) making an ESF grant to the Eurasia Foundation. All of this proposed assistance is now pending final Congressional notification and clearance.

Although we are working to include "notwithstanding any other provision of law" language in legislation for FY 92, such language is not now applicable to ESF funds to be used for the NIS. Therefore, certain factors must be "taken into consideration" by you before these proposed projects may be obligated from the ESF account (or the DA account, if such funding is later made available). In fact, you normally take into consideration a number of conditions, to the extent that they may exist, on an annual basis before approving an allocation of assistance to specific countries. However, in light of the fact that the Coordinator's Office wishes to proceed with implementing the proposed projects on an expedited basis, we are presenting certain issues for your consideration at this time on an ad hoc basis.

In order to ensure that all relevant statutory requirements have been met, A.I.D. has developed a "country checklist", describing such requirements with particularity. The items on this checklist have been responded to in substance by the State Department, and its memorandum is attached hereto as Tab C. In the case of the five republics of the former Soviet Union discussed herein, only one consideration is relevant in considering whether to provide assistance.

Section 620(l) of the FAA provides that assistance may be denied if the recipient country has failed to enter into an investment guaranty agreement with the United States. As of this date, OPIC is in the process of initiating negotiations with each of the five individual republics to whom we plan to render assistance. Although such negotiations are in the process of being initiated, they have not yet been finalized and, to date, OPIC has not concluded any bilateral investment guarantee agreements with these new republics. Please bear in mind, however, that

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statutorily mandated considerations in providing foreign assistance need only be "taken into account". The mere existence of such factual considerations does not, in and of itself, prohibit assistance to the country in question. Thus, in light of the fact that this process of negotiation has been initiated by OPIC but not concluded as of this date, we request you to take this into consideration and permit assistance to move forward as planned.

Recommendation: That you, by your signature below, take into consideration the circumstances described above, and approve the use of ESF funds (and DA funds to the extent necessary in the future), subject to the availability of such funds, for assistance to the five republics named above. Such assistance will be authorized by separate action, and shall be subject to the determinations made pursuant to §§620(f)(2) and (c) of the FAA.

Approved: Harold L. Edelman

Disapproved: _____

Date: 3-27-92

Attachments:

- TAB A - Section 620(f)(2) determination by the Secretary
- TAB B - Section 620(c) determination by the Deputy Secretary
- TAB C - Department of State Memorandum re: Statutory Checklist

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

45

Determination under Section 620(f)
of the
Foreign Assistance Act of 1961, as amended

Pursuant to Section 620(f)(2) of the Foreign Assistance Act of 1961, as amended, (22 U.S.C. 2370(f)(2)), and Section 1-201(a)(12) of Executive Order No. 12163, as amended, I hereby determine that the removal of the Soviet Union from the application of Section 620(f) of the Foreign Assistance Act, for an indefinite period, is important to the national interest of the United States.

This determination shall be reported to the Congress and published in the Federal Register.

September 10, 1991

Date


James A. Baker, III

**JUSTIFICATION FOR THE PRESIDENT'S DETERMINATION
TO REMOVE THE PROHIBITION ON OPIC ACTIVITIES
IN THE SOVIET UNION**

A determination to remove the Soviet Union from the prohibition on assistance to Communist countries is in the national interest for several reasons. The U.S. supports efforts within the Soviet Union to establish a strong and functioning democracy and to move decisively toward a market economy. If these trends continue, the U.S. should support them by responding, step by step, to progress made.

At the recent Moscow Summit, President Bush underlined his support for market-oriented reforms in the Soviet Union by reaffirming his desire to promote U.S. trade and investment with the Soviet Union. To normalize our trade relations, he has already submitted the U.S.-Soviet Trade Agreement to Congress. He also reiterated his commitment to work with the Congress to lift the Stevenson and Byrd restrictions on official credit programs. The availability of OPIC programs for U.S. companies seeking to invest in the Soviet Union would complement these actions. Providing technical economic assistance is also consistent with the goal of helping the Soviets develop a market economy.

Moreover, the Soviet Union is giving evidence of fostering the establishment of a genuinely democratic system, with respect for internationally recognized human rights. The failed coup by hardline factions in the Soviet military and security forces has accelerated the establishment of a democratic system in the Soviet Union. The coup discredited the old guard in the Soviet Government and led to the collapse of the Communist Party, the primary obstacles to democratic reform and creation of a pluralistic political system.

The failure of the coup strengthened Soviet leaders, such as Boris Yeltsin and Leningrad Mayor Sobchak, who are committed to democracy and reform. President Gorbachev has replaced opponents of reform in key posts -- such as the Interior Minister, Defense Minister, and head of the KGB -- and appointed in their place men with strong reform credentials. More fundamentally, the opposition of the Soviet people to the coup showed that the principles of democracy and rule of law have taken root in the Soviet Union. There is a clear consensus for establishment of a genuinely democratic system that no Soviet or republic leader can choose to ignore.

The CPSU's reign of political dominance came to an end with the historic Supreme Soviet decree of August 29 suspending the activities of the party throughout the Soviet Union and seizing its assets. Several republics have gone further and outlawed the party completely. As President Bush stated, the collapse of the totalitarian non-democratic CPSU is a cause for cheer.

In recent years, the Soviets have demonstrated an increasing respect for internationally recognized human rights. Soviet citizens are freer to speak, write, practice their religion and participate in public life than ever before. As a reflection of this improvement, the U.S. Government, while continuing to express its concern at ongoing human rights abuses, is simultaneously working with the Soviet Government to institutionalize human rights progress. Substantial improvement has been seen in the Soviet human rights record in areas such as emigration, political prisoners and psychiatric abuse.

Initial developments after the coup suggest the potential for further human rights gains. A key reformist, Vadim Bakatin, was named to head the KGB, and the USSR Congress of Peoples' Deputies approved a declaration September 5 explicitly enumerating the rights of individuals.

In this environment, OPIC insurance and finance programs, along with technical economic assistance, can serve as useful tools to encourage the development of emerging private sector enterprises and institutions, as well as the normalization of bilateral economic relations.

Dear Mr. Chairman:

Section 620(f)(2) of the Foreign Assistance Act of 1961, as amended, authorizes the President to remove a Communist country from ineligibility to receive assistance under the Foreign Assistance Act if the President determines and reports to the Congress that such action is important to the national interest of the United States. The President's authority to make such determinations has been delegated to the Secretary of State pursuant to Section 1-201(a)(12) of Executive Order No. 12163 of September 29, 1979, as amended. On behalf of the Secretary of State, we wish to advise that, pursuant to these authorities, the Secretary of State has determined that it is important to the national interest to remove the Soviet Union from the application of Section 620(f). I enclose a copy of the Secretary's determination and justification.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosures:
As stated.

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

Dear Mr. Chairman:

Section 620(f) of the Foreign Assistance Act of 1961, as amended, authorizes the President to remove a Communist country from ineligibility to receive assistance under the Foreign Assistance Act if the President determines and reports to the Congress that such action is important to the national interest of the United States. The President's authority to make such determinations has been delegated to the Secretary of State pursuant to Section 1-201(a)(12) of Executive Order No. 12163 of September 29, 1979, as amended. On behalf of the Secretary of State, we wish to advise that, pursuant to these authorities, the Secretary of State has determined that it is important to the national interest to remove the Soviet Union from the application of Section 620(f). I enclose a copy of the Secretary's determination and justification.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosures:
As stated.

The Honorable
Claiborne Pell,
Chairman, Committee on Foreign Relations,
United States Senate.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

TAB I

Associate
Administrator
for Operations

**INTERIM REORGANIZATION
DELEGATION OF AUTHORITY NO. 10**

**TO: Director of the Task Force for the
Newly Independent States of the Former Soviet Union**

FROM: Associate Administrator for Operations

SUBJECT: General Authorities

Pursuant to my authority as Associate Administrator for Operations, it is hereby ordered as follows:

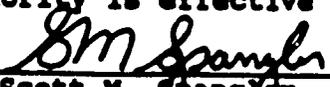
A. With respect to all former republics of the Soviet Union (except Latvia, Lithuania, and Estonia), there is delegated to the Director of the Task Force for the Newly Independent States of the Former Soviet Union all of the authorities delegated to me from the Administrator.

B. Any individual designated by the Director of the Task Force to be the acting Director of the Task Force during the absence of the Director of the Task Force is authorized to perform the functions delegated hereunder.

C. All references in A.I.D. Handbooks, policy statements, guidance cables, and regulations to Assistant Administrators having responsibility for geographic regions shall be deemed to include the Director of the Task Force.

D. The General Provisions of chapter 1 of Handbook 5 apply, unless provided otherwise in a specific delegation.

E. This Delegation of Authority is effective immediately.



Scott M. Spangler
Associate Administrator
for Operations

Date: 3/30/92