

PD-ABE-064
-6869

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

PROJECT MEMORANDUM

**NEW INDEPENDENT STATES
ECONOMIC RESTRUCTURING AND FINANCIAL SECTOR REFORM
(110-0009)**

Authorized: June 1, 1992

PD-ABE 064

Table of Contents
Project Memorandum
Economic Restructuring/Financial Sector Reform
New Independent States Regional
No. 110-0009

Title Page

Project Authorization

Annexes

| | | |
|-----|-----|--|
| Tab | A - | Project Memorandum |
| Tab | B - | Minutes of Interagency Meeting, 4/16/92 |
| Tab | C - | Congressional Notification |
| Tab | D - | Initial Environmental Examination |
| Tab | E - | 604 (a) Determination, 3/30/92 |
| Tab | F - | Circular 175 Authorization, 2/4/92 |
| Tab | G - | 620 (c) Determination, 1/20/92 |
| Tab | H - | Action Memorandum to the Administrator, 3/27/92 |
| Tab | I - | 620 (f) Determination, 9/10/91 |
| Tab | J - | Interim Reorganization Delegation of Authority No. 10, 3/30/92 |
| Tab | K - | Interagency agreement 632 (b) with the U.S. Treasury |

JUN 1 1992

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, NIS TASK FORCE

FROM: OPS/NIS, Hariadene Johnson *Hariadene Johnson*

SUBJECT: Authorization of the Economic Restructuring/Financial Sector Reform Project, No. 110-0009

PROBLEM: Your approval is required to authorize the Economic Restructuring/Financial Sector Reform Project for the New Independent States (NIS) at a level of \$18 million life-of-project funding. The project assistance completion date will be four years from the date of the first obligation.

BACKGROUND: The collapse of the Soviet Union presents a historic opportunity for a more peaceful and stable international order. It also opens to competitive international trade and investment the world's largest untapped market and natural resource base. Our challenge is the gradual integration of the NIS into the global economy and the community of democratic nations.

Rather than reversing the political and economic reforms implemented since 1985, the unsuccessful 1991 Moscow coup accelerated the pace and broadened the scope of reforms. It has given new urgency to NIS needs for Western assistance to transform their economies. The United States has a vital interest in the success of this transition to help insure peace, to preclude dangerous and costly rearmament, and to participate in the economic future of this region.

The January 1992 Coordinating Conference produced a series of action plans, on which the USG assistance to the NIS is based. The program has six objectives: to encourage free market economic systems; to promote democracy; to meet urgent humanitarian needs; to convert defense-oriented industries; to promote bilateral trade and investment; and to increase the efficiency of the energy sector. This project is an essential component of that program.

Transforming the Soviet style command economies of the NIS into open market, competitive economic systems faces a number of obstacles. The legal and regulatory framework is incomplete and, in many cases, includes conflicting laws. State-owned enterprises continue to dominate resource allocation and market access. On the plus side, the NIS have a huge market and natural resource endowment and a large investment in human capital that are conducive to private sector development. A well functioning financial sector is vital to private sector development.

DISCUSSION: The NIS, especially countries other than Russia, lack well-developed institutions to formulate and implement monetary and fiscal policy, as well as bank regulation and supervision. In the financial enterprise sector, the quality of state banks, the recently created joint-stock banks, and the token few private banks is questionable.

As the largest entity in each economy, the government has a major impact on economic life through its financial operations, including tax policy and administration, budget controls, processing payments and receipts (cash management), issuance of government securities and supervision of banks and other financial institutions. To the extent that the government performs these operations efficiently, it will contribute to establishing a solid foundation for sustainable economic growth.

The NIS need to create financial systems that will mobilize savings and channel resources to new private enterprises which can compete in a market environment. Efficient financial intermediation is needed to foster private enterprises and to attract foreign capital.

This project will provide assistance to eligible states of the former Soviet Union to address policy, institutional, and manpower bottlenecks associated with the development of a sound system of government finance and a commercial banking system.

PROJECT COMPONENTS

The first stage of the assistance will entail placement of short- and long-term advisers in key areas. The long-term advisers will be complemented by a variety of other inputs, including short-term experts, specialized training missions, internships, seminars, conferences, and workshops. The program will allocate advisers on a flexible basis as priorities and absorptive capacity evolve. The project components are:

1. An Interagency Agreement with the U.S. Treasury to provide in Russia, Ukraine, Kazakhstan, and Byelarus:
 - (a) advisers on finance ministry functions, such as tax policy, administration, and compliance; budget and customs issues; public debt issues; and relations with the IFIs;
 - (b) in cooperation with the Federal Reserve System, to provide advisers on Central Bank functions, such as monetary policy; an effective two-tier banking system; bank regulation and supervision; payments systems, etc.;
2. AID-funded consultants to improve bank operations (e.g., credit procedures, product marketing, automation), train bankers, and, where appropriate, advise on bank privatization in all NIS. In the NIS not covered under the Treasury agreement, AID will provide advisers on functions covered under component no. 1 and in those countries covered under the Treasury agreement where AID has a comparative advantage.

Possible activities in each of the primary areas include:

Government Finance

- Providing seasoned advisors to senior finance ministry officials on a broad range of financial issues including fiscal policy, monetary policy, relations with international financial institutions, relations with private investors and banks, and bilateral economic relations;
- providing advice in all aspects of constructing, implementing and auditing a government budget;
- providing tax policy assistance including expert comments on draft legislation, proposals for alternative tax treatments, and development of economic models to analyze tax law changes;
- assisting with tax administration, encompassing data processing, tax compliance, taxpayer service, and tax collection;
- offering guidance in designing a modern customs infrastructure to combat trade fraud and efficiently administer customs regulations and collect duties;
- providing policy and technical advice on government securities and the issuance of public debt, specifically the sale of finance ministry bills, notes and bonds. Also in developing capabilities in processing payments and receipts (cash management); and
- providing guidance on relations with international financial institutions and external creditors.

Banking System

- Advising Central Banks on a broad range of central banking functions, including bank examination and supervision;
- in cooperation with the IMF and IBRD, helping to develop an effective two-tier banking system, including appropriate regulatory policies;
- advising and assisting in the implementation of improvements in bank operations, such as credit procedures, automation, economic analysis, and product marketing;
- providing banker training through such activities as workshops overseas, in the U.S., and nations' training institutes;

where appropriate, assisting in the privatization of commercial banks by preparing analyses of legislative and regulatory proposals, advising on prospectuses and recommending positions on issues arising in negotiations with potential investors.

PROPOSED LIFE OF PROJECT FUNDING

Obligations: Four-year life-of-project funding of \$18 million with \$4.0 million available immediately for obligation.

Illustrative Budget for Implementing Agencies

| | <u>FY1992</u> | | <u>LOP</u> | | <u>Total</u> |
|-----------------------|------------------------|--------------|-----------------|---------------|---------------|
| | (Thousands of dollars) | | | | |
| | <u>Treasury</u> | <u>Other</u> | <u>Treasury</u> | <u>Other</u> | |
| Long-term advisers | 2,040 | 0 | 2,040 | 9,660 | 11,700 |
| Short-term advisers | 415 | 0 | 415 | 2,285 | 2,700 |
| Travel/Transportation | 955 | 0 | 955 | 1,245 | 2,200 |
| Short-term training | 500 | 0 | 500 | 700 | 1,200 |
| Equipment | 90 | 0 | 90 | 110 | 200 |
| Total | 4,000 | 0 | 4,000 | 14,000 | 18,000 |

DESIGN AND REVIEW PROCESS: The Project Memorandum (Tab A) was developed following procedures established for Eastern Europe projects and otherwise meets A.I.D. regulations and policies. Appropriate clearances have been sought and a formal review (with State/CISA participation) of the project was undertaken on April 16, 1992 (TAB B). Subsequent meetings with relevant agencies (OMB, State, and Treasury) were held to address issues raised at the Interagency meeting. The State Department's Coordinator's office has provided policy guidance, approved the funding levels, and carefully reviewed and cleared this project.

CONGRESSIONAL NOTIFICATION: The Congressional Notification expired on March 21, 1992. A copy is attached at TAB C.

SOURCE AND ORIGIN: Goods and services procured under the Project will have their source and origin in the United States (Code 000) for foreign exchange costs or in the cooperating country for local currency costs. Local procurement within states of the NIS will be conducted in accordance with Chapter 18 of A.I.D. Handbook 1B. 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 NIS from the category of non-Free World countries (Tab E). Procurement from Code 941 and Code 935 countries, if required, will be done on the basis of appropriate waivers.

ENVIRONMENTAL CONSIDERATIONS: The Project involves technical assistance and training and has no significant impact on the environment. A.I.D. assistance for education or training programs, as provided under this project, are generally categorically excluded from environmental examination under 22 CFR 216 Environmental Procedures, Sections 216.2 (c)(1)(i) and (c)(2)(i). A portion of the funds from this project will be transferred to other government agencies using established transfer procedures. In such cases, the environmental procedures of the implementing agencies will apply. A certification of the IEE is attached (Tab D).

AVAILABILITY OF FUNDS: \$2.0 million in FY 91 ESF funds available as a result of reprogramming of funds originally destined for Pakistan plus \$2.0 million in FY 92 ESF funds have been apportioned to A.I.D. from OMB.

IMPLEMENTATION DETAILS:

Monitoring: AID/W will be responsible for overall project supervision, coordination, and monitoring. AID/W, and recipient agencies where appropriate, will coordinate and monitor the activities of the advisers. AID/W will conduct field visits and will review reports provided by grantees, contractors, recipient agencies, and Embassy staff traveling through the region. AID and contractor/participating agency travel to the field will be cleared in advance with appropriate Regional AID staff. The resident advisers, through the AID mission as appropriate, will coordinate their activities with the U.S. Ambassador, or his/her designee, and will keep him/her informed of such activities.

Quarterly reports will be required of all project implementors (grantees and participating agencies). Project Implementation Reviews will be conducted in Washington on a semi-annual basis. Periodic field assessments will be undertaken with the necessary frequency to insure good project management.

As determined by the AID/W Project Officer, a Project Steering Committee will be convened periodically to review overall project policy, strategy, and management. The Committee will be chaired by the AID/W Project Officer and will be composed of appropriate members of U.S. agencies participating in the project and other relevant USG departments.

Audits and Evaluations: Grants, contracts, and Inter-Agency Agreements executed under the project will provide that the audit and inspection requirements set forth in the Inspector General Act of 1978, as amended shall apply. AID's Inspector General shall insure full compliance with provisions of the Act.

Each grantee, contractor, and implementing agency will submit to appropriate officials of the grantor agency a timely workplan

prepared in consultation with the host country. For assignments up to one month, only a trip report is necessary. For assignments longer than a month and up to 3 months, timely means within 2 weeks of the assignment's start. For assignments longer than 3 months and up to 6 months, timely means within 3 weeks of the assignment's start. For assignments longer than 6 months, timely means within a month of the assignment's start. Each grantee, contractor, and implementing agency will also prepare an evaluation plan to be approved in advance by AID. Project funds will be eligible to finance external evaluations. A mid-term evaluation may be undertaken by AID to determine overall project progress and to recommend necessary modifications.

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 F). Negotiations have commenced and bilateral agreements have been concluded with Russia, Ukraine, and Kazakhstan. Others should follow shortly. These written arrangements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. The written arrangements will insure, 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 CHECKLISTS: State completed country checklists for all states of the NIS on January 17, February 27, and May 22, 1992. Copies of those classified documents are on file in OPS/NIS.

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

"Taking into account" matters were reviewed and approved by the Administrator on March 27, 1992, for all states except Georgia (TAB H). One matter needed consideration. It was that pursuant to FAA Section 620(1), that OPIC has initiated negotiations but has not yet executed investment guaranty agreements with all of the states to which we plan to render assistance, but that assistance be permitted to flow to these states under the circumstances. A "taking into account" memorandum for Georgia will be signed shortly.

AUTHORITY: You have authority to authorize this project pursuant to Interim Reorganization Delegation of Authority No. 10 dated March 30, 1992 (TAB I).

RECOMMENDATION: That by signing below and where indicated you authorize the four-year Economic Restructuring/Financial Sector Reform Project, No. 110-0009 for a total LOP of \$18.0 million, subject to the availability of funds.

Approved: *Jim Condo*

Disapproved: _____

Date: *June 1, 92*

Annexes:

- Tab A - Project Memorandum
- Tab B - Minutes of Interagency Meeting, 4/16/92
- Tab C - Congressional Notification
- Tab D - Initial Environmental Examination
- Tab E - 604 (a) Determination, 3/30/92
- Tab F - Circular 175 Authorization dated 02/04/92
- Tab G - 620(c) Determination dated 1/20/92
- Tab H - Action Memorandum to the Administrator, 03/25/92
- Tab I - 620(f) Determination dated 9/10/91
- Tab J - Interim Reorganization Delegation of Authority
No. 10 dated 3/30/92
- Tab K - Interagency Agreement 632(b) with the U.S. Treasury

(Project No. 110-0009)

Drafted: OPS/NIS, JBardon, 5/19/92

Clearances:

OPS/NIS: John Wiles (draft) Date: 5/21/92
GC: TGeiger (draft) Date: 5/26/92
EUR/FM: INesterczuk (draft) Date: 5/26/92
OPS/NIS: HJohnson (draft) Date: 5/27/92
OPS/NIS: BKline (draft) Date: 5/26/92

ST/CISA: ECheney (draft) Date: 5/29/92
ST/EUR/ICSA: BGriffiths (draft) Date: 5/29/92
ST/EUR/ISCA: JTefft: (draft) Date: 5/29/92

PROJECT MEMORANDUM**Economic Restructuring/Financial Sector Reform****Project No. 110-0009****PURPOSE**

To assist in the adoption of policy and institutional reforms necessary to create a financial sector conducive to healthy market economies in the New Independent States (NIS). The primary focus will be on Finance Ministry and Central Bank functions (such as tax policy, administration, and compliance; budget and customs issues; relations with the international financial institutions (IFIs); monetary policy; bank regulation and supervision; and technical issues, e.g., payments systems). The secondary focus will be on improving banking operations (credit procedures, banker training, product marketing, automation) and on privatization, where appropriate.

BACKGROUND

The collapse of the Soviet Union presents a historic opportunity for a more peaceful and stable international order. It also opens to competitive international trade and investment the world's largest untapped market and natural resource base. Our challenge is the gradual integration of the NIS into the global economy and the community of democratic nations.

Rather than reversing the political and economic reforms implemented since 1985, the unsuccessful 1991 Moscow coup accelerated the pace and broadened the scope of reforms. It has given new urgency to NIS needs for Western assistance to transform their economies. The United States has a vital interest in the success of this transition to help insure peace, to preclude dangerous and costly rearmament, and to participate in the economic future of this region.

The January 1992 Coordinating Conference produced a series of action plans, on which the USG assistance to the NIS is based. The program has six objectives: to encourage free market economic systems; to promote democracy; to meet urgent humanitarian needs; to convert defense-oriented industries; to promote bilateral trade and investment; and to increase the efficiency of the energy sector. This project is an essential component of that program.

Transforming the Soviet style command economies of the NIS into open market, competitive economic systems faces a number of obstacles. The legal and regulatory framework is incomplete and, in many cases, includes conflicting laws. State-owned enterprises continue to dominate resource allocation and market access. On the plus side, the NIS have a huge market and natural

. 11

resource endowment and a large investment in human capital that are conducive to private sector development. A well functioning financial sector is vital to private sector development.

RATIONALE

The NIS, except Russia, lack well-developed institutions to formulate and implement monetary and fiscal policy, as well as bank regulation and supervision. In the financial enterprise sector, the quality of state banks, the recently created joint-stock banks, and the token few private banks is questionable.

As the largest entity in each economy, the government has a major impact on economic life through its financial operations, including tax policy and administration, budget controls, processing payments and receipts (cash management), issuance of government securities and supervision of banks and other financial institutions. To the extent that the government performs these operations efficiently, it will contribute to establishing a solid foundation for sustainable economic growth.

The NIS need to create financial systems that will mobilize savings and channel resources to new private enterprises which can compete in a market environment. Efficient financial intermediation is needed to foster private enterprises and to attract foreign capital.

This project will provide assistance to eligible states of the former Soviet Union to address policy, institutional, and manpower bottlenecks associated with the development of a sound system of government finance and a commercial banking system.

PROJECT COMPONENTS

The first stage of the assistance will entail placement of long-term resident advisers in key areas. These long-term advisers will be complemented by a variety of other inputs, including short-term experts, specialized training missions, internships, seminars, and workshops. The program will allocate advisers on a flexible basis as priorities and absorptive capacity evolve. The project components are:

1. An Interagency Agreement with the U.S. Treasury to provide in Russia, Ukraine, Kazakhstan, and Byelarus:
 - (a) advisers on finance ministry functions, such as tax policy, administration, and compliance; budget and customs issues; public debt issues; and relations with the IFIs;

(b) in cooperation with the Federal Reserve System, to provide advisers on Central Bank functions, such as monetary policy; an effective two-tier banking system; bank regulation and supervision; payments systems, etc.;

2. AID-funded consultants to improve bank operations (e.g., credit procedures, product marketing, automation), train bankers, and, where appropriate, advise on bank privatization in all NIS. In the NIS not covered under the Treasury agreement, AID will provide advisers on functions covered under component no. 1 and in those countries covered under the Treasury agreement where AID has a comparative advantage.

Possible activities in each of the primary areas include:

Government Finance

- Providing seasoned advisors to senior finance ministry officials on a broad range of financial issues including fiscal policy, monetary policy, relations with international financial institutions, relations with private investors and banks, and bilateral economic relations;
- providing advice in all aspects of constructing, implementing and auditing a government budget;
- providing tax policy assistance including expert comments on draft legislation, proposals for alternative tax treatments, and development of economic models to analyze tax law changes;
- assisting with tax administration, encompassing data processing, tax compliance, taxpayer service, and tax collection;
- offering guidance in designing a modern customs infrastructure to combat trade fraud and efficiently administer customs regulations and collect duties;
- providing policy and technical advice on government securities and the issuance of public debt, specifically the sale of finance ministry bills, notes and bonds. Also in developing capabilities in processing payments and receipts (cash management); and
- providing guidance on relations with international financial institutions and external creditors.

Banking System

- Advising Central Banks on a broad range of central banking functions, including bank examination and supervision;
- in cooperation with the IMF and IBRD, helping to develop an effective two-tier banking system, including appropriate regulatory policies;
- advising and assisting in the implementation of improvements in bank operations, such as credit procedures, automation, economic analysis, and product marketing;
- providing banker training through such activities as workshops in the field and in the U.S., and nations' training institutes;
- where appropriate, assisting in the privatization of commercial banks by preparing analyses of legislative and regulatory proposals, advising on prospectuses and recommending positions on issues arising in negotiations with potential investors.

PROPOSED LIFE OF PROJECT FUNDING

Obligations: Four-year life-of-project funding of \$18 million with \$4.0 million available immediately for obligation.

Illustrative Budget for Implementing Agencies

| | <u>FY1992</u> | | <u>LOP</u> | | <u>Total</u> |
|-----------------------|-----------------|--------------|-----------------|---------------|---------------|
| | <u>Treasury</u> | <u>Other</u> | <u>Treasury</u> | <u>Other</u> | |
| Long-term advisers | 2,040 | 0 | 2,040 | 9,660 | 11,700 |
| Short-term advisers | 415 | 0 | 415 | 2,285 | 2,700 |
| Travel/Transportation | 955 | 0 | 955 | 1,245 | 2,200 |
| Short-term training | 500 | 0 | 500 | 700 | 1,200 |
| Equipment | 90 | | 90 | 110 | 200 |
| Total | 4,000 | 0 | 4,000 | 14,000 | 18,000 |

IMPLEMENTATION DETAILS

Monitoring: AID/W will be responsible for overall project supervision, coordination, and monitoring. AID/W, and recipient agencies where appropriate, will coordinate and monitor the activities of the advisers. AID/W will conduct field visits and will review reports provided by grantees, contractors, recipient agencies, and Embassy staff traveling through the region. AID

and contractor/participating agency travel to the field will be cleared in advance with appropriate Regional AID staff. The resident advisers, through the AID mission as appropriate, will coordinate their activities with the U.S. Ambassador, or his/her designee, and will keep him/her informed of such activities.

Quarterly reports will be required of all project implementors (grantees and participating agencies). Project Implementation Reviews will be conducted in Washington on a semi-annual basis. Periodic field assessments will be undertaken with the necessary frequency to insure good project management.

As determined by the AID/W Project Officer, a Project Steering Committee will be convened periodically to review overall project policy, strategy, and management. The Committee will be chaired by the AID/W Project Officer and will be composed of appropriate members of U.S. agencies participating in the project and other relevant USG departments.

Audits and Evaluations: Grants, contracts, and Inter-Agency Agreements executed under the project will provide that the audit and inspection requirements set forth in the Inspector General Act of 1978, as amended shall apply. AID's Inspector General shall insure full compliance with provisions of the Act.

Each grantee, contractor, and implementing agency will submit to appropriate officials of the grantor agency a timely workplan prepared in consultation with the host country. For assignments up to one month, only a trip report is necessary. For assignments longer than a month and up to 3 months, timely means within 2 weeks of the assignment's start. For assignments longer than 3 months and up to 6 months, timely means within 3 weeks of the assignment's start. For assignments longer than 6 months, timely means within a month of the assignment's start. Each grantee, contractor, and implementing agency will also prepare an evaluation plan to be approved in advance by AID. Project funds will be eligible to finance external evaluations. A mid-term evaluation may be undertaken by AID to determine overall project progress and to recommend necessary modifications.

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 agreements covering these matters (Tab F). Negotiations have commenced and bilateral agreements have been signed with Russia, Ukraine, and Kazakhstan. Others should follow shortly. These written arrangements include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, inter alia, that A.I.D. funds are not used to pay host country duties and taxes, that site inspections may be made by the IG and that A.I.D. financed commodities will be used only for project purposes.

Risk 1. Nationalism at the republic level, social unrest, and mass demonstrations over price increases and the ensuing hardships caused by economic restructuring may cause NIS leaders to backtrack on reform. This may limit the benefits of the proposed technical assistance programs.

Assessment. The project activities, advice and training, do not relieve the pressure for economic reform which arises from misallocation of resources. While the benefits of this project are likely to be reduced because of the uncertain environment, the activities it includes will promote improvement of economic policies and a viable financial system.

Risk 2. Inter-republic relations remain unstable as a framework is being developed to formalize the political, economic, and military future of the NIS. A technical assistance program favoring the Russian Federation because of strategic and demographic concerns may destabilize further inter-republic relations.

Assessment. Adapting this project to address the needs of the NIS, other than Russia, will distribute the project's benefits more evenly and avert further inter-republic tensions.

Risk 3. The current disorder in the former republics of the Soviet Union makes difficult selection of appropriate counterparts and limits the USG's ability to provide support to advisors in the field.

Assessment. Treasury and AID will be working closely with the World Bank, IMF, OECD and other USG agencies (including U.S. Embassies), NIS governments, and NGOs to place appropriate and qualified officials in the NIS.

Risk 4. Communication difficulties between the US and the NIS will hinder the ability of our advisors in the field from performing their function.

Assessment. Treasury is currently exploring the use of satellite communications between the NIS and the US. Other means of communication that will be utilized include courier service and, where available, cellular phone systems.

Risk 5. The resident advisers may offer opinions contrary to USG interests.

Assessment. The management structure for this project will ensure a steady flow of information, views and support between Treasury and advisors in the field.

PROPOSED GRANT/CONTRACT MECHANISM: The primary method for implementing A.I.D.-managed activities will continue to be through the usual A.I.D. contracting and granting arrangements including IQCs, small business set-asides, and the funding of relevant unsolicited proposals. Interagency 632 (b) Agreements will be used to transfer funds to other government implementing agencies. Waivers will be obtained as required to make it possible to utilize contracting procedures other than full and open competition.

OTHER PROCUREMENT ISSUES: The Project Authorization will state that goods and services procured under the Project will have their source and origin in the United States (Code 000) for foreign exchange costs or in the cooperating country for local currency costs. Local procurement in the NIS will be conducted in accordance with Chapter 18 of A.I.D. Handbook 1B. 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 NIS from the category of non-Free World countries. Local procurement within the NIS will be conducted in accordance with Chapter 18 of A.I.D. Handbook 1B.

ENVIRONMENTAL CONSIDERATIONS: The Project will finance technical assistance, training, and limited commodity procurement and, as such, has no significant environmental impact. Programs which involve technical assistance and training are generally categorically excluded from environmental examination under 22 CFR Environmental Procedures, Sections 216.2 (c) (1) (i) and 216.2 (c) (2) (i).

ANTICIPATED ACCOMPLISHMENTS:

1. Respond rapidly to NIS needs by modifying existing programs and mechanisms proven successful in Central and Eastern Europe and other areas where AID is active;
2. Support economic reform and sound management of the economy through advice on institution-building and on government policies;
3. Help develop the NIS private sector and promote U.S. trade and investment through improved financial intermediaries.

TIMELINE:

| | |
|---------------|---------------------------------|
| June 2, 1992: | Authorization Memorandum signed |
| June 3, 1992: | IAA with Treasury signed |
| June 15 1992: | First Adviser in NIS |

Drafted by: JBardon, OPS/NIS, X77427, 4/29/92.
Cleared by: LCrandall, OPS/NIS.

SUMMARY MEMORANDUM OF CONVERSATION
Interagency Meetings on NIS Financial Sector Development

Date/Time/Place: April 16, 1992; 4:00 p.m.; Room 5951 NS.

Participants:

AID: Paul O'Farrell (Meeting Chairman), Larry Crandall, Barbara Turner, Michael Unger, Tom Miller, Jane Bardon, David Dod, David Carr, Laurie Landy

State: Barbara Griffiths, William Kuhn

OMB: Michael Casella

Treasury: Robert Banque, Roberta Waxman

CEA: Catherine Mann

FRB: Absent

Background and Summary: Treasury revised the PDP four hours before the meeting and announced at the meeting that it would undertake financial sector activities in all 12 NIS, instead of 4 as it had previously stated, and that no other agency should play any role in the financial sector. The participating agencies, especially OMB and AID, voiced strong objections to Treasury's plans and agreed to have the issue resolved by senior Treasury, State, and AID officials. Among the concerns raised by OMB were the following:

- Financing of administrative expenditures with program money;
- Geographic and subject focus for advisory services;
- Support system for advisers in Washington and in the field and relationship with local officials;
- Use of long-term advisers when function could be carried out faster and cheaper with short-term advisers.

Discussion: The meeting started with Paul O'FARRELL and Jane BARDON briefly describing the project. Larry CRANDALL wanted to know to what extent the project had been discussed with the host countries. Robert BANQUE responded that discussions had been held with Russian and Ukrainian officials the week of April 12 and that Kazakhstan had received no response to its request for advisers. Michael UNGER inquired whether the IBRD had been consulted and BANQUE replied in the affirmative. Tom MILLER also remarked that the EEC is participating and that individual European countries (e.g., the U.K.) are also placing advisers in the NIS. When asked how many advisers Treasury could provide with \$4 million, BANQUE replied 8 long-term advisers and some short-term contractors. The discussion turned to the status of

the advisers with Treasury claiming that they would have no official status (they would use personal passports), but CASELLA disagreed, saying that a USG employee represents the USG. O'FARRELL also doubted that the advisers would have no USG status and suggested that we look into this. CRANDALL wanted to know how Treasury could provide technical direction and BANQUE mentioned Treasury officials with experience in financial markets and tax issues.

CASELLA wanted to know how Treasury's revised paper differed from the one AID had distributed to the meeting participants. O'FARRELL explained that in the AID version Treasury and AID shared responsibility for financial sector activities with the understanding that Treasury would concentrate its efforts in 4 countries and AID in the remaining 8. In Treasury's new version, Treasury was assuming responsibility for all financial sector activities in all countries.

CASELLA remarked that the paper he read (AID version) was better than the equivalent paper for Eastern Europe, but it did not list objectives and ways of meeting them. For example, what does an adviser do? CASELLA also expressed concern about use of long-term advisers when short-term advisers could do the job. BANQUE responded that senior officials in NIS countries had asked for long-term advisers. CASELLA responded that even if countries asked for advisers we shouldn't assume that they would use them. A clearer focus and a clarification was needed on the adviser's relationship with the country officials. Barbara TURNER asked whether a scope of work had been developed that would show how the advisers' tasks fit within the country ministry. BANQUE responded that a scope of work would help us, but would not necessarily be attractive to the recipient. He went on to ask for AID/Embassy help in developing the scope of work. CASELLA observed that it was not obvious from the paper who would be in charge. More information was needed on the scope of work. Catherine MANN seconded CASELLA's remarks.

CRANDALL asked why Treasury changed the paper. BANQUE said that the Treasury's previous position of concentrating on only four countries was not tenable. David CARR asked why Treasury also assumed responsibility for banking sector reform. BANQUE answered that Treasury always intended to get involved in the banking sector. Treasury had a comparative advantage in the financial sector, especially vs. the IFIs. TURNER stated that under Treasury's new scenario there was no opportunity for AID to do anything in the financial sector and that was unacceptable. BANQUE stated that we should not prejudice the issue and that Treasury wanted to use AID's capability. O'FARRELL remarked that Treasury wanted to control not only policy but also administration. MANN noted that there was not enough money available for all the activities mentioned in the project and that the functions that went way beyond the advisory services

17

should be broken off. Objectives had to be stated so that the project could be evaluated. BANQUE stated that although Treasury had a comparative advantage in the financial sector much of the discussion was academic because of insufficient funds. BARDON asked why Treasury had a comparative advantage in banker training. BANQUE responded that Treasury wanted responsibility for that activity. CASELLA remarked that it would be more cost effective to train bankers here and cut back the number of long-term advisers. O'FARRELL added that we wanted to respond quickly to requests for assistance. CASELLA noted that the project listed a great number of activities and that one or two long-term advisers per country could not cover all these areas. BANQUE responded that one long-term adviser would normally generate \$150,000 of short-term advisory services per year.

O'FARRELL noted that a clarification was needed on how the Treasury advisers would relate to the AID missions. In Eastern Europe Treasury was not showing a comparative advantage but rather took advantage of targets of opportunity. BANQUE said that he did not know what the AID mission would look like. He assumed the same structure as in Eastern Europe. TURNER explained that four missions with 22 people would be set up with regional responsibilities in Moscow, Kiev, Alma Ata, and Yerevan. The Kiev and Alma Ata mission directors will report directly to the Ambassadors. These missions would have to be responsive to country requests for assistance. If AID had no role in this sector, our hands would be tied. BANQUE asked about the missions' scope of work and O'FARRELL responded that it was in an NSDD38 that was being reviewed by State.

Conclusion: It was agreed that BANQUE and BARDON would meet the following day (April 17) to resolve as many differences as possible. Remaining differences would be resolved at senior levels.

Follow-up Meetings.

State, AID, Treasury Meeting, April 17, 1992. Tom Miller, Jane Bardon and (briefly) Liz Cheney met with Messrs. Banque and Berg to clarify several aspects of the project, thus enabling Treasury to revise its paper. On the issue of administrative costs, BARDON wanted to know why Treasury needed compensation, since it was already paying BANQUE's salary and the salaries of OASIA desk officers and had no plans to hire more people. BANQUE responded that administrative support for the advisers would be provided by U.S.-Saudi Commission staff under Charles Schotta's deputate. (BARDON later determined through a call to Elliott Clarke at the U.S.-Saudi Commission that the Commission planned to hire additional procurement, accounting, and finance staff and perhaps rent more space when program money became available to provide administrative support for the NIS program.) BARDON noted that it would be a waste of taxpayer money for agency A to fund agency

B's administrative costs for an activity that agency A could do on its own. CHENEY asked how much Treasury was spending on the NIS TA program. BANQUE responded that OASIA's budget was \$20 million and perhaps 1% of that was spent on the NIS, namely his salary and portions of a few other officers' salaries. CHENEY remarked that Treasury's demand to control all financial sector activities, while not bearing any of the additional costs was unacceptable. BANQUE reiterated his argument about Treasury's comparative advantage in the sector. BARDON said that she was not convinced Treasury had a comparative advantage in commercial banking. AID could do a contract for that activity faster than Treasury. BANQUE responded that as far as he knew AID was not placing financial sector officers in the field. Was that correct? MILLER responded that staffing decisions had not been finalized, but given the limited number of people in each post, we could not, at least initially, devote one person per country exclusively to this activity.

With respect to the cost of advisers, BARDON said that Treasury budgeted nearly \$340,000 per adviser per annum and that was too much. BANQUE responded that that amount included \$50,000 per adviser per year for travel costs, which BARDON also found excessive. BARDON also wanted to know why the short-term adviser costs ballooned at the end of the period. BANQUE said that he expected the short-term advising needs to increase over time. BARDON said that the Interagency agreement required more budget detail than Treasury had provided thus far. Specifically, the per capita advisor cost had to be specified, the travel cost mentioned separately, and justification for short-term advisors provided.

Regarding field support for the advisers, CHENEY noted that in Eastern Europe that had been a problem and wanted to know how Treasury would avoid the same problem in the more unstable NIS environment. BANQUE said that support would be provided. Once program money became available OASIA desk officers would visit the countries under question and would establish relationships with local officials. CHENEY responded that that was not good enough. A person had to be on the ground to alert local officials of the advisers' arrival, make sure there is space for them in the ministry, help with housing, etc. The meeting was terminated after Treasury promised to provide a revised, more detailed, and more focused paper by COB April 20.

As of May 4, a new paper had not been provided, but at a meeting among senior State, AID, OMB, and Treasury officials on April 28, it was decided that Treasury would receive \$4 million in FY92 to place advisers in Russia, Ukraine, Kazakhstan, and Byelarus, and AID would undertake financial sector operations in the remaining 12 countries. Furthermore, Treasury was asked to fund its activities in the 4 NIS out of its own budget in later years. It was also decided that Treasury, AID/W, and the appropriate

regional AID offices would coordinate and monitor the activities of these advisers.

Participants: Treasury: Hauge, Riefel, Banque; OMB: Bent, Caselia; AID: Butler, Crandall, Bardon; State: Cheney.

Drafted by: JBardon, OPS/NIS, 5/4/92

Cleared by: PO'Farrell, LCrandall, OPS/NIS

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY: New Independent States Regional
PROJECT TITLE: Economic Restructuring and
Financial Sector Reform
PROJECT NUMBER: 110-0009
FY 1992 CP REFERENCE: None
APPROPRIATION CATEGORY: Economic Support Fund (ESF)
LIFE-OF-PROJECT FUNDING: \$18,000,000 ESF Grant
INTENDED FY 1992 OBLIGATION: \$4,000,000 ESF Grant

This is to advise that A.I.D. intends to obligate \$4,000,000 for the Economic Restructuring and Financial Sector Reform Project in the New Independent States (NIS) as follows: \$2,000,000 in FY 1991 Economic Support Fund (ESF) carryover grant funds originally planned for Pakistan, and \$2,000,000 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 will be \$18,000,000. The life of project is four years.

The purpose of the project is to help transform the command economies of the states of the NIS into market-based ones by providing advice on government finance, foreign exchange and trade policy, and banking sector reform.

Annex: Activity Data Sheet

**AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET**

PROGRAM: New Independent States Regional

CP 01-88 (4-88)

| | | | | |
|--|---|---|---|--|
| TITLE Economic Restructuring and Financial Sector Reform | | FUNDING SOURCE Economic Support Fund | PROPOSED OBLIGATION (in thousands of dollars) | |
| NUMBER 110-1009 | NEW <input checked="" type="checkbox"/> | PRIOR REFERENCE None | FY 92 4,000 | ESTIMATED FUND OBLIGATION FY 93 |
| GRANT <input checked="" type="checkbox"/> | LOAN <input type="checkbox"/> | | | ESTIMATED COMPLETION DATE OF PROJECT FY 96 |
| | | | | LIFE OF PROJECT (Months) 18,000 |

Purpose: To help transform the command economies of the states of the New Independent States (NIS) into market-based ones by providing advice on government finance, foreign exchange and trade policy, and banking sector reform.

Background: The dramatic collapse of the Soviet Union presents a historic opportunity for a transition to a more peaceful and stable international order and the gradual integration of the 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.

Project Description: This Project will provide expert U.S. advice and training to the states of the NIS with which we have established diplomatic relations on fiscal, monetary, exchange rate and trade policy. Assistance will also be provided on tax reform, analysis of tax law changes, tax compliance and collection, issuance of public debt, Central Bank functions, bank regulatory mechanisms, and privatization of financial entities. Related commodities such as word and data processing equipment and supplies necessary to carry out the activities outlined above will be provided.

Relationship of Project to AID Strategy: The Economic Restructuring and Financial Sector Reform Project supports the democratic and economic reforms taking place in the NIS. Its focus will be on those states that are committed to reform.

Beneficiaries: The direct beneficiaries of the project will be the central governments of the reforming states. Indirect beneficiaries will be the citizens and residents of these states whose living standards will improve as a result of more efficient government and resource allocation, increased competition, free markets, and a financial sector capable of mobilizing resources and fostering private sector activities.

Host Country and Other Donors: The project will be coordinated with the IMF, World Bank, EBRD, and other multilateral and bilateral donors.

| A.I.D.-Financed Inputs: | Life of Project (\$000) |
|------------------------------|-------------------------|
| Technical Assistance/Experts | 16,500 |
| Commodities | 500 |
| Training | 1,000 |
| TOTAL | 18,000 |

| U.S. FINANCING (in thousands of dollars) | | | | PRINCIPAL CONTRACTORS OR AGENCIES |
|--|-------------|-------------------------|----------------------|-----------------------------------|
| | Obligations | Expenditures | Unobligated | |
| Through September 30, 1990 | | | | |
| Estimated Fiscal Year 1991 | | | | |
| Estimated Through September 30, 1991 | | | | |
| Proposed Fiscal Year 1992 | 4,000 | 14,000 | 18,000 | |
| | | Future Year Obligations | Estimated Total Cost | |

22

New Independent States Regional
Economic Restructuring and
Financial Sector Reform 110-0009

Clearances:

| | | | |
|------------------------|----------------|-------|-----------------|
| DAA/EUR: DMerrill | <u>DM</u> | date: | <u>2/6/92</u> |
| GC/EUR: HMorris | <u>HM</u> | date: | <u>3/5/92</u> |
| R&D/TF: BTurner | <u>(draft)</u> | date: | <u>02/12/92</u> |
| EUR/OSA: PO'Farrell | <u>(draft)</u> | date: | <u>02/18/92</u> |
| GC/LP: RLester | <u>(draft)</u> | date: | <u>02/04/92</u> |
| EUR/PDP: SSmith | <u>(draft)</u> | date: | <u>02/04/92</u> |
| EUR/PDP: RFanale | <u>(draft)</u> | date: | <u>02/05/92</u> |
| EUR/DR: RAnthony | <u>(draft)</u> | date: | <u>02/03/92</u> |
| EUR/RME/FM: BBrockie | <u>(draft)</u> | date: | <u>02/04/92</u> |
| FA/B: LLeDuc | <u>(draft)</u> | date: | <u>02/05/92</u> |
| ST:D/EEA: CRufenacht | <u>(draft)</u> | date: | <u>02/11/92</u> |
| ST:EUR/ISCA/E: KVolker | <u>(draft)</u> | date: | <u>02/11/92</u> |

rafted: EUR/OSA: JBardon, 1/31/92: 77427

EUR/PDP: EBailly: 76919: CN Coordination

cc-FA/B: JPainter

03/04/92

INITIAL ENVIRONMENTAL EXAMINATION

- A. PROGRAM COUNTRY: NEW INDEPENDENT STATES
- B. ACTIVITY: ECONOMIC RESTRUCTURING/FINANCIAL SECTOR REFORM; PROJECT 110-0009
- C. FUNDING: \$ 18 MILLION ESF
- D. FUNDING PERIOD: FY 1992 TO FY 1996
- E. STATEMENT PREPARED BY: JANE E. BARDON, OPS/NIS
- F. ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion under A.I.D. Regulation Environmental Procedures 22CFR Part 216, Sections 216.2 (c) (1) (i) and (c) (2) (i).

G. DECISION OF ENVIRONMENTAL OFFICER

APPROVED: Michael Q. Philley
Michael Q. Philley

DISAPPROVED: _____

DATE: 5-18-92

H. DECISION OF DIRECTOR, NIS TASK FORCE

APPROVED: Malcolm Butler
Malcolm Butler

DISAPPROVED: _____

DATE: NOV 19 1992

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

A. DESCRIPTION OF THE PROGRAM:

This project provides training and technical assistance to institutions, individuals, and private voluntary organizations in the eligible NIS to foster economic restructuring and financial sector reform. There is no impact on the environment as far as A.I.D. managed activities are concerned.

B. RECOMMENDED ENVIRONMENTAL ACTION:

Because the project provides only education, 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, Section 216.2 (c)(1)(i) which generally provides for categorical exclusion in situations where the project has no effect on the natural or physical environment. Specifically, this activity is categorically excluded under Section 216.2 (c)(2)(i) for education, technical assistance, and training.

2/2



RECD S/S -IRM/RMD

9206244X

U.S. AGENCY FOR '92 MAR 30 P4:31 R92 MAR 23 A 10:40
INTERNATIONAL DEVELOPMENT S/S *R.24*



ORIG ACTMEM TO OIS
COPIES TO ACTION MEMORANDUM

D
E
T
C-2
S/P
SS
SSS
TMA
TMB
EUR
EB
H-2
PM
AID
RF
cah

TO: The Deputy Secretary *[Signature]*
THROUGH: T - Reginald Bartholomeu
DA/A.I.D., Mark L. Edelmann *[Signature]*
FROM: PM - Richard A. Clarke *[Signature]*
DD/POL, Larry Sakers *[Signature]*
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

26

assistance) have been initiated by A.I.D. and the Congress notified accordingly. Those actions are summarized in the Memorandum attached at Tab B. More recently, the President decided similarly to move ahead regarding diplomatic relations with Moldova, Turkmenistan, Uzbekistan, Tajikistan, and Azerbaijan. In this context it no longer makes sense to exclude these eleven Republics from foreign assistance procurement eligibility.

RECOMMENDATIONS

12

That you conclude that the eleven former Soviet Republics noted above should no longer be considered as "non-Free World" countries for the purpose of implementing President Kennedy's determination regarding Section 604(a).

MAR 30 1992

APPROVE [Signature] DISAPPROVE _____

DATE _____

DATE _____

That this determination will automatically extend to Georgia at such time as the United States establishes full diplomatic relations with it.

APPROVE _____ DISAPPROVE [Signature]

DATE _____

DATE _____

Attachments:

- TAB A - Action Memorandum for the Deputy Secretary
Approved 10/31/91
- TAB B - Action Memorandum for the A.I.D. Administrator
Approved 1/18/92

| | | |
|-----------------------------------|------------|-----------------------|
| GC/LP:RLester _____ | (Draft) | Date: 2/19/92 |
| A-GC:TGeiger _____ | (Draft) | Date: 2/20/92 |
| EUR/OSA:PO'Farrell _____ | (Draft) | Date: 2/20/92 |
| ENE/EUR:DMerrill _____ | (Draft) | Date: 2/20/92 |
| GC/EUR:HMorris _____ | (Draft) | Date: 2/20/92 |
| AA/R&D:RBissell _____ | (Draft) | Date: 2/21/92 |
| STATE/L/EUR:TBuchwald _____ | (Draft) | Date: 2/28/92 |
| STATE/EUR/ISCA/ECON:KVolker _____ | (Draft) | Date: 3/04/92 |
| STATE/D/EEA:CRufenacht _____ | CR | Date: 3/5/92 |
| STATE/S/P:JHannah _____ | (draft) CR | Date: 3/10/92 3/11/92 |
| STATE/P:C.L.VanVoorst _____ | CR | Date: 3/10/92 |
| STATE/C:RWilson _____ | CR | Date: 3/10/92 |
| STATE/EB/IFD/ODF:LMoriarty _____ | CR | Date: 3/11/92 |
| STATE:H:CRAETHER _____ | CR | |

Drafter:GC/CCM:KFries:DGC:RMeighan:FAAFP:2/7/92:Ext.78332:Revised 2/18/92:Revised 3/2/92 95

COPIES TO:

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

TAB-A

D
P
T

C-2

S/S

S/S-S

TMA

TMB

PM

RF/blw

ACTION MEMORANDUM

~~LIMITED OFFICIAL USE~~
(Decontrol 10-1-92)

*Decontrolled Funds (draft)
Kathleen T. Jones
11/27/91*

TO: The Deputy Secretary

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

FROM: FM-William P. Rops, Acting
D/POL, Larry Sifers, Acting

SUBJECT: Use of Foreign Assistance Act Funds for Procurement
in Eastern European Countries and Mongolia

4
OCT 1991
ISE
11/27/91

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)

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

~~LIMITED OFFICIAL USE~~

*Decontrolled
Kathleen T. Jones
11/27/91*

~~LIMITED OFFICIAL USE~~ Kenneth S. Davis 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.

~~LIMITED OFFICIAL USE~~

Don't
Kenneth S. Davis

4/27/91

~~LIMITED OFFICIAL USE~~

- 3 -

Declassified
Kenneth C. Foss
4/27/91

RECOMMENDATIONS

That you conclude that Poland, Hungary, Czech and Slovak Federal Republic, Bulgaria, Romania, Albania, Lithuania, Latvia, Estonia and Mongolia should no longer be considered as "non-Free World" countries for purpose of implementing President Kennedy's determination regarding Section 604(a).

APPROVE _____

DISAPPROVE _____

OCT 8 1 1981

That you agree that future decisions about whether a newly emerging democracy should be considered part of the "Free World" for purposes of Section 604(a) may be made by the Under Secretary for International Security Affairs.

APPROVE _____

DISAPPROVE _____

OCT 8 1 1981

Attachment:

TAB - Presidential Determination Under
Section 604(a) Dated 10/18/61

~~LIMITED OFFICIAL USE~~

Declassified
Kenneth C. Foss
4/27/91

Clearances:

State/D/EEA:RBarry (Draft) date 9/30/91
State/L/PM: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/EEY:SByrnes (Draft) date 10/15/91
State/EAP/CH:RPerito (Draft) date 10/01/91
State/EB/IFD/ODF,LMoriarty (Draft) date 10/01/91
State/INM:JVanWert (Draft) date 10/01/91
AID/GC:(Acting):TGeiger (Draft) date 9/27/91
AID/AA/ENE:CAEdelman (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

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

GC/CCH:KFries:cac:1/14/91:PDFAAP(WordPerfect):EXT. 78332

KEP

DB

31

Title 3—THE PRESIDENT

Memorandum of October 10, 1961

DETERMINATION UNDER SECTION 604(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

Memorandum for the Secretary of State

The White House

Washington, October 10, 1961

Section 604(a) of the Foreign Assistance 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: (1) in the interest of the national health, safety, or interest 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 outweigh the economic or other advantages to the United States of less costly procurement under the Foreign Assistance Act; (2) in the case of any commodity produced in bulk in less than the market price prevailing in the United States at the time of procurement, adapted for shipment in the case of commodities to customary 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. I am in 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 not 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 contained in force by my deter-

mination below, the procedural bulk of foreign assistance procurement will be made in the United States. The necessity for this is clear; such procurement will contribute generally towards meeting our balance of payments difficulties, and also helps maintain momentum in labor surplus areas.

On the other hand, trade and foreign policy objectives and assistance programs may 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 has developed countries, in particular, where economic development, thereby contributing to the objectives of the economic program and increasing their capacity for foreign assistance. Procurement of military 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 projects are to be used for procurement from the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, India, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, and United Kingdom. Upon consultation by the Secretary of State, however, the 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 attached countries.

I also hereby direct that funds made available under the Foreign Assistance Act of 1961 for military assistance programs are to 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 effect 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 604(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 outweigh the economic and other advantages of less costly 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 30, 1961.

This determination shall be printed in the Federal Register.

John F. Kennedy

772 Dec 01-1961; Fed. Res. 2, 041; 6:15 p.m.]

267.R.10543

Nov. 9, 1961

32



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. Frymfor
FROM: AA/EUR, Carol C. Adelman
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,

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

-33-

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 republics are 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)

-34-

(1) Section 620(l): 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: 1-16-92

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

35

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: HMorris | (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

U:\CIS.TIC

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

ORIG PACKAGE RECEIPTED TO EUR-NILES

TAB F

COPIES TO:

OIS
D
P
M
C-2
S/P
SS
SSS
TMA
TMB
EUR
E-2
L



United States Department of State

VC2/4

Washington, D. C. 20520

EXECUTIVE SECRETARIAT

1772 FEB -5 A 9:10

'92 FEB -4 10:14

FEB 3 1992

ACTION MEMORANDUM VC2/4
UNCLASSIFIED S/S

9202390

'92 FEB-04 8:15



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;

UNCLASSIFIED

UNCLASSIFIED

- 2 -

- 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.

UNCLASSIFIED

38

UNCLASSIFIED

- 3 -

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.

UNCLASSIFIED

UNCLASSIFIED

- 4 -

Drafted: AID/GC: HMorris::L/EUR: TFBuchwald^{TB}

X-6295 1/21/92

Cleared:

D/EEA - Mr. Lehovich^{TB}
P - Ms. van Voorst^{TB}
EUR/ISCA - Ms. Griffiths
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^{TB}
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

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.

41'

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, Acting
Assistant Legal Adviser for
European and Canadian Affairs

X-6295 1/21/92
cleared: L/T:Gtaft
L/SFP:LJacobson
L/PM: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.

44

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.

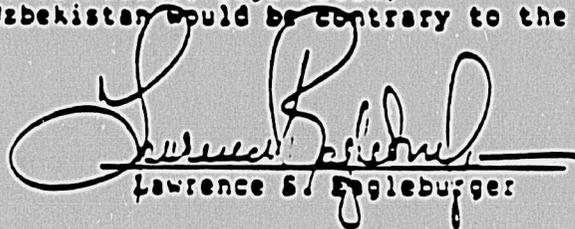
FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:

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

TAB H

MAR 25 1992

~~PERSON~~ ACTING

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/OPS, Scott Spangler *smg*
FROM: AA/R&D, Richard Bissell *rb*
AA/EUR, David N. Merrill *dmerrill*
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

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

92002347

47

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(1) 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

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

US

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: Mark 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)

49

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.

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.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

TAB J

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:

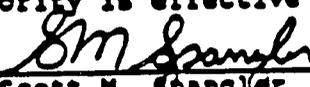
A. With respect to all former republics of the Soviet Union (except Latvia, Lithuania, and Estonia), there is delegated to the Director of the Task Force for the Newly Independent States of the Former Soviet Union all of the authorities delegated to me from the Administrator.

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

-57

INTERAGENCY AGREEMENT BETWEEN
THE AGENCY FOR INTERNATIONAL DEVELOPMENT
AND
THE DEPARTMENT OF THE TREASURY

SUBJECT: Reimbursement to the Recipient Agency for the Implementation of the Financial Advisor Component of the Economic Restructuring/Financial Sector Reform Project, in the New Independent States (NIS) of the former Soviet Union (collectively, the "Cooperating Countries").

PROJECT TITLE: Economic Restructuring/Financial Sector Reform

PROJECT COMPONENT: Financial Advisor PROJECT NUMBER: 110-0009

I. PURPOSE: This Agreement between the Recipient Agency and the Agency for International Development (A.I.D.) defines the procedures under which A.I.D. will reimburse the Recipient Agency to implement the Financial Advisor Component in the Cooperating Countries.

II. AUTHORITY AND USES OF FUNDS: Pursuant to Section 531 and Section 632(b) of the Foreign Assistance Act of 1961, as amended (the "FAA"), and PL 102-266 (the "Continuing Resolution"), A.I.D. will reimburse the Recipient Agency \$4.0 million to implement the Financial Advisor Component in accordance with this Agreement. It is understood that these funds will be used in a manner consistent with the purposes of the Component and in accordance with the laws and regulations governing the Component. The Component provides for long- and short-term advisers to be assigned in the Cooperating Countries as described in Annex A. Reassignments are permissible, when circumstances warrant, provided the A.I.D. mission is notified and concurs in advance.

III. TERMS AND CONDITIONS: This Agreement is subject to the following terms and conditions:

A. FISCAL TERMS: 1. (a) Execution of this Agreement will constitute an obligation by A.I.D. of \$2.0 million in FY 1991 Economic Support Fund (ESF) carryover grant funds, originally planned for Pakistan, and \$2.0 million in FY 1992 ESF grant funds for the component.

(b) The financial plan in Annex B provides a budget for the implementation of the Component. Within the total budget amount for the Component, the Recipient Agency may adjust individual line items, provided that (1) any adjusted line item does not exceed by more than fifteen (15) per cent of the amount shown for that line item in the financial plan and (2) the Recipient Agency gives A.I.D. written notice that the adjustments have occurred. Adjustments to the budget that exceed 15 per cent for any one line item shall require prior written approval of A.I.D.

2. (a) The Recipient Agency will bill A.I.D. through OPAC procedures or by submitting a Standard Form 1081 (SF-1081) to:

Agency for International Development
FM/CARD
Inter-Agency Billing Unit
SA-2, Room 603
Washington, D.C. 20523-0208.

(b) The amount billed will be determined by the Recipient Agency and will be treated as an advance by A.I.D. This advance will be liquidated based on the quarterly reports, described below, detailing the implementation of the Component.

3. (a) For each quarter of the calendar year, the Recipient Agency shall provide a quarterly report showing the amount of the original advance as well as current quarter and cumulative expenditures as follows:

| | <u>Cumulative Commitment</u> | <u>Current Qtr Expenditures</u> | <u>Cumulative Expenditures</u> |
|----------------------------|----------------------------------|-------------------------------------|------------------------------------|
| Personnel | | | |
| Long-term Advisers | | | |
| Short-term Advisers | | | |
| Travel | | | |
| Training | | | |
| Equipment | | | |

(b) The categories of expenditures to be reported by the Recipient Agency shall follow those provided in the financial plan as set forth in Annex B attached hereto.

(c) This information shall be provided in summary for the Component and separately to show the allocation to each Cooperating Country, if appropriate.

(d) The report will be used to liquidate the advance authorized hereby. The Recipient Agency shall submit its quarterly report within 30 days after the end of the applicable quarter. An original and three (3) copies of the report shall be furnished to:

Agency for International Development
FM/CARD
Inter-Agency Billing Unit
SA-2, Room 603
Washington, D.C. 20523-0208.

The report must be signed in the original by an authorized official of the Recipient Agency's billing office.

(e) The quarterly report shall also include a narrative description of the progress of Component activities, including separate sections that describe country-specific activities, as appropriate. An additional copy of the quarterly

55

report shall be submitted to:

Agency for International Development
Task Force for NIS
Room 4725 NS
Washington, D.C. 20523-0086.

4. Funds not disbursed by the Recipient Agency upon completion of the Component or disbursed for purposes or activities not authorized by this Agreement, shall be promptly refunded to A.I.D.

5. It is understood that the Completion Date for the Component shall be not later than 18 months from the date this Project is authorized. "Completion Date" for this purpose refers to the date by which all A.I.D.-financed goods will have been delivered and all A.I.D.-financed services will have been provided. Except as A.I.D. may otherwise agree in writing, funds transferred under this Agreement may not be used to finance services performed after the Completion Date or goods furnished after the Completion Date.

6. The Recipient Agency shall ensure that all statutory or other restrictions on expenditures of the funds transferred hereby are fully complied with.

7. Pursuant to Section 632 (b) of the FAA, as amended, the Recipient Agency may use the funds reimbursed hereby for obligations and expenditures to implement the Component in accordance with its own authorities and the authorities conferred by Section 636 (a) subject to the same terms, conditions, and limitations as would be applicable to A.I.D.

8. Funds allocated pursuant to this IAA may also be made available to reimburse allowable, reasonable costs incurred by the Recipient Agency between May 1, 1992, and the date of this IAA for the provision of assistance in furtherance of the objectives of this activity. Such pre-IAA costs may include the expenses associated with the following activities:

a. Financial advisory activities in the Ukraine through a personal services contract for Mr. Donald Syvrud. Estimated cost: \$20,000.

b. Tax advisory activities in the Ukraine in connection with personal services contract for Mr. Robert Conrad. Estimated cost: \$10,000.

c. Travel to the Ukraine for Mr. Andrew Pike for consultations on tax policy planning. Estimated cost: \$10,000.

d. Travel to the Ukraine by Mr. Zolt and Mr. Conrad for consultations on tax policy planning. Estimated cost: \$15,000.

B. PROCUREMENT: 1. The Recipient Agency agrees to use the funds transferred hereby to cover the administration and related costs of the Component and the award of grants and contracts. Except as A.I.D. may otherwise agree in writing, the Recipient Agency will administer the funds (including procurement and monitoring actions) in accordance with the Recipient Agency's procedures and/or A.I.D.'s procedures where appropriate, and upon prior consultation with A.I.D.

2. Further, except as A.I.D. may otherwise agree in writing, funds transferred hereby may be used to finance only goods having their source and origin in the United States and suppliers of goods or services having the United States as their place of nationality, as defined in A.I.D. Handbook 1B, chapter 5. Local procurement in the Cooperating Country in which assistance is being rendered by the Recipient Agency shall be permissible in accordance with A.I.D. Handbook 1B, chapter 18. The Recipient Agency shall keep records on expenditures for items which do not meet U.S. source, origin and nationality requirements as defined in A.I.D. Handbook 1B.

C. RECORDS AND REPORTS: 1. The Recipient Agency shall keep full and complete records and accounts with respect to the funds transferred hereby in accordance with generally accepted U.S. Government accounting principles. Further, the Recipient Agency shall require that all contractors or grantees financed with funds provided hereunder maintain books and records related to the Component in accordance with generally accepted accounting principles as formally prescribed by the United States, the Cooperating Country, or the International Accounting Standards Committee (an affiliate of the International Federation of Accountants). Further, the Recipient Agency shall ensure that all such books and records of all contractors and grantees financed with funds allocated hereby may be audited by the Recipient Agency, A.I.D., or other authorized U.S. Government official for a period of three (3) years from the expiration of the contract or grant.

2. The Recipient Agency hereby agrees to provide A.I.D. with copies of all evaluation or other reports generated by federal or outside sources, and such other information as A.I.D. may, from time to time, request concerning the progress, impact, or success of the Component.

D. AUDIT AND INSPECTION RIGHTS: 1. Audit and inspection requirements as set forth in the Inspector General Act of 1978, as amended, (the "Act") shall apply with respect to the funds transferred hereby, and to the books and records of any contractor or grantee financed with such funds. The Office of the Inspector General for A.I.D. shall ensure full compliance with all applicable

provisions of the Act in coordination with the Office of the Inspector General for the Recipient Agency, or other appropriate office, which shall provide all appropriate assistance or other support.

2. (a) The Recipient Agency shall ensure that grants with non-U.S., nongovernmental organizations include an audit clause which requires that if a grantee receives \$25,000 per year or more under such a grant, the grantee agrees that it shall have an independent financial audit made of the funds provided under such a grant. The financial audit of the funds disbursed to the grantee shall determine whether the receipt and expenditure of the funds provided under the grant are in accordance with generally accepted accounting principles and whether the grantee has complied with the terms of the agreement. An audit of the grantee shall be conducted for each fiscal year. The audits shall usually be performed annually, but not less frequently than every two years. The audits shall be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

(b) The Recipient Agency shall ensure that contracts with foreign contractors include the appropriate audit and examination of records clauses as specified in the Federal Acquisition Regulations.

(c) The Recipient Agency shall ensure, by appropriate written arrangements with aid recipients, that such A.I.D.-financed assistance shall be subject to audit and inspection by authorized U.S. Government officials.

E. OTHER AGREEMENTS: 1. The Recipient Agency, with the assistance of A.I.D. and, if necessary, the United States Embassy in the Cooperating Countries, shall seek to obtain for its personnel, contractors, and grantees as well as for any commodities financed hereunder, exemptions from taxes, duties and fees which may be imposed by the Cooperating Countries with respect to the assistance program financed by this Agreement.

2. The Recipient Agency shall ensure, with the assistance of A.I.D., and if necessary, the U.S. Embassy in the Cooperating Country, in written arrangements which the Recipient Agency and/or grantees or contractors financed by the funds allocated hereby shall enter into with recipients of A.I.D.-financed assistance that: (1) such assistance shall only be used for the purposes stated therein and, (2) that if such assistance is no longer needed for such purposes, that such assistance may be used for other purposes as may be mutually agreed upon by the Recipient Agency in consultation with A.I.D.

3. The advisers, who will be personal service contractors or Treasury direct-hire employees, will be under Treasury's supervision while performing their services in the

58

countries of assignment. Treasury, AID/W, and the appropriate regional AID offices will coordinate and monitor the activities of these advisers. AID will conduct field visits and will review reports provided by grantees, contractors, the Recipient Agency, and Embassy staff travelling through the region. The resident advisers, through the resident AID mission as appropriate, will coordinate their activities with the U.S. Ambassador and will keep him or her informed of such activities.

Treasury advisers have access to certain proprietary information from host governments which they may not disclose to U.S. government agencies, including Treasury. In carrying out their respective roles, Treasury and AID will take into account that the effectiveness of these advisers would be seriously undermined if detailed reporting of this sensitive information were required of them in the performance of their duties. Treasury and AID will consult if problems arise in this area.

4. The Recipient Agency shall, in cooperation with AID, participate in the evaluation of program activities funded under this IAA to insure that these activities are consistent with overall Project policy, strategy, and management.

F. AUTHORIZED REPRESENTATIVES: Authorized representatives for this Agreement are the signatories to this agreement, or the persons acting in or holding their positions. Each party may, by written notice to the other party, designate additional representatives for all purposes specified in such notice.

G. AMENDMENTS AND MODIFICATIONS: 1. Implementation Letters by authorized representatives may be used to record mutually agreed upon adjustments to the Component Descriptions or to the Financial Plans without formal amendment to this Agreement. Implementation Letters shall not be used, however, to modify the text of this Agreement, which shall only be done through formal amendment hereto. In addition, A.I.D., from time to time may issue Implementation Letters to furnish additional information about matters addressed in this Agreement.

2. This Agreement may be amended, modified or canceled upon the mutual, written consent of both parties.

Malcolm Butler
Director, Task Force for the
New Independent States
Agency for International
Development

John R. Hauge
Deputy Assistant Secretary
Eastern Europe and Former
Soviet Union
Department of the Treasury

Dated: _____

Dated: _____

Funding:
Appropriation Symbol:
Budget Plan Code:
Funds Control Number:

ANNEX A
DESCRIPTION
Financial Advisor Component
of the
Economic Restructuring/Financial Sector Reform Project

I. Background and Purpose:

The financial sector reform effort in Russia, Ukraine, Kazakhstan, and Byelarus is a new and dynamic area and it requires substantial flexibility of response. Consequently, this component is designed to permit rapid redeployment of resources in response to new opportunities. This agreement is intended to support the implementation by the Department of the Treasury of an activity that will provide short- and long-term financial advisors to the central governments of Russia, Ukraine, Kazakhstan, and Belarus and short-term training to central government officials of the above countries. Upon prior approval of AID, Treasury may also provide short- and long-term financial advisers to other Cooperating Countries. As used in this IAA, the term "Cooperating Countries" refers to Armenia, Azerbaijan, Byelarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. AID will advise Treasury with respect to Georgia's eligibility for assistance.

II. General Tasks:

1. Treasury will negotiate and sign in cooperation with the Department of State and the Agency for International Development (A.I.D.), technical project agreements with the appropriate institutions in the four eligible countries to implement the tasks described below.
2. Treasury will carry out advisory, technical assistance and training activities within the framework of the project.
3. Treasury will provide in writing to A.I.D. the name of the Treasury official designated as the project officer for this Interagency Agreement.
4. Treasury will develop detailed, timely work plans, scopes of work, and other appropriate work planning systems for each task, based on consultations with the A.I.D. project manager.
5. Treasury will award contracts and grants under Treasury and/or A.I.D. regulations and procedures to implement the tasks. USG direct-hire personnel, U.S. citizen or non-citizen, may also be used, with the concurrence of the U.S. Embassy.
6. Treasury will report quarterly on funding obligations and expenditures and on the progress in implementation of work activities. These reports will be included in an overall A.I.D. report on the Economic Restructuring/Financial Sector Reform project.

III. Specific Activities

A. Long-term Advisers: The following positions will be filled, primarily with Personal Services Contracts (PSCs) and USG direct hires, subject to written concurrence of appropriate officials in Russia, Ukraine, Kazakhstan, and Byelarus and subject to U.S. Embassy concurrence.

Russia

1. Adviser to the Central Bank on bank supervision. Adviser would serve bank regulatory officials by assisting senior managers to develop policies and procedures to ensure a sound banking system. The priority will be preparation of laws and regulations to establish procedures for bank examination and evaluation, including the establishment and enforcement of reserve requirements, the improvement of capital adequacy and bank licensing and control procedures, and the design of financial reporting systems.

2. Adviser to the Central Bank on restructuring state-owned banks. Adviser would assist by providing qualitative assessments and recommendations regarding commercial bank restructuring programs. The priority goals would be to assess procedures used by commercial banks to review the soundness of their loan portfolios and to establish debt workout policies, and to assess steps that may be necessary to attract private investors.

3. Adviser to the Russian Ministry of Finance on tax policy. Adviser would assist senior officials of the Ministry of Finance on the preparation of legislation and regulations that will foster private sector-led growth and provide adequate revenues by emphasizing simplicity, neutrality, and transparency. The priority goal would be to analyze tax proposals to forecast likely economic effects.

4. Adviser to the Russian Ministry of Finance on macroeconomic policy management. Adviser would assist the Minister of Finance, or his designee, in managing macroeconomic policy, including fiscal, monetary, and international policies. The priority goal would be the management of budgetary policies to conform with stabilization policy objectives.

Ukraine

1. Adviser to the Ukrainian National Bank (UNB) on central bank functions, including monetary policy, the introduction of a national currency, and payments systems. The adviser would assist senior bank officials in developing and implementing monetary policy, introducing a national currency, and laying the basis for a sound banking system. The priority will be advice on the introduction of a national currency, on monetary policy

implementation, including the establishment and enforcement of reserve requirements.

2. Adviser to the Ministry of Finance on tax policy. Adviser would assist senior officials of the Ministry of Finance on the preparation of legislation and regulations that will foster private sector-led growth and provide adequate revenues by emphasizing simplicity, neutrality, and transparency. The priority goal would be to analyze tax proposals to forecast likely economic effects.

Kazakhstan

1. Adviser to the Ministry of Finance on macroeconomic policy management. Adviser would assist the Minister of Finance, or his designee, in managing macroeconomic policy, including fiscal, monetary, and international policies. The priority goal would be the management of budgetary policies to conform with stabilization policy objectives.

Byelarus

1. Adviser to the Central Bank on bank supervision. Adviser would serve bank regulatory officials by assisting senior managers to develop policies and procedures to ensure a sound banking system. The priority will be preparation of laws and regulations to establish procedures for bank examination and evaluation, including the establishment and enforcement of reserve requirements, the improvement of capital adequacy and bank licensing and control procedures, and the design of financial reporting systems.

Estimated Timetable: June-September, 1992.

B. Short-term advisers: Advisers will be employees of the Recipient Agency, other USG agencies, Personal Services Contractors, and other private sector contractors. USG personnel will not be reimbursed for salary and other benefits. Services to be provided to the Ministries of Finance and other financial institutions, such as banks, in the eligible NIS countries. Services may take the form of advice or training on matters such as deposit insurance systems, domestic and foreign debt management, bank clearing and payments systems, bank examination and supervision, and government securities market development. The location in which services are to take place will be decided upon by the Recipient Agency, in consultation with AID, State, and the U.S. embassies of the Cooperating Countries.

Estimated Timetable: June-September 1992.

C. Travel/Transportation: This item covers travel by long- and short-term advisers to, from, within the Cooperating Countries, and to third countries hosting training sessions; travel by direct-hire

63

USG officials to, from, within the Cooperating Countries, and to third countries hosting training sessions; travel by Cooperating Country officials within the Cooperating Countries and to other countries hosting training sessions; and transportation of the personal and family effects of the long-term advisers.

D. Short-term Training: Training will be for public and private financial sector officials of the Cooperating Countries, in country or in overseas locations. Public and private sector officials in policy making positions or other positions related to the implementation of economic reforms will be given preference in terms of training. Training will be in the form of short-term seminars, lectures, and conferences. Examples of topics to be covered in the training sessions include: fiscal, monetary, and international economic policies; bank licensing, examination, supervision, evaluation, capital adequacy, payments systems, and the design of financial reporting systems. Expenses covered under training include: course, seminar, and conference fees; stipends, per diem, supplies, passports, and insurance.

Estimated Timetable: June-September 1992.

E. Equipment: Equipment includes personal computers, printers, and fax machines for long-term advisers.

64

ANNEX B
Financial Plan
Financial Advisor Component
Economic Restructuring/Financial Sector Reform Project
(\$ Thousand, per annum)

| | <u>Rate</u> | <u>Number</u> | <u>Expense</u> |
|-----------------------|-------------|---------------|----------------|
| Long-term advisers | 255 | 8 | 2,040 |
| Short-term " | | | 415 |
| Travel/Transportation | | | 955 |
| Short-term training | | | 500 |
| Equipment | | | 90 |
| <hr/> | | | |
| Total | | | 4,000 |

Memorandum Items (totals may not add up due to rounding):

1. The total cost of long-term advisers consists of:

| | |
|-------------------------------|----------------------|
| a. Compensation and benefits: | \$977 (rate \$122) |
| b. Contractor support: | \$787 (rate \$98) |
| c. Other: | \$44 (rate \$6) |
| d. Contingency (5%): | \$114 (rate \$14) |
| e. Treasury Processing Costs: | \$119 (rate \$15) |
| f. Total | \$2,040 (rate \$255) |

2. The total cost of short-term advisers consists of:

| | |
|------------------------------|-------|
| a. Compensation and benefits | \$310 |
| b. Other | \$19 |
| c. Contingency (5%) | \$27 |
| d. Treasury Processing Costs | \$59 |
| f. Total | \$415 |

3. Travel/Transportation includes:

| | |
|---------------------------------|-------|
| a. Long-term advisers | \$536 |
| b. Short-term advisers, USG TDY | \$300 |
| c. Foreign officials | \$119 |
| d. Total | \$955 |

4. The provisions of Section III.A.1(b) of the IAA will apply to the general line items of the financial plan, but not to the individual lines of the memorandum items.

- 65

Distribution of Long-term Advisers:

| <u>Country</u> | <u>No. of Advisers</u> | <u>Responsibilities</u> |
|----------------|------------------------|---|
| Russia | 4 | Finance Ministry 2 Central Bank 2 |
| Ukraine | 2 | Finance Ministry 1 Ukraine National Bank 1 |
| Kazakhstan | 1 | Ministry of Finance |
| Byelarus | 1 | Central Bank |

- 66