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

**AMENDMENT NO. 2
to the
PROJECT MEMORANDUM**

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

Approved: August 7, 1992

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Food Systems Restructuring
(No. 110-0006)**

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AGENCY FOR
INTERNATIONAL
DEVELOPMENT

August 5, 1992

ACTION MEMORANDUM FOR THE DIRECTOR, NIS TASK FORCE

FROM: NIS/TF/OD, Barbara Turner *B Turner*
SUBJECT: Project Authorization for the Food Systems
Restructuring Project No. 110-0006

PROBLEM: Your approval is required to amend the existing authorization in the amount of \$4.385 million for the Food Systems Restructuring Project (FSRP). This action will both broaden the scope of the project and increase the life of project funding (LOP) from \$4.385 million to \$25 million. The Project Assistance Completion Date (PACD) will be May 4, 1996, four years from the date of first authorization (May 5, 1992). This authorization amendment is in keeping with the project as described in the Congressional Notification (CN) dated March 6, 1992 which indicated a LOP of \$25 million and expired without objection on March 21, 1992.

As reflected in the attached Project Memorandum (Tab A), however, and subject to Congressional Notification (as discussed below), the FSRP will have a LOP funding of \$66 million. A new CN will be submitted to Congress in the near future notifying the increase in LOP. When it expires, you will be requested to sign an amended authorization (Amendment 3) for \$41 million which will increase the LOP to \$66 million. Amendment 3 will add funds to the core agribusiness activities found in this authorization amendment.

BACKGROUND:

The United States has a vital interest in the successful transition of the NIS into stable and prosperous democracies that can be fully integrated into the community of democratic nations and the world economy. A consensus exists that while the NIS can produce enough food to feed its people, its distribution system is grossly inefficient. Therefore, food shortages in the NIS can be mitigated by improving the agricultural input and output distribution elements of the food system. Until recently, the agricultural input and output distribution systems have been almost entirely public, focused on serving the large state farms. A new system of private agribusiness is needed to support the private farmers and the expansion and success of the land privatization efforts in the NIS.

The Food Systems Restructuring Project is designed specifically to address these problems. On May 5, 1992, FSRP was authorized. It consisted of one component, the Armenia Agricultural Extension Collaboration Program (AAEC). The AAEC will be separately implemented over a three year period by the U.S. Department of Agriculture under an agreement with A.I.D. The principal objective of the AAEC is to support efforts aimed at creating an extension service within the Ministry of Agriculture in Armenia. The total amount budgeted for this activity is \$3.75 million, with \$1.25 planned for FY 92.

On May 22, 1992, the FSRP was amended to include a Grains and Perishables Storage component. The objective of this component is to improve food and feed grains storage. The services of the Food and Feed Grains Institute at Kansas State University (KSU) and the Postharvest Institute for Perishables (PIP) at the University of Idaho are being utilized to develop a training and technical assistance program that will begin implementation prior to the onset of the 1992 winter. The two institutes will also recommend ways that the U.S. private sector can increase its marketing opportunities with storage facilities, equipment and technology in the NIS. The total amount budgeted for Amendment One was \$635,000. An additional \$1.0 million will be added at this time for implementation of the program.

The second amendment to FSRP will: A) assist in the complex and multidimensional task of creating a new, privatized agricultural input and output distribution system and B) address activities that are related to improving food availability (through the storage component) in the winters of 1992/93-1993/94. Funds will also be provided for commodities and for activities that complement the project purpose. The programmatic rationale for this amendment is derived from the assumption that U.S. agribusinesses, with a long and successful history of providing food to feed the world, have the expertise and interest to assist in this process. Many U.S. agribusinesses, after years of working within the former Soviet Union, are "ground tested" and have an understanding of the complexities of creating a private distribution system. They have established a network of counterparts with whom they are already working and have experienced a certain level of success in their respective ventures.

DISCUSSION: The purpose of the Food Systems Restructuring Project is to increase the efficiency of the food system from the farm gate to the consumer by the peoples of the Newly Independent States (TAB A). The major component of the project will work through agribusiness associations to support the involvement of their member companies and cooperatives in establishing long-term ventures which create elements of a private food system in the NIS. The FSRP will look to agribusinesses to design and

implement project activities. In this way, A.I.D. can maximize the expertise, knowledge, networks of relationships and "beach-head operations" of U.S. agribusinesses.

Through the mechanisms of a Request for Applications (RFAs), A.I.D. will ask the agribusiness associations, acting on behalf of their members, to illustrate how their members could adequately address one or more of six elements of a distribution system. These include: Storage and Handling, Transport and Communications, Processing, Marketing, Government Reform, and Banking. The following are illustrative activities for each element of the distribution system:

(1) Storage and Handling: The agribusinesses will be able to propose activities that address storage problems. These may include: mechanisms that promote a dispersed, decentralized farm production storage system, improvements in the design and operation of storage facilities and grain elevators, frozen food storage, and improved management and inventory control.

(2) Transport and Communications: With the dissolution of the Soviet Union, rail and barge food movements are breaking down, as are the communication systems critical to a market economy. Activities funded under this component could support the privatization of transport and improved communications systems necessary for efficient operations.

(3) Processing: The poor quality of the raw agricultural production received by the processing plants, the lack of food additives and ingredients, packaging materials, and poor management capabilities are all problems within the NIS. U.S. agribusinesses and their local counterparts may propose activities that address these problems, such as setting up private sector wholesale markets for food commodities, and supporting the introduction of modern packaging, food additives and ingredients to those facilities.

(4) Marketing: In the NIS, several problems currently plague retail and wholesale marketing, which is almost exclusively state-owned. Privatizing this system will have a significant impact on breaking up State control of the output distribution system. U.S. agribusiness associations and NIS firms will be encouraged to propose activities that result in a more efficient marketing system, including strengthening burgeoning small- and medium-sized retail outlets, and creating private wholesale markets.

(5) Banking: In the last decade, agricultural credit accounted for 25 percent of short-term debt and 60 percent of long-term debt. Access to needed credit for private sector producers and agribusinesses is currently limited by tight credit availability, heavy current debt loads, and inexperience among

lending institutions. U.S. agribusiness associations may include U.S. banks interested in providing assistance to NIS banks, related to the special needs of private NIS agribusinesses, in their proposals. Initiation of new agricultural credit facilities or capitalization of credit will not be considered.

(6) Government Reform: In many instances, the legal, regulatory and procedural reforms in the agricultural sector lag behind government rhetoric. In order to be proactive in fostering the dialogue needed to nurture policy change, the U.S. agribusiness associations and their counterpart organizations may include proposals to work with local and national government officials to identify specific legal and/or regulatory problems encountered by the nascent private sector, and propose solutions. Funds will also be made available to a neutral third party to analyze, monitor and make recommendations on pricing and other policy reforms.

FSRP also contains two additional project components that are complementary to above elements: (1) assistance for activities that complement the project purpose and/or that improve food availability for the winters of 1992/93-1993/94 and (2) commodities in support of project activities.

(1) Winter Food Availability: A number of unsolicited proposals have been received by the NIS Task Force. Those activities that assist in achieving the project purpose and/or are specifically related to improving food availability in the winter of 1992/1993 and 1993/1994 may be funded under this project component. Priority will be given to those proposals that build on existing U.S. agribusiness relationships with private agribusinesses in the NIS.

(2) Commodity Support: FSRP will fund commodities that complement activities underway within the agribusiness development component of the project.

Budget Summary:

This authorization amendment is for a total of \$25 million of which \$21 million is available for this fiscal year. Subject to Congressional Notification, LOP for FSRP will be \$66 million. The Budget Summary illustrates project costs for this fiscal year, this authorization amendment and life of project.

Listed below are the major project elements and cost estimates for each item, including inflation.

BUDGET SUMMARY: A.I.D. FINANCIAL INPUTS

(\$000)

	ORIGINAL PROJECT	FY 92 (NON-ADD.)	AMEND. ONE	FY 92 (NON-ADD.)	AMEND. TWO	FY 92 (NON-ADD.)	AMEND. THREE	TOTAL LIFE OF PROJECT
ARMENIA AGRICULTURAL EXTENSION PROJECT	3,750	1,245	—	—	—	—	—	3,750
GRAINS & PERISHABLES STORAGE PROJECT	—	—	635	635	1,000	1,000	—	1,635
AGRI BUSINESS								
- TECH. ASST.	—	—	—	—	7,000	6,120	18,000	25,000
- TRAINING	—	—	—	—	2,000	2,000	13,000	15,000
- COMMODITIES	—	—	—	—	7,000	7,000	8,000	15,000
- WINTER	—	—	—	—	3,000	3,000	2,000	5,000
- EVAL/AUDIT	—	—	—	—	615	—	—	615
FY 92 TOTAL	—	1,245	—	635	—	19,120	—	—
PROJECT / AMENDMENT TOTAL	3,750	—	635	—	20,615	—	41,000	66,000

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Technical Assistance:

It is estimated that over the LOP \$25 million in technical assistance will be provided by U.S. agribusinesses funded by A.I.D. through the agribusiness associations. Illustratively, U.S. agribusinesses will offer technical assistance in such activities as introducing western techniques of operating wholesale and retail outlets, and increasing the quality of processed foods. In addition, these funds could also be used to support trade fairs and member seminars, where U.S. agribusinesses can meet NIS counterparts.

Training: Approximately \$15 million LOP funding will be provided for training. U.S. agribusinesses will arrange training courses for private sector entrepreneurs that include general business and financial management skills. Specialized, technical training may also be provided. Short-term exchange programs in which an NIS executive or senior operational leader will be exposed to U.S. counterpart business organizations are additional training options. Training may be provided in the NIS, the United States, or a third-country locale.

Commodities: It is estimated that \$15 million will be provided for commodities. Commodities under this component would be those required to support food security for the winters of 1992/93-1993/94 and/or by U.S. agribusinesses to establish and operate long-term ventures in the NIS.

Winter Food Security: Approximately \$5 million of the LOP funding will be provided for activities that support food availability during the upcoming winters.

Evaluation/Audit: An estimated \$615 thousand over the LOP will be used for evaluations and audits.

DESIGN AND REVIEW PROCESS: Appropriate clearances have been sought, and as stated above, an A.I.D./State review of the PDP occurred on June 15, 1992 (TAB B). Furthermore, U.S.D.A. has provided comments and discussion points. The State Department's Coordinator's Office has fully participated in the development of this project, providing policy guidance and clearing the Project Memorandum and this Authorization package.

CONGRESSIONAL NOTIFICATION: The Congressional Notification, for \$25 million LOP, expired on March 21, 1992. A copy is attached as 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 the 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 was signed by the Deputy Secretary on March 30, 1992, removing the NIS from the category of non-Free World countries (TAB D). Procurement from Code 941 and Code 935 countries, if required, will be done on the basis of appropriate waivers.

ENVIRONMENTAL CONSIDERATIONS: The grant(s) will specify that the grantee(s) will develop and follow environmental procedures for its sub-grantee(s) consistent with A.I.D.'s environmental procedures. The association(s) will document its review of each sub-grant for each environmental impact. For those sub-grants that do not meet the requirements for categorical exclusion, the association(s) will prepare a full initial environmental examination and submit it to the A.I.D. project manager. The project manager, in consultation with the Environmental Officer, will provide guidance to the grantee(s) and sub-grantee(s) on further environmental reviews, if necessary.

AVAILABILITY OF FUNDS: A total of \$21 million is currently available for FY 1992 obligation for the Food Systems Restructuring Project.

IMPLEMENTATION DETAILS:

- **Monitoring:** An Implementation Plan will be submitted to A.I.D. for review and approval within two months of grant award. Part of the Plan will include jointly agreed upon benchmarks that will be used to judge the progress of the project. The project will be monitored and supervised by the project manager. Monitoring will be done from Washington until A.I.D. missions are established. It will consist of the review of quarterly progress reports from the agribusiness associations. Periodic meetings with grantees and sub-grantees, both in the field and Washington, will also take place.

- **Coordination:** This project will be closely coordinated with the Bureau for Food and Humanitarian Assistance's "Farmer to Farmer" Program. A.I.D. will also closely coordinate this project with related activities of the U.S. Department of Agriculture, other USG agencies and other donors. In addition, there may be opportunities advantageous to A.I.D. for the project to coordinate with related but independent activities of the U.S. university and PVO community. Project activities will also be

coordinated with the World Bank, the European Bank for Reconstruction and Development and other donors working with similar initiatives and/or in the same geographic areas. This project will also take advantage of reports and studies generated by other donors, e.g., an extensive World Bank study currently being conducted in Russia to determine the major input constraints at farm level.

- Evaluation: Two major external evaluations are planned for this Amendment: a mid-term and a final evaluation. Detailed scopes of work will be prepared prior to the actual evaluation.

- Audit: Audits and inspection requirements as set forth in the Inspector General Act of 1978, as amended, shall apply to all grants and contracts executed under this project. A.I.D.'s Inspector General shall ensure full compliance with all applicable provisions of the Act.

- Host Country Duties and Taxes: A Circular 175 (TAB E) authorization was obtained from the Deputy Secretary of State on February 4, 1992 permitting negotiation of U.S.-NIS states agreements covering these matters. The first agreements, with Russia, Ukraine and Kazakhstan, have been signed and negotiations will commence shortly with the remaining states. These written arrangements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. The written arrangement 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, 1992, February 27, 1992 and May 22, 1992. Copies of those classified documents are on file in NIS/TF/PAC.

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 as TAB F.

"Taking into account" matters were reviewed and approved by the Administrator (TAB G) on March 27, 1992 and June 3, 1992 for all states. One matter needed consideration. It was pursuant FAA Section 620 (1), that OPIC has initiated negotiations but has not yet executed investment guaranty agreements with any of the twelve states to whom we plan to render assistance, but that

assistance permitted to flow to these states under the circumstances.

AUTHORITY: On September 10, 1991, the Secretary of State signed a Section 620(f) determination (TAB H) to permit assistance to the Soviet Union. You have authority to authorize this project pursuant to Interim Reorganization Delegation of Authority No. 10 dated March 30, 1992. This delegation of authority is attached at TAB I.

RECOMMENDATION: That by signing below and where indicated you:
(1) authorize the Food Systems Restructuring Project, No. 110-0006, a four year activity with an initial life-of-project funding of \$25 million, subject to the availability of funds; and
(2) approve the Initial Environmental Examination (TAB J).

Approved: _____

JLB

Disapproved: _____

Date: _____

8/7/92

PROJECT MEMORANDUM
FOOD SYSTEMS RESTRUCTURING
(110-0006)

PURPOSE

The purpose of this project is to increase the efficiency of the food system from the farm gate to the consumer by the peoples of the Newly Independent States (NIS).

BACKGROUND

The performance of the food system in the former Soviet Union (FSU) has never been strong, largely because input and output distribution was not efficient.¹ While a number of problems account for the inefficiency of these two systems, three of the larger ones can be addressed through supporting the emergence of a private sector in the NIS. First, past government efforts and resources to increase food availability were directed primarily at food production, and not at major improvements in the output distribution system. Second, a lack of economic policies that reflected the costs of the food system exacerbated the problems caused by inadequate investment. Finally, ineffective coordination within government-enforced commodity sub-systems bred gross inefficiency.

A large percentage of investment in the food systems sector was directed at food production. The major elements of the input and output distribution system that supported the agricultural sector within the FSU included storage and handling, transport, processing, and marketing. Unlike food production, these components all suffered from a dearth of investment by the State -- resulting in equipment that became dysfunctional, and techniques that fell behind western capabilities. The result was gross inefficiencies that eventually undermined the State's attempts to increase food availability.

The FSU maintained two costly economic policies that incorrectly reflected the costs of the food system sector: consumer subsidies and a lack of agricultural economic incentives. First, because food availability was seen as critical to political stability, urban consumers have always enjoyed relatively cheap retail prices. These prices, however, did not reflect the true cost of food production. By 1990, for example, the costs of

¹The food system includes activities that range from the availability of agricultural inputs to the purchase of food by consumers.

maintaining consumer food subsidies in Russia represented 20% of its total budget. The second costly policy was inappropriate economic incentives. Producers were rewarded for meeting certain output targets. The emphasis on meeting a set target meant there was no incentive to provide levels above those mandated, and no incentive to improve the quality -- or variety -- of the food available for consumers.

In the FSU, a centrally-directed food distribution system supplied most of the domestically produced food consumed in larger urban areas. This system was made up of state-controlled retail outlets, served by state-controlled distribution centers that procured agricultural products from state-controlled farms and collectives. The food system consisted of four commodity sub-systems: food and feed grains; meat and meat products; milk and dairy products; and vegetables and fruit. Each of these sub-systems was organized as a series of individual organizations. Each sub-system and each individual organization functioned differently, making communication difficult. Extremely poor coordination either between or within the sub-systems existed, again resulting in enormous losses of food.

These three problems areas -- a preponderance of resources put into food production, costly economic policies, and poor or non-existent coordination between and within the commodity sub-systems -- continue to affect the input and output distribution systems of the nascent NIS republics. Further, many NIS governments realize the old system failed, but have not actively encouraged a new, privatized system.

Recent reforms are affecting each commodity sub-system differently, and reflect varying degrees of privatization. In the food grains sub-sector, for example, the central authorities are allowing bakeries and their retail outlets to be privatized, although authorities continue to maintain control of both the grain stocks and large flour mills. However, commodity exchanges are developing that could potentially replace the state's control of grain stocks. In the vegetable and fruit sub-sector, the entire state-controlled system is rapidly deteriorating. Markets are emerging where the private sector, rather than state-owned entities, are selling their products.

Clearly, a window of opportunity exists to encourage the replacement of the old input and output distribution systems with new, privatized systems. U.S. agribusinesses, with a long and successful history of providing food to feed the world, have the expertise and knowledge to assist these new systems in coming to fruition.

RATIONALE

The United States has a vital interest in the successful transition of the republics into stable and prosperous democracies that can be fully integrated into the community of democratic nations, and the world economy. President Bush has chosen food availability as one of the priority areas for U.S. assistance during this critical period. Serious food shortages, combined with unemployment, military demobilization and refugee migration, could undermine political stability and the credibility of the broader reform process.

A consensus exists that the NIS can produce enough food to feed its people. Therefore, potential medium- and long-term food consumption shortages in the FSU can be mitigated primarily by improving the agricultural input and output distribution elements of the food system. The world community will continue to provide emergency humanitarian assistance for pensioners and other high-risk groups, reducing immediate hardships over the next year and gaining time for the private sector to respond to economic reforms.

Ambitious economic reform programs that affect the food system have been introduced in most republics. These measures include price liberalization, limited land reform and decrees permitting privatization of small-scale enterprises.

These reforms, while being implemented very slowly and unevenly, are potentially fertile soil for a private sector development. With assistance from U.S. agribusinesses through joint ventures, technical assistance and training, the burgeoning NIS private sector can be further encouraged. New input and output distribution channels will challenge the old State market system, highlighting its inability to satisfy consumer demand and its drain on the national budgets of unstable republic economies.

In addition, until recently the input and distribution/marketing systems for agricultural products have been almost entirely public, focused on serving the large state collectives. A new system of private agribusiness is needed to support the private farmers and the expansion and success of land privatization in the NIS. The U.S. private sector, particularly U.S. agribusinesses, can provide great insight into a market-driven agricultural system, supporting both U.S. national interests in a potentially thriving new economy, and promoting free-market, democratic ideals.

PROJECT DESCRIPTION

PREVIOUSLY FUNDED ACTIVITIES:

On May 5, 1992, the Food Systems Restructuring Project (FSRP) was authorized. It consisted of one component, the Armenia Agricultural Extension Collaboration Program (AAEC). The AAEC is being separately implemented over a three year period by the U.S. Department of Agriculture under an agreement with A.I.D. The principal objective of the AAEC is to support efforts aimed at creating an extension service within the Ministry of Agriculture in Armenia. The extension service will provide a wide array of services to the agricultural sector. The total amount budgeted for this activity is \$3.75 million, with \$1.25 planned for FY 92. The Project Assistance Completion Date (PACD) will be three years from initial obligation.

On May 22, 1992, the FSRP was amended to include a Grains and Perishables Storage component. The objective of this component is to improve food and feed grains storage. The services of the Food and Feed Grains Institute at Kansas State University and the Postharvest Institute for Perishables at the University of Idaho are being utilized to develop a training and technical assistance program that will begin implementation prior to the onset of the 1992 winter. The two institutes will also recommend ways that the U.S. private sector can increase its marketing opportunities with storage facilities, equipment and technology in the NIS. A workshop will be held for interested U.S. businesses upon the return of the teams. The total amount budgeted for Amendment One was \$635,000, with an additional \$1.0 million to be added at this time for implementation of the program. Implementation of the program will commence prior to the winter of 1992.

PROPOSED ACTIVITIES:

This Project Memorandum proposes to fund technical assistance, training and commodities to support and accelerate the emergence of capable, efficient, private agricultural input and output distribution system. It both broadens the scope of the original project and increases the life of project funding from \$4.385 million to \$66 million.

The budget for Project Memorandum is divided into two phases and will be covered by two separate Authorization Amendments. The first, or Amendment 2, is in keeping with the project as described in the Congressional Notification (CN) dated March 6, 1992 which indicated a LOP of \$25 million and expired without objection on March 21, 1992. Amendment 3 will add an additional \$41 million, and will be authorized when a new CN is submitted and expires.

Both of these actions will bring the LOP to \$66 million.

This amended project will be implemented over a four year period. Concentrating primarily in the republics of Russia, Ukraine, and Kazakhstan, priority oblasts will be those in which U.S. agribusinesses are presently working and/or are interested in expanding. The FSRP will assist in the complex and multidimensional task of creating new, privatized agricultural input and output distribution systems.

A. Project Outputs:

By project completion, it is expected that through the increased presence of U.S. agribusiness firms in the NIS there will be:

- (1) An increasing number of storage facilities will be decentralized and under the control of private farmers, cooperatives and businesses, and overall losses attributed to storage will begin to decline;
- (2) There will be an absolute increase in the overall number of private agricultural input and output wholesale and retail outlets, stock will be diversified, and management practices improved;
- (3) New private assembly, processing and packaging organizations will be created. Those already privatizing will be strengthened, and will have access to new technologies in processing and packaging in the targeted republics;
- (4) Private or cooperative transport of agricultural inputs and outputs will be strengthened and efficiency will be enhanced; and
- (5) A network of relationships between the NIS private sector and their respective local governments will have been fostered.

B. Project Approach:

The approach to be employed by the FSRP is based on the assumptions that (1) U.S. agribusinesses have demonstrated their capability and efficiency in input and output food distribution systems; (2) many U.S. agribusinesses, after years of working within the FSU, have an understanding of the major problems of creating private input and output distribution systems; (3) in many cases, these firms know the solutions to these problems; (4) they have established a network of counterparts with whom they are already working; (4) they have experienced a certain level of success in their respective ventures, and (5) they are interested in developing a long-term presence in the NIS market and are willing to invest in doing so.

The FSRP will be private sector driven, from design through implementation. A.I.D.'s role will be that of a facilitator, and catalyst to expand the involvement of U.S. agribusinesses in establishing efficient private food systems in the NIS. The project will work through agribusiness associations to support the involvement of their member companies and cooperatives in establishing long-term ventures which create elements of a private food system in the NIS.

In order to maximize the expertise, knowledge, networks of relationships and "beach-head operations" of U.S. agribusinesses, the FSRP will turn to the agribusinesses themselves to assist in both the design and implementation of project activities. A.I.D. will solicit applications from agribusiness associations through Request for Applications (RFAs). The associations, acting on behalf of their members, will be requested to illustrate how their members could adequately address one or more of the five project components listed below. The associations may propose activities for one of the targeted elements of the distribution system singly or as an integrated package linking several or all of the target elements. The associations will draw from their members' expertise and on-the-ground experience, to provide substantive detail, both in terms of problem identification and implementation of activities.

A.I.D. will review the submitted applications, which will be evaluated in accordance with established selection criteria contained in the RFA. Likely selection criteria include: activities that are technically and financially sound; activities that are in keeping with the U.S. company's core business line; the agribusiness(es) having established a counterpart relationship with private host-country firms or organizations with which they are proposing a business alliance or a joint venture; tacit approval by the Republic and local government to decrease the chance of last-minute obstacles; and geographic regions that have a broader commitment to economic reforms that support privatization. After the review process, one or more grant applications will be funded under this project.

C. Project Elements:

There are six major elements of the input and output distribution systems, that will be suggested to agribusiness associations as possible areas to address in their proposals. They include storage and handling, transport, processing, marketing, banking and government reform. As complementary mechanisms to strengthening the distribution system, FSRP will fund commodities and activities that complement the project purpose. The latter will serve as a mechanism to fund unsolicited proposals that fall outside of agribusiness associations' proposals yet are related to the objectives of the overall project.

(1) Elements of the Input and Output Distribution System

(A) Storage and Handling: One of the highest priorities in establishing private food systems involves storage at all levels. Losses can range from 25 to 30 percent of grains to 50 percent and more of perishables, such as vegetables, fruits and livestock products. The agribusinesses will be able to propose activities that address these problems. These may include: mechanisms that promote a dispersed, decentralized farm production storage system, improvements in the design and operation of storage facilities and grain elevators, frozen food storage, and improved management and inventory control.

(B) Transport and Communications: Historically, the movement of food and agricultural inputs occurred largely by rail and barge, while communication of vital information such as prices went via top-down government channels. With the dissolution of the Soviet Union, these inter- and intra-republic systems are breaking down. Under food transportation, trucks are gaining greater importance. Kazakhstan has already stated that privatizing the transport sector is high on its priority list. Communication of information is critical to a market economy; the old system has broken down, while new modes of information-sharing, such as commodity exchanges, have sprung up. Activities funded under this component will support the privatization of transport and improved communications systems necessary for efficient operations. For example, U.S. agribusinesses and their NIS counterparts may propose activities that improve the communication of product availability and the pricing of inputs and outputs. Transport support activities might include encouraging small, individual firms or transport cooperatives to offer local and long distance road-hauling services; assisting them in finding necessary spare parts and fuel and the pricing of their services.

(C) Processing: The poor quality of the raw agricultural production received by the processing plants, the lack of food additives and ingredients, packaging materials, and poor management capabilities are all problems within the NIS. U.S. agribusinesses and their local counterparts may propose activities that address these problems. These could include: setting up private sector wholesale markets for food commodities; supporting new or existing private sector processing facilities and supporting the introduction of modern packaging, food additives and ingredients to those facilities.

(D) Marketing: In the NIS, several problems currently plague retail and wholesale marketing. Retail, state-owned markets are four commodity sub-system-specific; that is, some will only carry milk and dairy products, meat and meat products, food and feed grain, or vegetables and fruits. Further, the quantity of commodities often does not fulfill consumer demand. This has resulted in extremely long waits for consumers at each of these

retail outlets -- in fact, one study states that consumer hours spent in queues was roughly equivalent to agricultural worker hours spent in producing and distributing food. Finally, inappropriate traditional management practices are rampant, as many managers are technical specialists who were promoted. The wholesale markets are almost exclusively state-owned; large shipments of food still flow through these channels. Privatizing this system will have a significant impact on breaking up State control of the output distribution system. U.S. agribusiness associations and NIS firms will be encouraged to propose activities that result in a more efficient marketing system. This could include strengthening burgeoning small- and medium-sized retail outlets, increasing the variety of commodities carried by them. Creating private wholesale markets will benefit from encouraging ventures in purchasing food directly from private, individual farmers or farmer cooperatives.

(E) Banking: In the last decade, agricultural credit accounted for 25 percent of short-term debt and 60 percent of long-term debt. Access to needed credit for private sector producers and agribusinesses is currently limited by tight credit availability, heavy current debt loads, and inexperience among lending institutions. Because the flow of money through the input and output distribution systems will be crucial to their successful functioning and growth, U.S. agribusiness associations may include in their proposals U.S. banks interested in providing assistance to NIS banks, which is related to the special needs of private NIS agribusinesses. Initiation of new agricultural credit banks or capitalization of credit facilities will not be considered.

(F) Government Reform: In many instances, the legal, regulatory and procedural reforms in the agricultural sector lag behind government rhetoric. Both the NIS and the U.S. private sector finds themselves attempting to operate in an environment that is unsupportive. In order to be proactive in fostering the dialogue needed to nurture policy change, the U.S. agribusiness associations and their counterpart organizations will be requested to work with local and national government officials to identify specific legal and/or regulatory problems encountered by the nascent private sector, and propose solutions. Funds will also be made available to a neutral third party to analyze, monitor and make recommendations on pricing and other policy reforms. These analyses will clearly show the governments the difficulties associated with pricing controls, and will help the private sector's understanding of pricing mechanisms within a free-market environment.

(2) Complementary Components

(A) Commodities: Based on experience during the initial phase of this program, the project will consider funding commodities that complement activities underway in storage and agribusiness. For example, based on recommendations of initial

storage teams, the project could finance U.S. commodities for storage facilities. Other types of commodities would be considered only in the context of support for agribusiness activities. Commodities that would be particularly suited to components of this project could include commodities related to transport, such as refrigerated vehicles and spare parts, packaging and preserving materials, and agricultural machinery.

(B) Winter Food Security: A number of unsolicited proposals have been received by the NIS Task Force. Those activities that would contribute to the project outputs, or that may be specifically related to improving food availability in the winter of 1992/1993 and 1993/1994 may be funded under this project component. Examples of acceptable proposals include those that would support farmer organizations, and those that would favorably influence the food availability around higher risk urban centers. Priority will be given to those proposals that build on existing U.S. agribusiness relationships with private agribusinesses in the NIS.

PROJECT COSTS

The total cost of FSRP will be \$66 million; \$3.75 million for Armenia Agricultural Extension component; \$1.635 million for the Storage component; and \$60.615 million for the agribusiness amendment, of which \$19.615 million will be added in Amendment 2 and an additional \$41 million in Amendment 3. Table I presents the illustrative summary of project costs for this fiscal year and life of project.

The basic assumptions made in preparing the budget include a compounded 5% annual inflation rate for goods and services procured in the United States and an "out of control" inflation rate for goods and services purchased in the NIS. Inflation rate is included in the line items.

BUDGET SUMMARY: A.I.D. FINANCIAL INPUTS

(\$000)

	ORIGINAL PROJECT	FY 92 (NON-ADD.)	AMEND. ONE	FY 92 (NON-ADD.)	AMEND. TWO	FY 92 (NON-ADD.)	AMEND. THREE	TOTAL LIFE OF PROJECT
ARMENIA AGRICULTURAL EXTENSION PROJECT	3,750	1,245	---	---	---	---	---	3,750
GRAINS & PERISHABLES STORAGE PROJECT	---	---	635	635	1,000	1,000	---	1,635
AGRIBUSINESS								
- TECH. ASST.	---	---	---	---	7,000	6,129	18,000	25,000
- TRAINING	---	---	---	---	2,000	2,000	13,000	15,000
- COMMODITIES	---	---	---	---	7,000	7,000	8,000	15,000
- WINTER 1992/93	---	---	---	---	3,000	3,000	2,000	5,000
- EVAL/AUDIT	---	---	---	---	615	---	---	615
FY 92 TOTAL	---	1,245	---	635	---	19,120	---	---
PROJECT/AMENDMENT TOTAL	3,750	---	635	---	20,615	---	41,000	66,000

In addition, a 10% contingency factor is included in the line items to cover unexpected changes in the estimated level of services, coupled with uncertainty of the cost of goods within the NIS.

Procurement of goods and services requiring local currency will be handled by the grantee(s) and will follow the U.S.G. standard competitive procurement practices.

Listed below are the major project components and cost estimates for each item, including inflation.

Technical Assistance:

It is estimated that \$25 million LOP funding in technical assistance will be provided by U.S. agribusinesses funded by A.I.D. through the agribusiness associations. Illustratively, U.S. agribusinesses will offer technical assistance in such activities as introducing western techniques of operating wholesale and retail outlets, increasing the quality of processed foods, and other activities that will help refine the technical capabilities of private sector operations. In addition to traditional ways of providing technical assistance, these funds could also be used in support of trade fairs and member seminars, where U.S. agribusinesses can meet NIS counterparts.

Training:

Approximately \$15 million LOP funding will be provided for training. Training activities will be identified by U.S. agribusinesses and their NIS counterparts. U.S. agribusinesses will provide assistance to private sector entrepreneurs, and may include general business and financial management skills -- such as commodity pricing, risk management techniques in a competitive marketplace, human resources management, inventory control, and identifying agricultural credit resources. Technical training, particularly important in certain areas, may be facilitated through short-term exchange programs in which an NIS executive or senior operational leader will be exposed to U.S. counterpart business organizations. Training may be provided in the NIS, the United States, or a third-country locale.

Commodities:

It is estimated that \$15 million over the LOP will be provided for commodities. Commodities under this component would be those required by storage activities and/or U.S. agribusinesses undertakings to establish and operate long-term ventures in the NIS.

Evaluation/Audit:

Approximately \$.615 million will be set aside for evaluation and audits.

Winter Food Security:

Approximately \$5 million LOP funding will be used to support unsolicited proposals that would contribute to project outputs, or that may be specifically related to improving food availability for the winters of 1992/93 or 1993/94.

IMPLEMENTATION DETAILS

A.I.D. will implement the project through cooperative agreement(s) with agricultural association(s) that have members either active, or interested in becoming active, in the input and output distribution systems of the NIS. Using the solicitation mechanism of an RFA, A.I.D. will seek applications from interested agribusiness associations to address project components. The RFA will support the six components and the geographical priorities identified earlier. Proposals will be due to A.I.D. 45 days after the initial announcement. The grantee(s) will sub-grant to member organizations, who will then be responsible for implementation of project activities. The agribusiness associations will administer sub-grantees, thus minimizing A.I.D.'s management burden. The selection of agricultural associations will be by their relative ranking on an established criteria.

Timeline:

CN Expired	March 24,	1992
Project Authorization	May 5,	1992
IAA Signed for Armenia	June 18,	1992
Project Decision Paper (PDP) Finalized	July 24,	1992
Evaluation of Unsolicited Proposals	July 29,	1992
Storage Teams Fielded	July 20,	1992
RFA Prepared and Sent	July 30,	1992
PIO/T for Follow-on Storage Activity	Aug. 7,	1992
Unsol. Prop. PIO/T Prepared	Aug. 14,	1992
Storage Grant Awarded	Aug. 21,	1992
RFA Responses Received	Sep. 10,	1992
Evaluation of Applications	Oct. 10,	1992
Negotiation of Applications	Oct. 25,	1992
PIO/T for Cooperative Agreement	Oct. 25,	1992
Cooperative Agreement Awarded	Nov. 30,	1992

Grantee/Contractor Selection: An A.I.D. NIS Task Force project manager (PM) will be assigned overall responsibility for the project. The PM will organize reviews of proposals from appropriate U.S. agribusiness organizations. The technical evaluation criteria will be detailed in the RFA. The relative importance of each criterion will be indicated by appropriate weight by points. These criteria will serve to identify significant matters that applicants should address and will set the standard against which all applications will be evaluated. The proposals and expressions of interest will be reviewed and ranked relative to these criteria. The most acceptable proposals will be recommended for funding.

Monitoring: An Implementation Plan will be submitted to A.I.D. for review and approval within two months of grant award. Part of the Plan will include jointly agreed upon benchmarks that will be used to judge the progress of the project. The project will be monitored and supervised by the project manager. Monitoring will be done from Washington until A.I.D. missions are established. It will consist of the review of quarterly progress reports from the agribusiness associations. Periodic meetings with grantees and sub-grantees, both in the field and Washington, will also take place.

Coordination: This project will be closely coordinated with the Bureau for Food and Humanitarian Assistance's "Farmer to Farmer" Program. A.I.D. will also closely coordinate this project with related activities of the U.S. Department of Agriculture, other USG agencies and other donors. In addition, there may be opportunities advantageous to A.I.D. for the project to coordinate with related but independent activities of the U.S. university and PVO community. Project activities will also be coordinated with the World Bank, the European Bank for Reconstruction and Development and other donors working with similar initiatives and/or in the same geographic areas. This project will also take advantage of reports and studies generated by other donors, e.g., an extensive World Bank study currently being conducted in Russia to determine the major input constraints at the farm level.

Evaluation: Two major external evaluations are planned for this Amendment: a mid-term and a final evaluation. Detailed scopes of work will be prepared prior to the actual evaluation.

Audit: Audits and inspection requirements as set forth in the Inspector General Act of 1978, as amended, shall apply to all grants and contracts executed under this project. A.I.D.'s Inspector General shall ensure full compliance with

all applicable provisions of the Act.

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. The first agreement, with Russia, has been signed and negotiations are underway or will commence shortly with the remaining states. These written arrangements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. The written arrangement 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.

ENVIRONMENTAL CONSIDERATIONS:

The grant(s) will specify that the grantee(s) will develop and follow environmental procedures for its sub-grantee(s) consistent with A.I.D.'s environmental procedures. The association(s) will document its review of each sub-grant for each environmental impact. For those sub-grants that do not meet the requirements for categorical exclusion, the association(s) will prepare a full initial environmental examination and submit it to the A.I.D. project manager. The project manager, in consultation with the Environmental Officer, will provide guidance to the grantee(s) and sub-grantee(s) on further environmental reviews, if necessary.

RISKS

Risk: The risk of political and/or economic deterioration exists, given the expected turmoil surrounding radical changes in the political and economic systems. This could significantly decrease the expected benefits of this project.

Assessment: Food availability is considered a critical sector that can mitigate social unrest. As such, concern over its availability and the performance of the input and output distribution system is high. U.S. agribusinesses, with their potentially substantial injections of western expertise, may be seen as necessary to increasing domestic food production.

Risk: An appropriate macroeconomic reform environment will be critical to the success of this project; minimally, this includes stabilizing the ruble. Both national and local governments have responsibility for many reforms: revising macroeconomic policies on paper must be followed by implementation of reforms. However, the republics face potential difficulties in implementing reforms until they have each signed an IMF agreement. Businesses perceive these agreements as a requirement for their economic support, and such support could be crucial in mitigating domestic hardships during the transition to a market economy.

Assessment: The likelihood of ruble stabilization and/or U.S. firms obtaining significant hard currency returns is questionable. However, U.S. businesses could accept countertrade. Specialized companies can facilitate such transactions. Barter may be an unavoidable first step before hard currency returns are possible. Barter, on the other hand, adds another lay of complexity to making a successful venture. In terms of additional reform, signs already exist of a nascent private sector. Minimally, then, the project will be able to assist those that will struggle to exist even under an unstable economic climate.

Risk: Current NIS governments are evincing encouraging, but varying degrees of responsiveness, to making changes in the policy environment of the agricultural sector. A reversal of this trend and the imposition of policies disadvantageous to the agricultural sector would seriously jeopardize the success of this project.

Assessment: The objective of the government reform component is to open a policy dialogue between government and the private sector. Further, by involving public and private actors, it is hoped that a self-sustaining network of private sector/public sector relationships will be promoted.

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**SUMMARY MEMORANDUM OF CONVERSATION
INTER-AGENCY REVIEW
NIS FOOD SYSTEMS RESTRUCTURING
PROJECT 110-0006
June 15, 1992**

CHAIR: Gregory Huger, NIS/TF/PSI

PARTICIPANTS: Barbara Turner, Laurier Mailloux, Charles Fields, Michael Fuchs-Carsch, Michael Korin, John Wiles, and Patrice Curtis for A.I.D.; and Karen Volker for STATE

DISCUSSION POINTS:

(1) Is the Purpose of the PDP the same as the Congressional Notification? If not, it needs to be substituted for the original Purpose as recorded in the CN -- if the Purpose reflects the FDP as currently written. If the CN Purpose it is too different from the current Purpose of the PDP, then we need to go in with a revised CN.

(2) USDA: USDA wants to be continually involved in our agricultural projects. We need to think of how we can do this, such as the training of extension people that will support agribusiness growth, etc. Therefore:

- USDA has been invited to comment on the project design -- include this message in a cover note to them when we send a revised copy of the PDP;

- Jointly view with USDA what they might be able to do within the framework of the project and if necessary modify the PDP to include these activities.

- Set up regular meetings with USDA, to coordinate with AID in Washington DC and in the field.

(3) Funding: FY 92 monies need to be included for technical assistance and training. Budget should be: TA - \$500,000; training - \$500,000; Unsolicited proposals - \$2.12 million.

(4) Turkey and Israel: It was decided that the PDP does not need to reference activities with Turkey or Israel, because the project has a U.S. agribusiness focus.

(5) Make sure that document language is not limited to Russia,

Ukraine and Kazakhstan.

(6) Next actions:

(a) Incorporate the above discussion points into next iteration of PDP;

(b) Distribute paper to Bill Kuhn, State/EUR/ICSA; Karen Volker; Greg Burton, State/EB; and Allen Mustard, USDA.

(c) Set up meeting with AID, USDA, KVolker after incorporating changes from (b) and (c); and

(d) Send authorization package to NButler.

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TAB C

**AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE**

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

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

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

Annex: Activity Data Sheet

**AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET**

PROGRAM: New Independent States Regional

CP 01-88 (4-88)

TITLE Food Systems Restructuring		FUNDING SOURCE Economic Support Fund	PROPOSED OBLIGATION (in thousands of dollars)		
NUMBER 110-0106	<input checked="" type="checkbox"/> NEW	PRIOR REFERENCE None	FY 92	6,000	LIFE OF PROJECT (Funds) 25,000
<input checked="" type="checkbox"/> GRANT	<input type="checkbox"/> LOAN		INITIAL OBLIGATION FY 92	ESTIMATED FINAL OBLIGATION FY 95	ESTIMATED COMPLETION DATE OF PROJECT FY 96

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

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

The agricultural sector of the NIS is composed of large state monopolistic enterprises with the commodities "owned" by the state. Most are inefficient because priority was given to meeting political or social rather than economic objectives. This inefficiency has had a significant negative impact on the food production, distribution and delivery systems. It is even estimated by some that the land has undergone significant degradation, and losses in the food chain are estimated to be as high as 50 percent for some commodities. Changes are needed to foster open markets and private enterprises in order to increase output and efficiency in the agricultural sector. These changes will also increase international trade and investment as well as increased market opportunities for U.S. agribusinesses.

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

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

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

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

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

A.I.D.-Financed Items

**Life of Project
(000)**

Technical Assistance	10,000
Training	9,000
Commodities	2,000
Total	21,000

U.S. FINANCING (in thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures	Unobligated	
Through September 30, 1990	1990	-	-	
Estimated Fiscal Year 1991	1991	-	-	
Estimated Through September 30, 1991	1991	-	-	
		Future Year Obligations	Estimated Total Cost	
Proposed Fiscal Year	1992	6,000	19, (M)	25, (M)



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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT S/S *R. 2/25*



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TO: The Deputy Secretary
THROUGH: T - Reginald Bartholomew
 DA/A.I.D., Mark L. Edelmann
FROM: PM - Richard A. Clarke
 DD/POL, Larry Siders
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

- 29 -

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

That you conclude that the ¹²~~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 _____

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 _____

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)
 A-GC:TGaiger _____ (Draft)
 EUR/OSA:PO'Farrell _____ (Draft)
 ENE/EUR:DMerrill _____ (Draft)
 GC/EUR:HMorris _____ (Draft)
 AA/R&D:RBissell _____ (Draft)
 STATE/L/EUR:TBuchwald _____ (Draft)
 STATE/EUR/ISCA/ECON:KVolker _____ (Draft)
 STATE/D/EEA:CRufenacht _____
 STATE/S/P:JHannah _____
 STATE/P:C.L.VanVoorst _____
 STATE/C:RWilson _____
 STATE/EB/IFD/ODF:LMoriarty _____
 STATE:H:CRAETHER _____

Date: 2/19/92
 Date: 2/20/92
 Date: 2/20/92
 Date: 2/20/92
 Date: 2/20/92
 Date: 2/21/92
 Date: 2/28/92
 Date: 3/04/92
 Date: 3/5/92
 Date: 3/10/92, 3/11/92
 Date: _____
 Date: 3/11/92

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

TAB-A

C-2
S/S
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TMA
TMS
PM
RF/mlw

ACTION MEMORANDUM

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

Decontrolled Funds (draft)
11/27/91

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

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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
Keith E. Jones
11/27/91

~~LIMITED OFFICIAL USE~~

Kenneth S. Bush

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~~

Kenneth S. Bush

4/27/91

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Clearances:

State/D/EEA:RBarry (Draft) date 9/30/91
State/L/PH:ECummings(Draft) per E.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 9/20/91
State/INH:JVanWert (Draft) date 10/01/91
AID/GC:(Acting):TGeiger (Draft) date 9/27/91
AID/AA/ENE:Cadelman (Draft) date 10/15/91
AID/AA/FA,(Acting):Jovens (Draft) date 9/25/91
AID/MS/PPE:JMurphy (Draft) date 9/25/91
E:RFauver

DB

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

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

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TITLE 3—THE PRESIDENT

Memorandum of October 10, 1961

DETERMINATION UNDER SECTION 601(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

Memorandum for the Secretary of State

The White House, Washington, October 11, 1961.

Section 601(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) such as to serve the national 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 early procurement under the Foreign Assistance Act; or (2) if the price of any commodity procured is found to be lower than the market price prevailing in the United States at the time of procurement, adjusted for discounts in the cost of transportation to destination, quality, and terms of payment.

This section requires that procurement outside the United States using funds available under the Foreign Assistance Act of 1961 may be undertaken only if I determine that, on balance, there is no net detriment to the United States. I am to take into account the national interest, the principle, and the foreign policy objectives which I have previously indicated. In making my judgment 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 undue emphasis on the procurement of American goods. . . . This restriction will be maintained until reasonable economic objectives have been achieved." Under this policy, which is contained in fact by my determination below, the procurement bill of foreign assistance procurement will be made in the United States. The security for this is that such procurement will contribute generally towards meeting our balance of payments difficulties, and also help stimulate investment in labor surplus areas.

On the other hand, recent 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 of the kind needed. Procurement from less developed countries, a practice which, according to economic experience, thereby contributing to the objectives of the economic program and increasing their productivity and foreign exchange.

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 programs are to be used for procurement from the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, and United Kingdom. Upon consultation by the Secretary of State, however, that includes of procurement in these countries would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, the Secretary of State may authorize specific exceptions which involve procurement in the excluded countries.

I am hereby directing 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 Secretary of State, however, that includes of procurement in these countries would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, the Secretary of State may authorize specific exceptions which involve procurement in the excluded countries.

I am hereby directing 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 Secretary of State, however, that includes of procurement in these countries would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, the Secretary of State may authorize specific exceptions which involve procurement in the excluded countries.

policy of Defense Secretary, that includes 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 conditions or foreign conditions warrant, the Secretary of State is the main of non-military assistance, and the Secretary of Defense is the main of military assistance, shall consult with the Secretary of the Treasury, and other appropriate agencies, and recommend modifications as may be appropriate in relation 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 affect adversely the industrial mobilization base or the economy of an area of labor surplus, the Secretary of State in the case of non-military assistance and the Secretary of Defense in the case of military assistance, shall consult with the Secretary of Commerce and other appropriate agencies and recommend such action as may be appropriate.

For the reasons and under the conditions stated above, and pursuant to the requirements of Section 601(a) of the Foreign Assistance Act of 1961 (PL 87-301), 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 serious 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 early procurement outside the United States. Procurement outside the United States shall be from the 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
72 Stat. 61-1076; Pub. Law 87-301
(11/2/61)

267.R.10543
Nov. 9, 1961

ORIG PACKAGE RECEIPTED TO EUR-NILES
COPIES TO:

TAB E

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EUR
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United States Department of State

EXECUTIVE AID

Washington, D. C. 20520

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1992 FEB -5 A 9:10

92 FEB -4 10:14

FEB 3 1992

ACTION MEMORANDUM *we 2/4*
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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;

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- 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.

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

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

RECOMMENDATION

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

E3 04 1992

Approve MR Disapprove _____

* without limitation

Attachments:
Tab A - Draft Agreement
Tab B - Memorandum of Law *shown in Rec,* WITHOUT LIMITATION SHOWN IN REC.

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- 4 -

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

Cleared:

D/EEA - Mr. Lehovick^{TS}
P - Ms. van Voorst^{TS}
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^{TS}
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. Bissell^{TS}

Doc. No. 1415 (30)

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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 N. Fry *mf*
FROM: AA/EUR, Carol C. Adelman *CA*

SUBJECT: Assistance to the Independent States
of the former Soviet Union: Statutory
Checklist

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

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

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

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

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

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

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

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

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

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

Approved: _____

Disapproved: _____

Date: 1-18-92

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

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

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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 1, Clause 1) 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.

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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
Dcc. No. 1415 (33)

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

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

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

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

Have agreed as follows:

ARTICLE I

TAXES AND OTHER CHARGES

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

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

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

ARTICLE II

STATUS OF PERSONNEL

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

ARTICLE III

INSPECTION AND AUDIT

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

ARTICLE IV

USE OF ASSISTANCE

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

ARTICLE V

OTHER AGREEMENTS

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

ARTICLE VI

ENTRY INTO FORCE

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

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

FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:

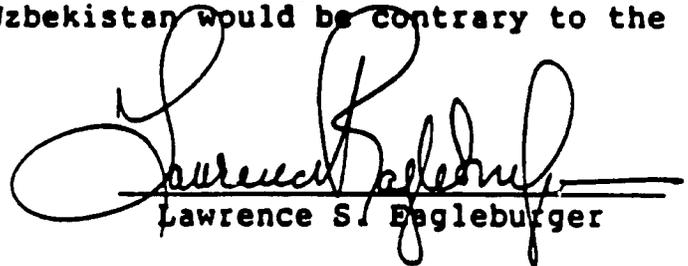
FOR THE GOVERNMENT OF
[NAME]:

48

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

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100-100000-100000

~~SECRET~~ ACTING

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/OPS, Scott Spangler *SM*
FROM: AA/R&D, Richard Bissell *RB*
AA/EUR, David N. Merrill *DM*

SUBJECT: Assistance to the Newly Independent States of the Former Soviet Union: Statutory Checklist

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

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

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

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

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

Approved: Harold L. Edelman

Disapproved: _____

Date: 3-27-92

Attachments:

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

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

EXECUTIVE SECRETARIAT
1992 JUN -2 A 11:31

C. H. R. O. W.

TAB G
rec'd 6/11

JUN 2 1992

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/OPS, Scott Spangler *SS*
FROM: OPS/NISTF, Malcolm Butler *MB*
SUBJECT: Assistance to the Newly Independent States of the Former Soviet Union: Statutory Checklist for Georgia

Problem: To take into consideration relevant statutory requirements so that FY 1991 ESF funds may be used to provide technical and other assistance to support Georgia's transition from a command economy into a democratic, free-market society.

Discussion: Two previous memoranda dated March 25 and 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 included all but one of the republics of the former Soviet Union, namely: Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Russia and the Ukraine, and later Moldova, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan. Only Georgia was exempted from your consideration at that time.

As you are aware, the elected president of Georgia, Zviad Gamsakhurdia, was forcibly removed from office in January 1992 by a coalition of opposition leaders. Although these opposition forces were supported, in some case, by members of Georgia's National Guard and other armed insurrectionists, other members of the National Guard supported President Gamsakhurdia. Georgia did not have a national army and therefore, the State Department has concluded that such a forcible removal from office does not constitute a "military coup or decree" which would bar assistance under §513 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991. (See Tab A at 4.)

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In any event, power was immediately turned over to civilian control, and an interim state council under the leadership of Eduard Shevardnadze has scheduled new presidential elections for October 1992. In light of these developments, the State Department initiated full diplomatic relations with Georgia on March 25, 1992.

A.I.D. now wishes to proceed with furnishing Georgia with foreign assistance to ease its transition to a free and open society. Thus, once again, we request that you take into consideration the factor described below before the use of FY 1991 ESF funds may be authorized in providing assistance to Georgia. As noted above, this exercise was completed for the other republics of the NIS, but Georgia was specifically excluded at that time. Although "notwithstanding any other provision of law" language is now applicable to all FY 1992 funds appropriated for the NIS program as set forth in Section 121 of the Continuing Resolution (P.L. 102-145, as amended), this "notwithstanding" language does not cover FY 1991 funds. Certain statutorily mandated considerations must be taken into account by you before assistance using FY 1991 ESF funds may be authorized for this purpose. In fact, only one consideration is relevant in this context.

Section 620(l) of the FAA provides that assistance may be denied if the recipient country has failed to enter into an investment guaranty agreement with the United States. OPIC is currently in the process of initiating negotiations with Georgia, but as of this date, OPIC has not concluded a bilateral investment guarantee agreement with Georgia. Although FY 1992 ESF and DA funds may be used in all the NIS republics despite this fact by relying on the "notwithstanding" language in the FY 1992 Continuing Resolution, we request you to take this factor "into consideration" which will permit A.I.D. to use FY 1991 ESF funds, should they become available, for providing assistance to Georgia.

Please bear in mind that 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 the process of negotiating a bilateral investment guarantee agreement has been initiated by OPIC but not yet concluded as of this date, we request you to take this into consideration and permit the use of FY 1991 ESF funds for assistance to the Georgia.

Recommendation: That you, by your signature below, take into consideration the circumstances described above, and approve the use of FY 1991 ESF funds as necessary, subject to the availability of such funds, for providing assistance to

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

Georgia. Such assistance will be authorized by separate action.

Approved: 

Disapproved: _____

Date: 6-3-92

Attachment:

**TAB A - Department of State Memorandum re: Statutory Checklist
dated 5/22/92**

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

Clearances:

GC/LP:RMLester *5/27/92*
OPS/NISTF:TGeiger (draft 5/26/92)
AA/LEG:RRandlett *5/29*
OPS/NISTF:LCrandall *5/27/92*
OPS/NISTF: HJohnson *5/27/92*
STATE/L/EUR:TBuchwald *draft 5/28/92*
STATE/EUR/ISCA/ECON:KVolker (info)
STATE/D/EEA:CRuferzcht (info)

Drafted: GC/EUR, Rumu Sarkar 5/22/92; x76504
U:\CIS4.TIC

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

53

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

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

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

September 10, 1991

Date


James A. Baker, III

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

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

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

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

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

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

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

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

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

Dear Mr. Chairman:

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

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosures:
As stated.

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

Dear Mr. Chairman:

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

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosures:
As stated.

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

W



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

TAB I

Associate
Administrator
for Operations

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

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

FROM: Associate Administrator for Operations

SUBJECT: General Authorities

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

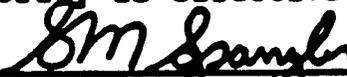
A. With respect to all former republics of the Soviet Union (except Latvia, Lithuania, and Estonia), there is delegated to the Director of the Task Force for the Newly Independent States of the Former Soviet Union all of the authorities delegated to me from the Administrator.

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

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

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

E. This Delegation of Authority is effective immediately.



Scott M. Spangler
Associate Administrator
for Operations

Date: 3/30/92

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INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROGRAM COUNTRY: The New Independent States
- (B) ACTIVITY: Food Systems Restructuring Project, Amendment 2
- (C) FUNDING: \$66.0 million
- (D) PERIOD OF FUNDING: FY 1992-1996
- (E) STATEMENT PREPARED BY: Dennis Long, NIS Task Force
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Categorical Exclusion under A.I.D. Regulation 22CFR216 Environmental Procedures 216.2(c)(1)(ii) and 216.2(c)(2)(i)

(G) DECISION OF ENVIRONMENTAL OFFICER:

APPROVED: C. Oennistroy

DISAPPROVED: _____

DATE: June 25, 1992

(H) DECISION OF DIRECTOR, NIS TASK FORCE:

APPROVED: WJ

DISAPPROVED: AS

DATE: 8/7/92

62

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT OF THE FOOD SYSTEMS RESTRUCTURING PROJECT (AMENDMENT TWO). (110-0006)

A. DESCRIPTION OF THE PROGRAM:

The purpose of the project is assist in the complex task of creating new, privatized agricultural input and output distribution systems in the Newly Independent States (NIS). This purpose will be accomplished by providing technical assistance and training, and commodities to the NIS.

B. RECOMMENDED ENVIRONMENTAL ACTION:

More than half of the project resources will be used to finance technical assistance and training. Therefore, a categorical exclusion from A.I.D.'s Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary Requirements is proposed. This proposal is in accordance with A.I.D. Environmental Procedures 22CFR Part 216, Sections 216.2(c)(1)(ii) which generally provides for a categorical exclusion in situations where the purpose of the project does not require A.I.D. to have "knowledge or control over, the details of the specific activities that have an effect on the environment for which financing is provided by A.I.D." Specifically, the project's technical assistance and training are categorically excluded under Section 216.2 (c)(2)(i) for education and technical assistance.

The intent of the project is not to provide any technical assistance or training in the use of pesticides, nor in the purchase of pesticides. Furthermore, the intent of the PCIP is not to import pesticides in any way, manner or form, nor other commodities that may have a negative environmental effect. If future project activities dictate a change in this project policy, a detailed environmental assessment will be undertaken prior to such activities. The Task Force Environmental Coordinator will review any such proposals prior to their implementation.