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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C.

AMENDMENT NO. 2
to the
PROJECT MEMORANDUM

NEW INDEPENDENT STATES
PRIVATE SECTOR INITIATIVES PROJECT
(110-0005)

APPROVED: June 28, 1993



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUN 28 1993

ACTION MEMORANDUM TO THE DIRECTOR OF THE NIS/TF

FROM: Barbara Turner, Deputy Director, NIS Task Force

SUBJECT: Project Authorization Amendment No. 2 for the Private Sector Initiatives Project (110-0005)

Problem: Your approval is requested to amend the authorization of the Private Sector Initiatives Project to increase the life-of-project funding from \$177,000,000 to \$425,000,000.

Background: The Private Sector Initiatives Project was originally authorized on April 22, 1992 (Tab A) at an initial life-of-project funding level of \$50,000,000. The project assistance completion date was May 5, 1996. By Amendment No. 1, signed January 15, 1993 (Tab B), the life-of-project funding was raised to \$177,000,000 and the project assistance completion date was extended to September 30, 1997.

At the April 3-4, 1993 Vancouver Summit, a broad package of assistance and economic initiatives was announced by the Administration. The decision was taken prior to the summit to announce only those activities for which FY 1993 funding was available. However, in discussions chaired by the National Security Council in preparation for the summit, a series of multi-year programs were reviewed and discussed. Particular attention was given to developing a multi-year program to support private sector development with emphasis on privatization. The program described below reflects both the package announced at the summit and the broader set of multi-year private sector initiatives which received interagency concurrence through the NSC's Economic Affairs Working Group.

Project Description

The project is designed to facilitate the economic transformation of the NIS by involving U.S. business and institutions in areas where they have comparative advantage. It emphasizes support for co-ventures involving US firms and support for the development of indigenous businesses. It also provides technical assistance to help NIS governments create the policy, legal, and regulatory environment to support private sector trade and investment, privatization, and enterprise development. Business support and

training activities funded by the project will also encourage and facilitate US trade and investment and emergence of an indigenous private sector oriented to the civilian economy. The increase in life-of-project funding will be spread across three of the four components of the project as indicated in the budget (Tab C) and will be utilized for the following types of illustrative activities:

Privatization

The current authorized life-of-project funding level for this component is \$121,595,000. Plans are to increase this level to \$226,150,956. The major increase will finance an extension of our omnibus privatization contracts which will provide technical assistance in various fields of privatization. The types of privatization assistance to be provided under these contracts include:

- Post privatization assistance
- Voucher auctions
- Public relations / education campaigns
- Land privatization
- Legal and regulatory assistance
- Capital markets development.

The need for this assistance is based on the expected demand from all republics throughout the NIS. To date we are spending \$5-\$6 million per month to support Russia's privatization program alone. In other areas, in Ukraine a small-scale pilot privatization effort is underway and a privatization work plan is currently being developed there. In Kazakhstan we are financing a World Bank small-scale privatization effort. Under project financing, long-term advisors have been assigned to Uzbekistan and the Kyrgystan Republic. In addition, the transition to the post-privatization phase of reform in Russia will also vastly increase the need for assistance. This is exemplified by GKI's recent request for \$880 million of which \$500 million would be directed at post-privatization activities.

There is some question as to when the World Bank and EBRD loans will be approved. Originally, it was anticipated that these loans, totalling \$150 million, would be available to continue privatization activities started by AID. There is a high degree of uncertainty surrounding the approval of these loans now for a variety of legal and bureaucratic reasons. To address this shortfall in resources, we are increasing the FY 1993 authorization level for privatization, and we will add funds either from supplemental appropriations, or through transfers from other programs.

As privatization is likely to be the foundation of all economic reforms, additional resources are urgently needed in anticipation of this exceptional demand. Accordingly, life-of-project funding for the omnibus privatization contracts will increase from \$75,000,000 to \$175,000,000 as part of the overall \$226,150,956 privatization funding.

Trade and Investment

The current authorized life-of-project funding for the Trade and Investment component is \$38,805,000. This is being reduced to \$33,621,159 primarily due to the withdrawal of support for the Investment Facility. Plans now are to review possible post-privatization activities that will enhance the commercial viability of privatized enterprises in the NIS. The focus will be to transfer technology and build indigenous business skills by placing the U.S. private sector shoulder-to-shoulder with Russian counterparts. Activities will assist U.S. businesses and NIS enterprises to jointly develop and carry out business activities. Prior to authorizing and obligating additional funds for this component, we will seek approval on a concept paper which will outline proposed post-privatization initiatives in greater detail.

Small Business/Enterprise Development

The current authorized life-of-project funding for this component is \$16,300,000. Plans are to increase this level to \$131,990,500. The vast majority of the increase in funding is for New Business Development programs in Russia, Ukraine, Armenia, Georgia and Central Asia. Funding for other NIS Republics may also be made available as efforts in this area progress. The focus of these programs is two-fold: 1) to strengthen and deepen institutional systems that will help to increase and improve the supply of training, technical assistance, business service and information service available to new and emerging private, and predominantly small, businesses; and 2) to improve the policy and regulatory environment in which these emerging private businesses will operate. Clearly, with the continuing success of the privatization efforts, the need to support the emerging private businesses will become increasingly necessary.

The Russian New Business Development component concentrates on four sub-activities: 1) development of local business support services; 2) support for the development of pro-business policy at local and Republic government levels; 3) a fund to support special private business needs; and 4) banker's training to support effective lending to emerging

businesses. While this New Business Development Component is now unique to Russia, it contains aspects of business development that will be needed in the various other NIS republics. Planning missions have already been undertaken for Ukraine and Armenia. As with the Russia component, the design of the Ukrainian and other New Business Development activities will require missions and embassies to help tailor these activities to the needs of the countries in which it will be implemented.

Project Management and Support

This component is being added to consolidate numerous other activities into one management unit. It will provide funding for PSCs, interagency agreements, audits and evaluation. If additional funds become available it could also serve as a source of funds for unsolicited proposals that are identified as unique and innovative and will contribute to and enhance our activities under privatization, trade and investment, and small business development.

With approximately 500 enterprises being privatized every month, there is a tremendous need for post-privatization assistance and complementary initiatives to ensure overall commercial viability. These funds will be available to meet unforeseen demands in areas complementary to privatization, post-privatization, and small business/enterprise development. Continued support of ongoing activities now placed under this component, combined with funding for unsolicited proposals, could require as much as \$20 million in FY 1994. The life-of-project funding level (including \$300,000 for audits) of this component is \$33,621,159.

Legislation and Authority

The Freedom Support Act (FSA) and the FY 1993 Appropriations Act (p.L. 102-391) contain several provisions that limit assistance or require the Executive Branch to take into consideration certain factors in providing assistance. Section 907 of the FSA bars United States assistance to the government of Azerbaijan unless the President determines and reports to Congress that the GOA is taking demonstrable steps to cease all blockades and other offensive actions against Armenia and Nagorno-Karabakh. Thus, the GOA will be eligible for assistance under this project only after the determination has been made. Assistance may still be provided to Azerbaijan, so long as it is not provided to the GOA.

Section 498 (a) of the Foreign Assistance Act of 1961, as amended, sets forth a number of matters that are to be taken into account in providing assistance to NIS countries such as progress

toward democracy and economic reform, human rights, peaceful resolution of ethnic disputes and restraining arms transfers. Section 581 provides that before providing assistance to the NIS, the President should take into consideration the extent to which NIS countries are taking significant steps on human rights, political pluralism and economic reform. Section 498A (b) prohibits aid to any NIS country that violates any of a number of restrictions relating to matters such as human rights, arms control, nuclear proliferation and, with respect to Russia, withdrawal from the Baltics. The Secretary of State as Coordinator has reviewed memoranda dealing with these statutes for Armenia, Georgia, Kazakhstan, Russia and Ukraine, and decided to proceed with assistance to these countries. State advises that memoranda from other countries are in process and we are in this way satisfying the 498A (a) criteria. The section 581 criteria (significant steps toward human rights implementation; political pluralism based on democratic principles and the rule of law; and economic reform, based on market principles and private property) have in fact been important considerations taken into account throughout the process of providing assistance to the NIS. State and A.I.D. agree that Sections 581 and 498 (a) do not preclude assistance to these countries at this time.

Section 599 of the Appropriations Act sets forth restrictions on assistance which could have an adverse impact on U.S. employment or on workers' rights in the recipient countries. GC and PAC have developed standard clauses which are incorporated in PIO/Ts for all grants and contracts and in Interagency Agreements to ensure compliance with this section.

You have the authority to authorize this project pursuant to Interim Reorganization Delegation of Authority No. 10, dated March 30, 1992. The Congressional Notification waiting period for the project expired on June 8, 1993.

Recommendation:

1. That by signing the attached Second Amendment to the Project Authorization where indicated you authorize the Private Sector Initiatives Project No. 110-0005 with a planned life-of-project funding of \$425,000,000, subject to the availability of funds.
2. That by signing the attached Initial Environmental Examination you approve a negative determination for the Private Sector Initiatives Project (110-0005) as amended.

Approved *Jim Connelley*

Disapproved _____

Date 6/27/93

SECOND AMENDMENT
TO
PROJECT AUTHORIZATION

Name of Country: Newly Independent States (NIS)
Name of Project: Private Sector Initiatives Project
Number of Project: 110-0005

1. The Private Sector Initiatives Project for the New Independent States of the Former Soviet Union (NIS) was authorized on April 22,,1992. I hereby further amend the project authorization to read as follows:

(1) Pursuant to Section 498 and Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Initiatives Project for the Newly Independent States of the Former Soviet Union (NIS), involving planned obligations of not to exceed \$425,000,000 in grant funds over a six year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is six years from the date of initial authorization.

(2) The project's objective is to facilitate the economic transformation of the NIS by supporting the emergence of indigenous business and activities involving U.S. businesses and institutions in areas where they have a comparative advantage.

(3) The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants outlined below in Section 4 as A.I.D. may deem appropriate.

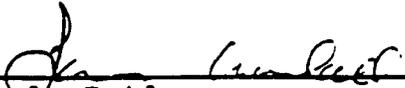
(4) Commodities financed by A.I.D. under the project shall have their source and origin in the United States, Newly Independent States of the Former Soviet Union (NIS) countries, or countries included in A.I.D. Geographic Code

6

941 except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States, NIS countries or any countries included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise writing, be financed only on vessels of the United States.

(5) The waiting period for the Congressional Notification notifying a new life of project of \$525,000,000 expired without objection on June 8, 1993. This authorization will include \$425,000,000 of that amount.

2. The authorization cited above remains in force except as hereby amended.



Malcolm Butler
Director
New Independent States Task Force

10/29/93
Date

-1-

INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROGRAM COUNTRY: New Independent States
Regional
- (B) ACTIVITY: P r i v a t e S e c t o r
Initiatives Project.
(110-0005)
- (C) FUNDING: \$525 million
- (D) PERIOD OF FUNDING: FY 1992 - FY 1997
- (E) STATEMENT PREPARED BY: Gregory Huger, NIS/TF/PSI
- (F) RECOMMENDED ENVIRONMENTAL ACTION: Negative Determination

A categorical exclusion
under A.I.D. regulation
Environmental Procedures
22CFR Part 216, Sections
216.2 (c) (1) (ii) and
216.2 (c) (2) (i)

- (G) DECISION OF DIRECTOR
NIS/TF:

Jim Condit
Approved

Disapproved

6/27/93
Date

- (H) DECISION OF NIS/TF
ENVIRONMENTAL OFFICER:

A. J. M.
Approved

Disapproved

JUN 3 1993
Date

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT OF THE PRIVATE SECTOR INITIATIVES PROJECT (110-0005)

A. DESCRIPTION OF THE PROGRAM: This project provides training and technical assistance and business support to institutions, individuals and private voluntary organizations to support efforts to promote private enterprise. There is no impact on the environment as far as A.I.D. managed activities are concerned.

B. RECOMMENDED ENVIRONMENTAL ACTION: Because the project provides only training and technical assistance and studies, a categorical exclusion from A.I.D. Initial Environmental Examination, Environmental Assessment and Environmental Impact Summary requirements is proposed. This proposal is in accordance with A.I.D. Environmental Procedures 22 CFR Part 216, Section 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 of or control over, the details of the specific activities that have an effect on the environment for which financing is provided by A.I.D." Specifically, this activity is Categorically excluded under Section 216.2(c)(2)(i) for education and technical assistance. Other than through the provision of training this project will not be involved in the following types of activities.

- Programs of river basin development
- Irrigation or water management projects, including dams and impoundments.
- Agricultural land leveling
- Drainage Projects
- Large scale agricultural mechanization
- New Lands development
- Resettlement projects
- Penetration road building or building projects.
- Powerplants
- Industrial Plants
- Potable water and sewerage projects other than those that are small-scale.

Private Sector Initiatives Project 110-0005

25-Jun-93

	Authorized LOP 15-Jan-93	FY92 Obligated	Obligated	FY93 Planned	Total	FY94 Planned	FY95 Planned	Total
Privatization	121,595,000	6,182,219	41,094,086	73,874,651	114,968,737	45,000,000	60,000,000	226,150,956
Trade & Investment	38,805,000	11,438,000	11,691,159	6,492,000	18,183,159	2,000,000	2,000,000	33,621,159
Small Business	16,300,000	0	3,515,000	12,268,000	15,783,000	59,103,750	57,103,750	131,990,500
Audits	300,000							0
Project Development & Support		0	20,896	508,500	529,396	20,300,000	12,407,989	33,237,385
Total	177,000,000	17,620,219	56,321,141	93,143,151	149,464,292	126,403,750	131,511,739	425,000,000

10