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Washington, D.C. 20520

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January 4, 1985

TO : Mr. Robert C. McFarlane, The White House

FROM : Ambassador Robert B. Keating *RSK*
Chairman, Third World Hunger Study

SUBJECT: NSSD 1-84 - Part II of Third World Hunger Study

NSSD 1-84 established the terms of reference for a study aimed at making better use of U.S. food aid for Third world emergency and non-emergency food problems. In Part I of our work, completed in July 1984, we made ten recommendations for achieving a more rapid, high-visibility response to acute hunger crises in the Third world. These recommendations were accepted by the President and promulgated in NSDD 143.

In Part II of our assignment, we gave priority attention to making more effective use of food aid to promote better agricultural policies in key Third World countries. The United States has encouraged agricultural reform through existing food aid programs with insufficient results, particularly in sub-Saharan Africa. Changing economic circumstances in the Third World are creating a new context and new opportunities for U.S. foreign policy. Socialist economic models have failed to generate growth for Third World countries, and many Third World leaders are now experimenting with more market-oriented approaches in four critical areas:

- agricultural price policy;
- marketing reform and liberalization;
- input supply and distribution policy, and
- private sector involvement.

However, many of these leaders fear the political risks of food shortages during the transitional period to a more market-oriented economy. To overcome these concerns, we need an innovative and flexible instrument that would provide additional food assurance as an inducement to policy changes consistent with the Reagan Administration's objectives.

Conclusion: Mindful of the need for budgetary stringency in implementing an additional food aid program, we recommend an expansion of Section 416 authority for a four-year period in order to match the temporary availability of USG-acquired food stocks with the transitional needs of key Third World governments; initially in sub-Saharan Africa. We have called this new Presidential initiative to provide additional food aid, "Food for Progress" (a fuller explanation of this new program is appended).

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In addition to developing the new "Food for Progress" initiative, we examined the complex interagency decision-making process for allocating food aid under the major non-emergency food aid programs (PL 480 titles I/III). This complex process involves the interplay of important multiple objectives, competing interests and sometimes conflicting criteria advanced by USDA/State/AID/OMB/Treasury in a time-consuming adversarial exercise. We found, however, it is possible to apply a more analytical and rational method for illuminating issues and facilitating decision-making. Improved analysis would assist decision-makers in the weighing of priorities and recognition of trade-offs.

Conclusion: An analytical framework is needed for a rational examination of the many factors which interact, influence and condition our response to Third World food problems and the achievement of U.S. food aid goals. The decision-analysis methodology (multi-attribute utility theory) tested in this study merits its use in allocating food aid for multiple objectives, and in determining the appropriate mix of food aid instrumentalities.

We also studied the array of existing commercial and concessional credit and grant aid programs through which the USG directly influences the flow of over \$6 billion worth of U.S. foodstuffs for Third World countries. We found that any attempt to improve the fit between the agricultural potential of the U.S. and the chronic food deficits of Third World countries came up against the dilemma that many Third World countries are unable to pay cash for U.S. food while we are limited in the amounts we can give or sell on credit. Moreover, there are formidable institutional and political barriers to revising our international approach. No consensus existed among the lead agencies on the direction of needed changes, particularly in light of our difficult budgetary situation, on the following key programs issues:

- . Whether to initiate intermediate credits of 7-10 years to help key Third World countries with their food needs during a period of debt crisis.
- . If so, whether to seek intermediate credit guarantee authority from Congress.
- . Or, whether to seek funding for the defunct intermediate direct credit program on the books.

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- . Whether to revise the terms for PL 480 Title I concessional loans and Title III conditional grant programs.
- . Whether to turn Title I into a multiyear program and scrap the separate Title III.
- . Whether to provide a higher overall level of PL 480 food aid.
- . Whether to challenge the legislatively prescribed minimum level for Title II non-emergency regular programming of private voluntary organizations.

Conclusion: It will require considerable time to develop a clear consensus on the revision of the existing array of programs. The structure of U.S. programs of food aid and credit has evolved over thirty years in response to circumstances and pressures. Taken together, these programs are performing useful functions. Some are excellent instruments (e.g., the GSM-102 3-year credit guarantee program) for meeting their stated objectives. On the other hand, the PL 480 Title III program which refocussed a portion of Title I resources in the hopes of achieving important economic development changes is an instrument which failed to fulfill its promise.

~~CONFIDENTIAL~~The New Initiative - "Food for Progress"

The "Food for Progress" initiative will absorb 500,000 metric tons annually of USG-owned food resources for a period of four years. These food resources would come from the 17.5 million metric tons of surplus commodities acquired by the Commodity Credit Corporation (CCC) through extending the authority of Section 416 of the Agricultural Adjustment Act. The sole objective of the program is to provide additional food assurance for key Third World countries during a transitional period of agricultural policy reform. This special program is not open-ended and no extension beyond four years is foreseen.

The CCC inventories have again reached burdensome levels in 1984, overhanging markets and depressing farm prices. Projections are for continued weak exports of U.S. agricultural commodities. This being the case, the expected continuing high level of surplus commodities held in CCC inventories should not present a problem of unavailability of supply for the relatively small quantities of food involved in the "Food for Progress" proposal. CCC storage costs now stand at about \$.33/bushel. For the 500,000 metric tons each year recommended for the new program, there would be a savings of \$6 million per year in storage costs or \$60 million over the four-year period.*/

As consideration is given to the 1985 Farm Bill, decisions must be made about the disposal of these stocks in a manner which would help rather than hinder the shift to a more market-responsive U.S. agricultural policy. It should be borne in mind that both the Department of Agriculture and OMB's proposals for the 1985 Farm Bill would terminate the farmer-owned grain reserve (FOR) and fold all stocks into the CCC-owned inventories when the three-year grain reserve contracts expire. However, the two agencies make no specific proposals as to how these augmented CCC inventories would be drawn down. With the depressed state of the farm economy, it is important that they be drawn down in a manner which would not further depress market prices. Accessing these stocks for "Food for Progress" is consistent with this criterion and the objective of creating future credit-worthy Third World markets for U.S. food exports.

The underlying premise of the "Food for Progress" program is that it could be operated more effectively in helping achieve policy reform in key Third World countries than the food aid instrumentalities inherited by the Reagan Administration. To accomplish this single objective in a program of limited duration requires a more innovative and flexible instrument than the PL 480 programs. We can

*/ 500,000 MT X 36.7 bu/MT x .33 cents/bu = \$6.05 million/yr savings in storage costs

6M for 1 yr plus 12M for 2 yrs plus 18M for 3 yrs plus 24M for 4 yrs = \$60M total savings in storage costs

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find the attributes needed by expanding the Reagan administration's Section 416 authority to cover a wider range of commodities and their use for a new program. Under this implementation plan, "Food for Progress" would:

1. make clear President Reagan's intent to match the temporary availability of USG-acquired food stocks with the food needs of key Third World governments during their transition periods to more market-oriented agricultural systems, initially in 6-8 sub-Saharan African countries;
2. be the only U.S. food aid instrument employing additional food resources solely for the purpose of leveraging agricultural policy reform in key Third World countries;
3. use food resources already acquired by the USG. There would be a new additional cost for transport (est. \$40 million/yr.) with a savings in domestic storage (est. \$6 million/yr. or \$60 million over four years);*
4. not disrupt the food aid levels of other PL 480 programs, nor impair achievement of their important multiple aims;
5. permit multiyear food aid programming free from "use or lose" annual appropriation constraints, and the associated pressures from commodity interest groups affecting PL 480 Title I/III programs;
6. enjoy broad congressional support as a new initiative with greater promise of achieving agricultural policy reform in key Third World countries than the usual food programs under PL 480.

*/ As with other draw-downs of CCC-acquired stocks (e.g., for the \$9 billion domestic PIK Program), the CCC would require replenishment of its capital stock to cover the cost of the commodities at a future date.

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Third World Hunger Study Part II

(Non-Emergency, Chronic Food Deficit Problems)

Chairman: Ambassador Robert B. Keating
Date: December 20, 1984

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Third World Hunger Study, Part II

A. Actual Food Aid Decision-Making Process

1. Actual Decision-Making Process for PL 480 Title I Programs
2. Areas of Inter-Agency Conflict
3. Actual Allocation Criteria for Inter-Agency Decision-Making Process
4. Multi-Attribute Utility Theory
5. Inter-Agency Food Aid Decision-Making

B. A New Food Aid Initiative

1. US Food Export Policy Dilemma
2. The Changing Economic Circumstances of Third World Countries
3. "Food for Progress" to Back Up Agricultural Policy Reform in Key Third World Countries
4. Reasons for "Food for Progress" Initiative
5. Size and Cost of "Food for Progress" Initiative
6. "Food for Progress" to Back Up Agricultural Policy Reform
7. USG-Owned Grain Stocks
8. Sub-Saharan Africa Food Import Needs
9. Sub-Saharan Africa Long-Term Decline in Per Capita Grain Production and Consumption
10. "Food for Progress" Decision Analysis for Selection of Recipient Countries (Illustrative)
11. The Leveraging of Agricultural Policy Reform
12. Selection of "Food for Progress" Policy Targets
13. Implementation of "Food for Progress" Overtime
14. USG Bi-Lateral Assistance Programs
15. An Integrated Food Aid Program for Sub-Saharan Africa
16. Why Should We Use USG-Owned Food Stocks?
17. Why Would Reprogramming of Existing PL 480 Instrumentalities Fail to Accomplish the "Food for Progress" Objective—Agricultural Policy Reform?
18. Program Characteristics Needed to Promote Agricultural Policy Reform in Sub-Saharan Africa
19. Why Would the "Food for Progress" Initiative Based on the Use of Surplus Commodities Owned by the Commodity Credit Authority (CCC—Section 416) Succeed Better Than Existing Food Aid Programs in Achieving Agricultural Policy Reform?
20. US Domestic Political Acceptability of the "Food for Progress" Initiative

Actual Allocation Criteria for Inter-Agency Decision Making Process

USDA

- Develops markets for US commercial exports of food.
- Disposes of surplus agricultural produce.

State

- Avoids trade frictions.
- Protects strategic balance and political objectives worldwide.

Treasury

- Maintains stability of international financial system.

OMB

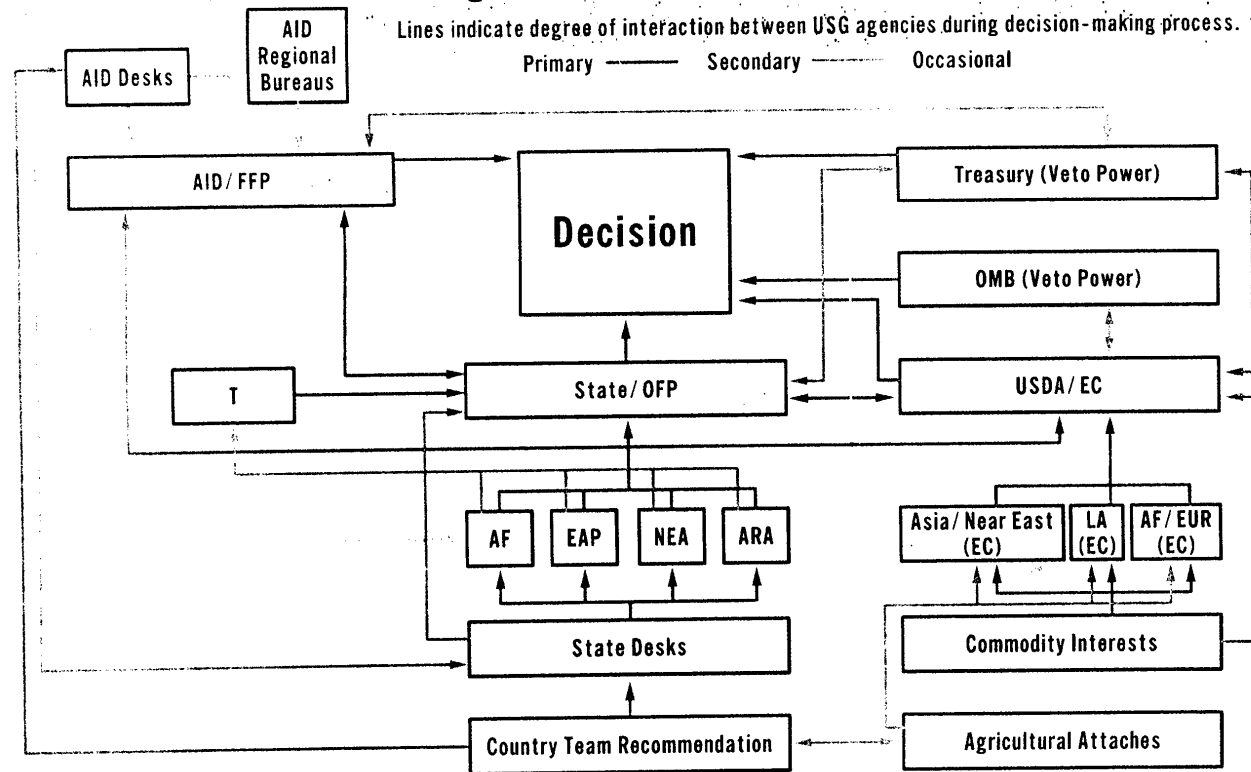
- Limits USG spending.

AID

- Promotes effective economic development using local currency proceeds.
- Responds to real food shortfalls.

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Actual Decision-Making Process for PL 480 Title I Programs



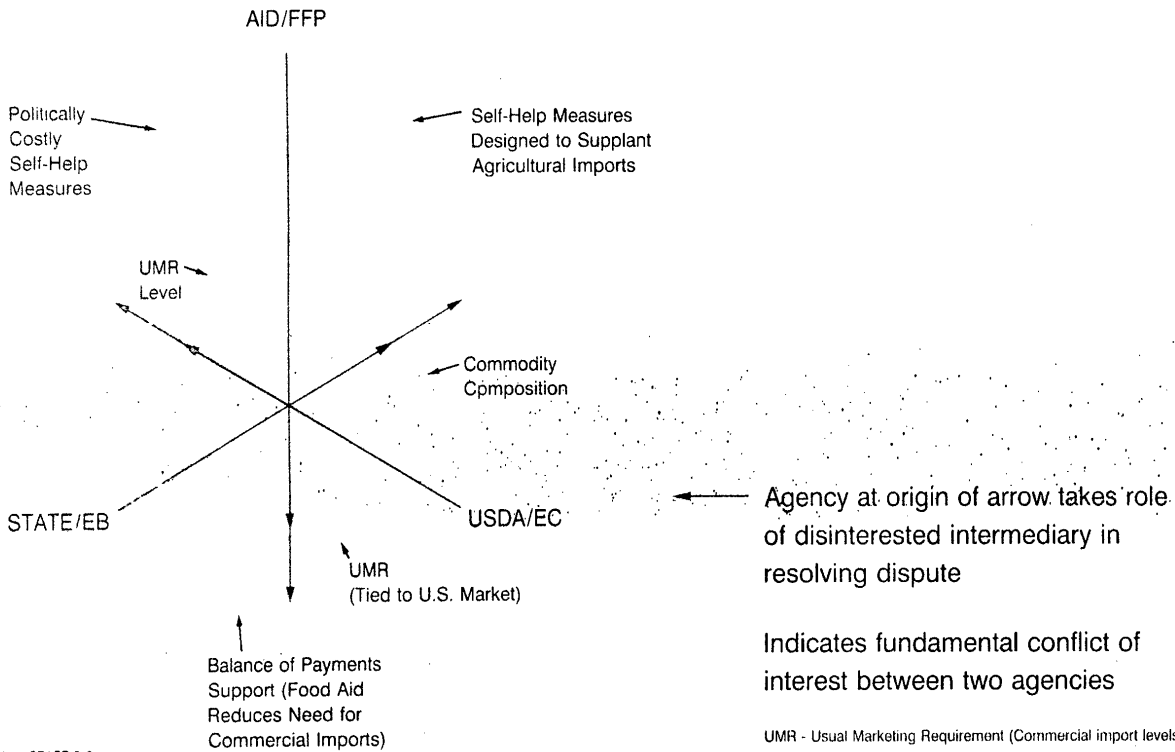
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Areas of Inter-Agency Conflict

- **Diagram three key agencies and six recurring areas of substantive conflict.**
- **Red line indicates inter-agency areas of conflict.**
- **Yellow line highlights crucially important role of third agency in reconciling conflicts between other two agencies.**
- **OMB and Treasury can exercise veto power, but are not generally involved in formulating specific aspects of PL 480 programs.**

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Areas of Inter-Agency Conflict



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Actual Allocation Criteria for Inter-Agency Decision-Making Process

USDA – Promote U.S. Agricultural Exports and Support Domestic Farm Income

STATE – Support Allies and Avoid Trade Friction

AID – Promote Economic Development in Recipient Countries

TREASURY – Protect Stability of International Financial System and Evaluate Credit
Worthiness of Sovereign Borrowers

1 Dispose of Surplus Commodities	2 Protect Commerical Food Exports	3 Increase Future Food Exports
4 Strategic Importance of Recipient Country	5 Willingness to Undertake Market-Oriented Policies	6 Balance of Payments Support
7 No Disincentive to Local Agriculture	8 Willingness to Accept UMRs	9 Humanitarian Need to Cover Food Shortfall
10 Willingness to Repay Previous PL 480 Loans	11 Willingness to Undertake Economic Adjustment Measures	

Multi-Attribute Utility Theory for Inter-Agency Food Aid Decision-Making

Purposes:

- 1.) Assessing the achievement of the overall objectives of PL 480 legislation: market development, foreign policy support, economic development, and minimum cost to USG.**
- 2.) Evaluating the allocation criteria actually used in the inter-agency decision-making process (the attached matrix assigns a number from -10 to +10 as a means of measuring each criterion's importance in achieving a specific food aid objective.)**
- 3.) Ranking allocation criteria as a function of relative weighting of food aid objectives.**

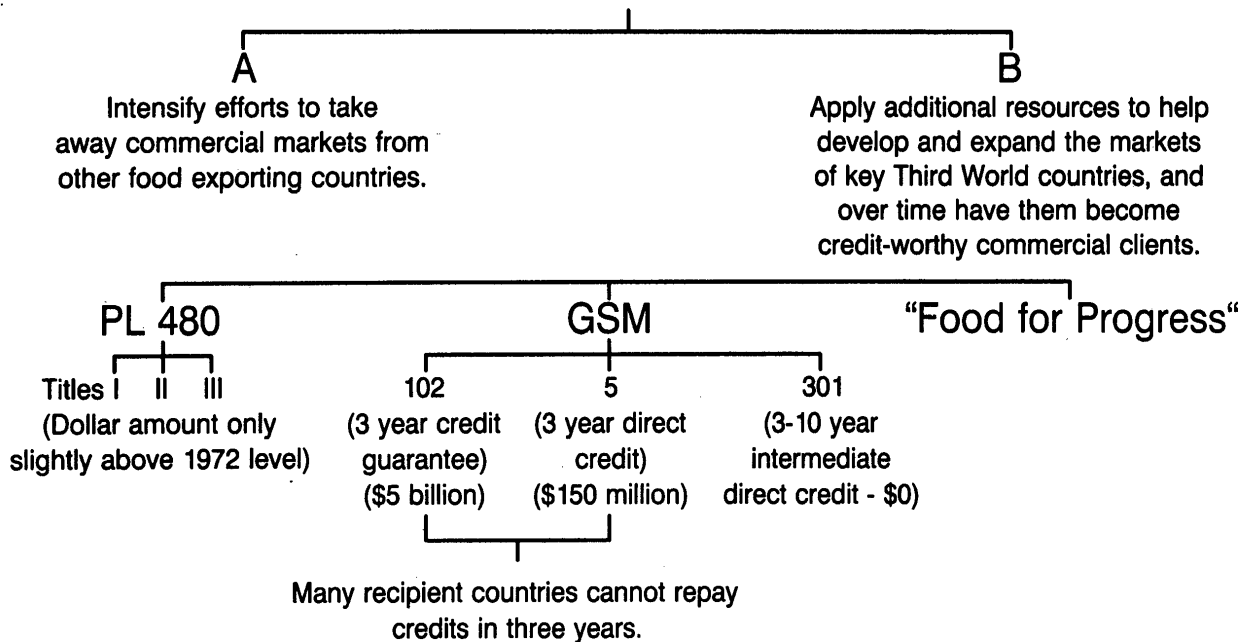
Inter-Agency Food Aid Decision Making

PL480 Objectives

Actual Allocation Criteria	I Market Development		II Minimum Cost to U.S.G		III Foreign Policy Leverage		IV Economic Development		Outcome (Depends on Relative Weights)				
	Rank	%	Rank	%	Rank	%	Rank	%	Even	I=70%	II=70%	III=70%	IV=70%
1 Willingness to Accept Abundant Commodities - USDA	9	33	7	23	0	0	0	0	56 H	25.4	19.4	5.6	5.6
2 Non-Displacement of U.S. Food Export - USDA	10	37	1	3	0	0	0	0	40	26.2	5.8	4.0	4.0
3 Potential Commercial Market -USDA	10	37	2	6	0	0	0	0	43	26.5 H	7.9	3.7	4.3
5 Pro-Private Sector Economic Policies AID	5	18	0	0	5	10	10	22	50	15.8	5	11	18.2 H
7 No Disincentive to Local Agriculture AID	-8	-29	0	0	6	12	10	22	5	-16.9 L	.5 L	7.7	13.7
9 Unanticipated Food Shortfall -AID	0	0	0	0	5	10	6	13	23	2.3	2.3	8.3	10.1
10 Willingness to Repay PL480 Loans -TREASURY	3	11	9	30	0	0	3	6	47	11.3	22.7 H	4.7	8.3
11 Economic Adjustment Measures -TREASURY	3	11	1	3	3	6	8	17	37	10.3	5.5	7.3	13.9

US Food Export Policy Dilemma

Many Third World countries with potential growth prospects are unable to pay cash for US food.



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Key Question: Would not changes in our agricultural export credit programs help expand the economies of key Third World countries and bring a return to the US economy?

Key Considerations:

- 1.) The pros and cons of providing intermediate credit (say 7-10 years) to help key Third World countries with their food needs during a period of debt crisis.
- 2.) The pros and cons of new legislation permitting a GSM intermediate guarantee program.
- 3.) The pros and cons of providing funding for the currently authorized direct intermediate GSM 301 credit program (or should it be scrapped?).
- 4.) The pros and cons of providing easier terms for PL 480 Titles I and III (including local currency repayment, less complicated regulations and requirements).

Key Question: Would not changes in our agricultural export credit programs help expand the economies of key Third World countries and bring a return to the US economy?

Key Considerations: (Continued)

- 5.) The pros and cons of turning Title I into a multi-year program and scrapping Title III.
- 6.) The pros and cons of providing a higher level of overall PL 480 food aid.
- 7.) The pros and cons of the present level of Title II non-emergency regular programming (1.2 million mt/yr -- too high, too low, just right?).
- 8.) What is the appropriate mix of present and proposed programs in our "food for progress" strategy?

The Changing Economic Circumstances of Third World Countries

Geo-Political Context (National Security Implications)

- **Socialist economic model failing to generate growth for Third World countries.**
- **Third World countries beginning to experiment with more market-oriented approaches.**
- **US should target assistance to underwrite economic reform efforts during transition period austerity.**
- **Soviets unable to offer much in the way of economic assistance.**
- **Demonstrated success of economic reform measures can shift US-Soviet balance of influence in the Third World.**

**“Food for Progress” to back up agricultural policy reform
in key Third World countries**

Goal: To use American food resources more effectively in support of Third World countries which have made commitments to policy changes in four critical areas:

- Agricultural price policy
- Marketing reform and liberalization
- Input supply and distribution policy
- Private sector involvement

**“Food for Progress“ to back up agricultural policy reform
in key Third World countries**

- The sole objective of the “Food for Progress“ initiative would be to support the IMPLEMENTATION of policy changes over a medium-term transition period in Third World countries of strategic value and trade potential, initially in Sub-Saharan Africa.
- Unlike present food aid programs with comprehensive and multiple objectives, this initiative would:
 - Connect food aid with strategies to achieve structural reforms in food pricing and marketing;
 - Involve co-financing with the World Bank and other financing institutions;
 - Make use of government-owned food stocks (accounting model -- President Reagan’s Section 416 of the Agricultural Adjustment Act).

Reasons for "Food for Progress" Initiative

- In Sub-Saharan Africa, food import needs are increasing by at least 700,000 mt per year.
- Use of 500,000 mt/yr of USG-owned food surpluses (17.5 million mt) would increase non-emergency US food aid by 50 percent to 1.5 million mt/yr.
- Today's emergency food crises highlight the need to tackle the underlying structural problems of agricultural stagnation.
- US food abundance can reduce the political risks to leaders of key Third World countries undertaking agricultural reform measures during a transition period of economic hardship.
- The intention of this initiative is to provide incentives for improved food production policies.

Size and Cost of "Food for Progress" Initiative

Duration: 4 years.

Size: 500,000 mt/year of wheat, corn and rice in addition to regular PL 480 commodities.

Value: \$90 million/year (sunk investment -- already paid for by CCC).

Accounting: The use of surplus commodities owned by the Commodity Credit Authority (CCC) through the authority of Section 416. Since the new initiative would use food resources already paid for by the USG, the net cost would be transport (est. \$40 million), minus savings in storage (est. \$6 million).

Recipient

Countries: Initially, 6-8 Sub-Saharan African countries.

“Food for Progress” to Back-Up Agricultural Policy Reform

- 1.) Price policy reform to provide incentives to farmers to produce food on a regular basis for the market.**
 - Adequate price levels for agricultural commodities.**
 - Timely payment to farmers for their commodities.**

- 2.) Other policy reform to help create an efficient internal market for increased agricultural productivity.**
 - Greater farmer access to private, competitive markets.**
 - Market-determined exchange rate.**
 - Adequate foreign exchange for imported inputs along with their efficient and timely delivery (fertilizer, pesticide, credit).**
 - Adequate rural infrastructure (farm-to-market roads, collection stations, storage).**

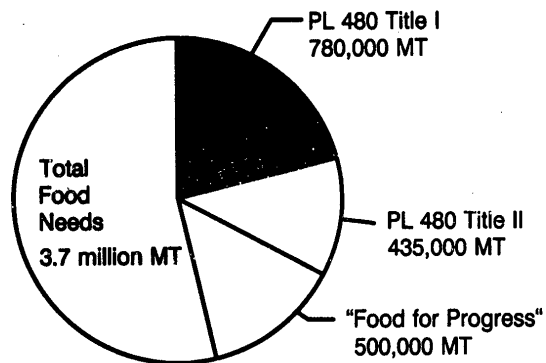
USG-Owned Grain Stocks

(Source: USDA)

Total:	17.5 MILLION MT (\$2.6 Billion)
Wheat	8.8 Million MT (Including the International Emergency Food Reserve of 4.0 Million MT)
Corn	5.1 million MT
Rice	0.9 million MT
Sorghum	2.3 million MT
Other Grains	.4 million MT

Sub-Saharan African Food Import Needs

- A) USDA projects a food shortfall of at least 3.7 million MT in FY 1985
- B) PL 480 Titles I & II will provide 1.2 million in FY 1985
- C) The "Food for Progress" initiative would provide an additional 500,000 MT/YR for four years



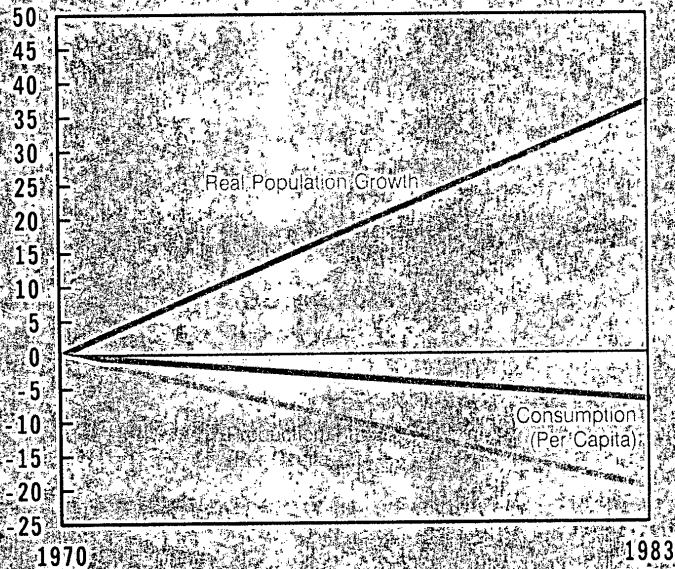
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Sub-Saharan Africa Long-Term Decline in Per Capita Grain Production and Consumption

For the Last Two Decades,
Sub-Saharan Countries have Faced:

- Declining Per Capita Production (20%)
- Declining Per Capita Consumption (7%)
- Increasing Reliance on International Food Aid Programs
- Falling Export Earnings
- High Population Growth



"Food for Progress"
Decision Analysis for Selection of
Recipient Countries (Illustrative)

Potential Recipients	Strategic (FY86 ESF)			Co-Financing Impact (Existing W.B. Agr. Programs)			Food Aid Needs (USDA Projection)			Trade Potential (Population)			Country Ranking	
	Weights .40			.20			.20			.20			MAUT Value Total	Resource Response Index (Proposed)
	Index	%	MAUT Value	Index	%	MAUT Value	Index	%	MAUT Value	Index	%	MAUT Value		
Angola	0	0	0	0	0	0	3	3	0.6	7	7	1.4	2.0	
Benin	0	0	0	3	5	1.0	3	3	0.6	2	2	0.4	2.0	
Burkina-Fasso	0	0	0	0	0	0	3	3	0.6	5	5	1.0	3.6	
Chad	4	6	2.4	0	0	0	2	2	0.4	2	4	0.8	3.6	
Ethiopia	0	0	0	8	13	2.6	10	9	1.8	10	10	2.0	6.4	
Ghana	0	0	0	7	11	2.2	8	7	1.4	7	7	1.4	5.0	
Kenya	8	12	4.8	0	0	0	8	7	1.4	8	8	1.6	7.8	
Lesotho	0	0	0	0	0	0	5	4	0.8	0	0	0	0.8	
Liberia	8	12	4.8	4	6	1.2	1	1	0.2	1	1	0.2	6.4	
Madagascar	3	5	2.0	6	10	2.0	8	7	1.4	6	6	1.2	6.6	
Mali	0	0	0	0	0	0	5	4	1.0	5	5	1.0	2.0	
Mauritania	0	0	0	0	0	0	5	4	1.0	0	0	0	1.0	
Mozambique	5	8	3.2	0	0	0	8	7	1.4	7	7	1.4	6.0	
Niger	4	6	2.4	0	0	0	5	4	1.0	3	3	0.6	4.0	
Senegal	5	8	3.2	5	8	1.6	8	7	1.4	5	5	1.0	7.2	
Sierra Leone	0	0	0	7	11	2.2	2	2	0.4	1	1	0.2	2.8	
Somalia	7	11	4.4	5	8	1.6	8	7	1.4	2	2	0.4	7.8	
Sudan	10	15	6.0	10	16	3.2	8	7	1.4	8	8	1.6	12.2	
Tanzania	0	0	0	0	0	0	9	8	1.6	8	8	1.6	3.2	
Zaire	5	8	3.2	0	0	0	4	3	0.6	10	10	2.0	5.8	
Zambia	6	9	3.6	7	11	2.2	2	2	0.4	5	5	1.0	7.2	

The Leveraging of Agricultural Policy Reform Through “FOOD FOR PROGRESS”

The amount of “leverage” will be influenced by:

- 1.) The ratio of:
$$\frac{\text{“Food for Progress” additional food assurance}}{\text{A country's total food needs}}$$
- 2.) The potential recipient country's performance in implementing agreed-upon policy reforms (World Bank/IMF conditionality).
- 3.) The potential recipient country's agreement to:
 - More fully implement needed policy measures if provided with multi-year additional food assurance, or
 - To change a disfunctional economic policy.

The analytical task is to:

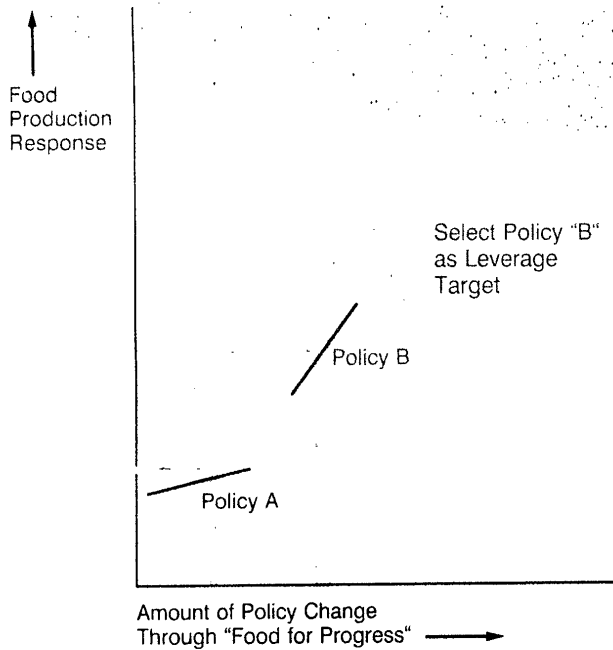
- 1.) Back-up or select those policies within a country which would yield the largest economic return for the additional food assurance of the “Food for Progress” program, and
- 2.) Then determine which countries would yield the largest potential economic return through participation in the “Food for Progress” program.

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Consumption Production PL 480 Title I

Selection of "Food for Progress" Policy Targets



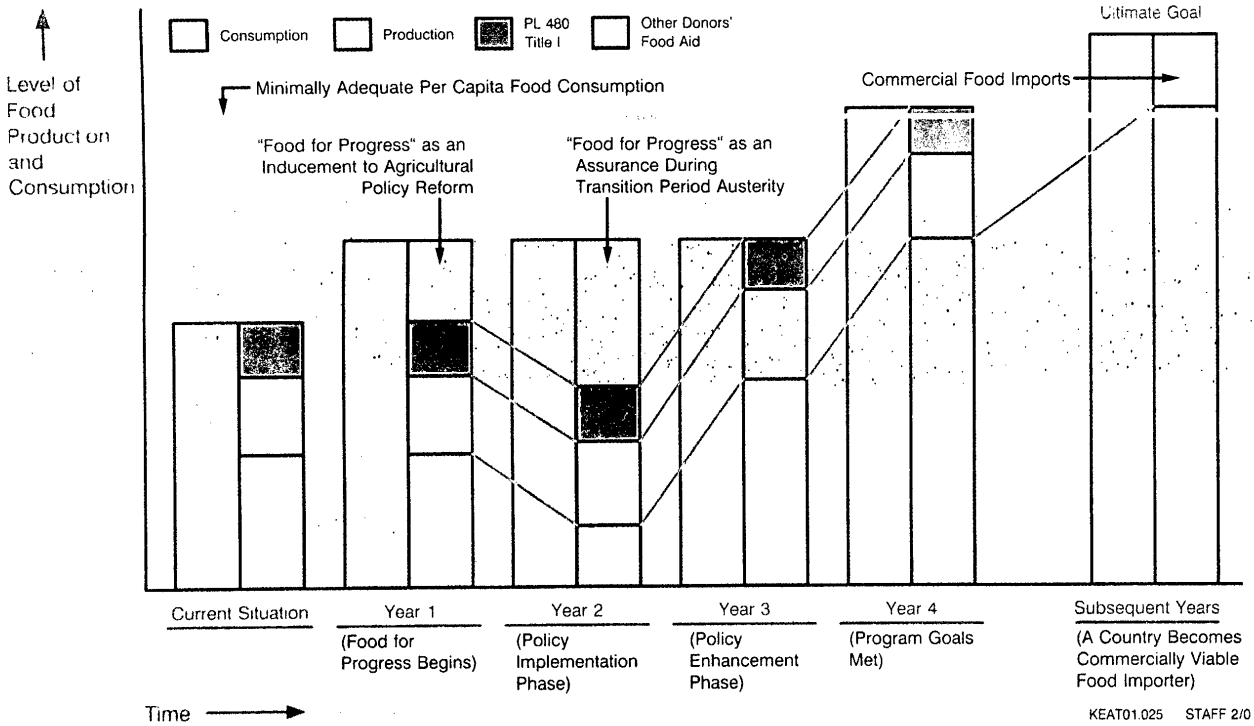
Policies for Leverage

- Farmer Prices
- Exchange Rates
- Food Subsidy Levels to Consumers
- Involvement of Private Enterprise in Marketing System
- Fertilizer Import Regulations

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Recipient Country Production and Consumption of Staple Food Items

Implementation of "Food for Progress" Over Time



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USG Bi-Lateral Assistance Programs

PL 480 Title I: Food aid sold on highly concessional terms on a one-year basis to support foreign policy, economic development, and market development objectives.

PL 480 Title II: Food aid given away on a one-year basis to the neediest people in a country regardless of their government's policies.

PL 480 Title III: Multi-year food aid in support of multi-sectoral economic development objectives.

GSM 102 & GSM 5: CCC guarantees and loans to develop markets for US agricultural commodities (repayment on a three-year basis).

USG Bi-Lateral Assistance Programs (Continued)

Economic Support Fund: Grants for multi-purpose budget and balance of payments support commensurate with foreign policy objectives (one-year allocation).

Development Assistance: Grants and concessional loans in support of multi-sectoral economic development projects (one-year basis allocation).

Economic Policy Initiative: Cash grants in support of multi-sectoral economic reform in Africa (one-year allocation).

“Food for Progress“: The use of USG-owned food on a multi-year basis in support of agricultural policy reform in key Third World countries.

S-Strong
M-Moderate
P-Partial
N-Negligible

USG Bi-Lateral Assistance Programs

Programs	Program Structure			Program Objectives					Program Results	
	Value (Millions)	Terms	Duration	Market Development	Foreign Policy	Humanitarian Assistance to Neediest	Multi-Sector Economic Development	Reform Agricultural Pricing	Domestic Political Support	Effectiveness in Meeting Program Objectives
PL 480 Title I	\$730.0	Concessional Credit (15-40yrs)	1 Year	S	M	P	M	P	S	S
PL 480 Title II (Section 206)	\$800.0 \$20.0	Grant Grant	1 Year 3 Years	N N	N N	S M	N M	N P	S P	M P
PL 480 Title III	\$106.0	Conditional Grant	3 Years	N	P	P	S	M	P	N
GSM-102	\$5,000.0	Commercial Interest (3 yrs)	1 Year	S	N	N	N	N	S	S
GSM-5	\$120.0	No interest (3 yrs)	1 Year	S	N	N	N	N	M	P
GSM-301	0		1 Year	S	N	N	N	N	P	N
Economic Support Fund	\$3,438.1	Grant	1 Year	N	S	N	N	N	P	S
Economic Policy Initiative	\$75.0	Grant	1 Year	N	M	N	S	M	P	Not Yet Attempted
Development Assistance	\$2,266.1	Concessional Credit and Grant	1 Year	N	M	P	S	P	P	M
Food for Progress	\$90.0	Conditional Grant	4 Years	M	M	N	P	S	S	Not Yet Attempted

An Integrated Food Aid Program for Sub-Saharan Africa

- **“Food for Progress” and the Economic Policy Initiative (EPI) both provide additional resources for Sub-Saharan African countries. “Food for Progress” should not displace PL 480 Titles I, II, III, or other donors’ food aid.**
- **Decision analysis (MAUT) can help determine the proper mix of “Food for Progress”, EPI, PL 480, and other food aid instrumentalities for a recipient country.**

**An Integrated Food-Aid Program
for Sub-Saharan Africa (Illustrative)**

Recipient Countries (by FY 85 ESF)	Other Donors 30 %			Title I 20%			Title II 5%			Food Self- Sufficiency 45%			Country Ranking	Appropriate Program
	Index	%	MAUT	Index	%	MAUT	Index	%	MAUT	Index	%	MAUT		
Sudan	10	17	5.1	10	23	4.6	5	13	0.7	5	10	4.5	14.9	E.P.I.
Kenya	7	12	3.6	5	12	2.4	8	21	1.1	2	4	1.8	8.9	Food for Progress
Liberia	2	3	0.9	6	14	2.8	0	0	0	5	10	4.5	8.2	Food for Progress
Somalia	10	17	5.1	7	16	3.2	0	0	0	6	12	5.4	13.7	E.P.I.
Zambia	6	10	3.0	5	12	2.4	0	0	0	4	8	3.6	9.0	E.P.I.
Zaire	2	3	0.9	6	14	2.8	5	13	0.7	1	2	0.9	5.3	Food for Progress
Zimbabwe	0	0	0	0	0	0	0	0	0	10	20	9.0	9.0	E.P.I.
Sengal	10	17	5.1	4	9	1.8	10	26	1.3	6	12	5.4	13.6	E.P.I.
Chad	5	9	2.7	0	0	0	5	13	0.7	3	6	2.7	6.1	Food for Progress
Botswana	3	5	1.5	0	0	0	0	0	0	9	18	8.1	9.6	E.P.I.
Niger	1	2	0.6	0	0	0	0	0	0	4	8	3.0	4.2	Food for Progress
Djibouti	2	3	0.9	0	0	0	5	13	0.7	1	2	0.9	2.5	Food for Progress
Total Sub-Saharan African	58			43			38			50				

Why Should We Use USG-Owned Food Stocks?

- Provides needed additional food resources without raising appropriations.
- Reduces large USG-owned food stocks overhanging depressed agricultural markets.
- Will not disrupt food aid levels of other PL 480 programs.
- Permits greater year-to-year scheduling flexibility without the pressures of annual appropriations and commodity interests, thereby increasing the "Food for Progress" program's effectiveness for recipient countries and US leverage for policy reform in the agricultural sector.
- For the same reasons, the use of USG-owned food stocks for the "Food for Progress" initiative would lend itself to co-financing arrangements with the World Bank and other financing institutions.

Why would reprogramming of existing PL 480 instrumentalities fail to accomplish the "Food for Progress" objective -- agricultural policy reform?

- Planned PL 480 resources only cover essential State/Aid/USDA requirements to meet A.) Title I/III multiple objectives, B.) Title II non-emergency statutory minimum food aid, and C.) the Title II reserve for emergencies.
- Reprogramming PL 480 instrumentalities for "Food for Progress" would subject the new initiative to unpredictability of funds and pressures from State/Aid/USDA to add their multiple goals to the new initiative's single objective of agricultural policy reform, and thus seriously undermine its single objective.
- Reprogramming PL 480 instrumentalities for "Food for Progress" would appear unimaginative and unimportant to the Hill.
- Reprogramming PL 480 instrumentalities for "Food for Progress" would make it unattractive as a legislative proposal because of the resulting loss of many of the unique characteristics of the new Presidential initiative, plus the lack of clearly identified funding.

**Program Characteristics Needed to Promote
Agricultural Policy Reform in Sub-Saharan Africa**

Programs	VALUE (Millions)	TERMS	Economic Reform Conditionality	Multi-year Commitment	Uses USG Owned Food	Free from Annual "Use or Lose" Ap- propriation	Free from Domestic Commodity Interest Pressure	Free from Competing Agency Interests, ("BARNACLES")	Discretionary Control Over Delivery (Lends Itself to Co-Financing)	U.S. Domestic Political Support
PL 480 Title I	\$730.0	Concessional Credit	P	N	N	N	N	N	N	P
PL 480 Title II	\$800.0	Grant	N	N	N	N	N	P	N	S
PL 480 Title III	\$106.0	Conditional Grant	P	S	N	N	N	N	N	N
E.P.I. (E.S.F.)	\$75.0	Grant	S	P	N	N	S	P	P	N
Section 416	Sunk Investment (U.S.G.-Owned Commodities)	Grant	N	N	S	S	S	S	N	P
"Food for Progress" (Section 416 Expanded to Target Reform in Agriculture)	Sunk Investment U.S.G.-Owned Commodities Valued at \$90.0 million per year	Conditional Grant	S	S	S	S	S	S	S	S

S-Strong P-Partial N-Negligible

Why would the "Food for Progress" initiative, based on the use of surplus commodities owned by the Commodity Credit Corporation (CCC - Section 416), succeed better than existing food aid programs in achieving agricultural policy reform?

- The "Food for Progress" initiative would be the only US food aid instrument employing additional food resources specifically for the purpose of leveraging price and policy reform in key Third World countries. The major distinguishing characteristics of the new initiative may be summarized as follows:
 - It would make clear President Reagan's intent to match temporary USG-owned food stocks with the food needs of key Third World countries during their transition periods to more market-oriented agricultural systems (not a 30-year food aid program).
 - It would use food resources already paid for by the USG where the net additional cost would be transport, minus savings in storage.

Why would the "Food for Progress" initiative, based on the use of surplus commodities owned by the Commodity Credit Corporation (CCC - Section 416), succeed better than existing food aid programs in achieving agricultural policy reform? (Continued)

- It would permit multi-year food aid programming free from "use or lose" appropriations, and the associated pressures from commodity interest groups.
- It would increase our discretionary ability to vary annual food deliveries in accordance with the changing needs and performance of recipient countries.
- It would be an efficient, carefully targeted food aid instrument free of the "barnacles" built into PL 480 by law and agency practices, and characterized by conflicting interests and institutional perspectives.
- It would enjoy broad congressional support as a new initiative with greater promise of achieving agricultural policy reform in key Third World countries than the usual food programs under PL 480.

US Domestic Political Acceptability of the "Food for Progress" Initiative

Essential Features

Interested parties	PL 480 Continues	Food Stockpile Not Rebuilt	No Displacement of Commercial Food Exports	No Adverse Budgetary Impact	End Goal is Getting Key Third World Countries Off Dole and Back into International Commercial Food Market
Farm BLOC	+	+	+	0	+
Private Voluntary Organizations	+	-	0	0	+
Congress	+	+	+	+	0
Executive Branch	+	0	+	+	+

+ Support - Oppose 0 Neutral/Divided

Central Intelligence Agency



Washington, D.C. 20505

ER 84-10343/1

19 December 1984

MEMORANDUM FOR: Robert M. Kimmitt
 Executive Secretary
 National Security Council

SUBJECT: NSDD on "Food for Progress"

REFERENCE: Your memo to Multiple Addressees dated 18 Dec 84,
 Same Subject

1. We believe the proposed NSDD on a "Food for Progress" non-emergency food aid initiative for the Third World to be timely and useful.

2. As the proposed NSDD notes, a major problem that needs to be considered is whether, given the current and projected emergency needs for food in Africa--due to drought, mismanagement, and dysfunctional policies--conditional assistance is feasible. The Western response, as reflected in US assistance to the current famine in Africa, entails massive amounts of essentially unconditional humanitarian aid.

3. We call your attention to two relevant recent interagency intelligence studies on this problem: IIA: Food Problems in Sub-Saharan Africa: Prospects for 1984 and Beyond, dated 22 March 1984; and SNIE 70-84, African Famine: Short-Term Prospects, Problems, and Opportunities, dated December 1984.

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Executive Secretary

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TO:

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3	EXDIR		X		
4	D/ICS				
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6	DDA				
7	DDO		X		
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON	X			
20	D/OGI		X		
21					
22					

SUSPENSE _____

Date

Remarks To 19: Pls provide concurrence/
comments for Executive Secretary's trans-
mittal by 1500 hrs, 20 Dec 84.

Executive Secretary

STAT

FOR 19 Dec 84

Date

SYSTEM II
91256

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

December 18, 1984

Executive Registry
84-10343

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MEMORANDUM FOR

MR. DONALD P. GREGG
Assistant to the Vice
President for National
Security Affairs

MR. ALTON KEEL
Associate Director for
National Security and
International Affairs
Office of Management and
Budget

MR. CHARLES HILL
Executive Secretary
Department of State

[Redacted]

STAT

MR. CHRISTOPHER HICKS
Executive Secretary
Department of the Treasury

Executive Secretary
Central Intelligence Agency

COLONEL R. J. AFFOURTIT
Executive Secretary
Department of Defense

MR. DENNIS WHITFIELD
Executive Assistant to the
United States Trade
Representative

MR. RAYMOND LETT
Executive Assistant
to the Secretary
Department of Agriculture

MR. WILLIAM NISKANEN
Member, President's Council
of Economic Advisers

MRS. HELEN ROBBINS
Executive Assistant
to the Secretary
Department of Commerce

MR. JOHN A. SVAHN
Assistant to the President
for Policy Development

MS. LINDA AREY
Director, Executive
Secretariat
Department of
Transportation

MR. MALCOLM H. BUTLER
Executive Secretary
Agency for International
Development

MS. RAPHAELLE SEMMES
Executive Secretary
Peace Corps

SUBJECT: NSDD on "Food for Progress"

The attached NSDD on a "Food for Progress," non-emergency food aid initiative results from the NSDD 1-84 interagency study.

It is contemplated that when the President signs this policy document, Richard Levine of the NSC staff will chair an interagency group which will make recommendations on an appropriate implementation plan for this policy initiative. John Gordley of the Office of Policy Development will serve as vice-chair for this group.

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Due to the President's interest in this matter, agency comments are requested on this draft NSDD by close of business Thursday, December 20, 1984.


Robert M. Kimmitt
Executive Secretary

Attachment
Draft NSDD

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NATIONAL SECURITY DECISION
DIRECTIVE NUMBER

U.S. THIRD WORLD FOOD AID:
A "FOOD FOR PROGRESS" PROGRAM (U)

NSSD 1-84 established the terms of reference for a study aimed at producing new, effective initiatives to address Third World hunger problems; that is, both emergency situations and long-term problems, and how U.S. and donor country food aid programs affect these cases. The NSSD 1-84 study of emergency food aid was completed in July 1984 and resulted in a ten-point program to better respond to grave food crises, as articulated in NSDD 143. Today's food emergency reemphasizes the need to tackle the underlying structural problems of agricultural stagnation in the Third World. (U)

The study of non-emergency food aid has focused on how U.S. food aid could be used as an incentive for Third World countries to increase their food production through agricultural reform, noting that an adequate agricultural sector is a prerequisite for development in Third World countries. This study has considered the economic and political conditions in many Third World countries experiencing chronic food shortages. (U)

Socialist economic systems, prevalent in underdeveloped countries, have failed to achieve economic growth. As a

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result of this, and insufficient aid by the USSR, an increasing number of Third World countries once dominated by the socialist model are experimenting with free market approaches. (C)

In response to this policy context, the United States Government will begin a new food aid program to be called "Food for Progress" which will use American resources to support key Third World countries which have made commitments to agricultural policy changes in six basic areas:

- Adequate price levels for agricultural commodities and timely payment to indigenous farmers;
- Greater farmer access to private, competitive markets;
- A market-determined exchange rate;
- Adequate foreign exchange supplies for agricultural inputs (fertilizer, pesticides, equipment, etc.), along with their efficient and timely delivery;
- Adequate rural infrastructure (farm-to-market roads, collection stations, etc.); and
- Involvement of the private sector in agriculture and marketing. (C)

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American resources will support the implementation of policy changes over a medium-term transition period in Third World countries--initially those in Sub-Saharan Africa. This judicious use of foreign aid--where appropriate on a multi-year basis--will reduce the political risks to leaders of Third World countries committed to undertaking agricultural reform during a transition period of economic hardship. (C)

Resources to support policy changes will be obtained from two sources:

- o The African Economic Policy Initiative, a 5-year, \$500 million program intended to support economic reform in Africa. First-year funding of \$75 million was provided by the Congress in the Economic Support Fund in 1985.
- o The P.L. 480 food aid program, either through more effective use of existing Title I resources or, if necessary, through additional resources. (C)

In contrast with other existing aid programs with comprehensive and multiple objectives, this initiative will have as its objective the achievement of and agricultural policy reform in Third World countries. "Food for Progress" may benefit from co-financing with the World Bank and other financial institutions. (U)

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The National Security Council will chair an interagency group with representatives from State, AID, USDA, CEA, OMB, Treasury and the White House Congressional Affairs Office to develop an appropriate implementation plan for this Presidential initiative. The Office for Policy Development will serve as vice-chair for this group. Priority should be given to implementing this initiative within current programs and budgets. Prompt and positive congressional action is to be considered a significant concern in preparing an implementation program--which may include changes in existing laws and authorities or new legislation. This interagency group should also consider the relationship between this initiative and current and proposed U.S. responses to the emergency situation created by the life-threatening hunger situation in Africa. (U)

The interagency group should forward an implementation plan, with options as appropriate, to the Assistant to the President for National Security Affairs 20 working days from the date of this memorandum, noting agency and congressional views. This implementation plan will be decided upon through the NSC and budget process. (U)

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WASHFAX RECEIPT

THE WHITE HOUSE

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DEC 13 10:19

549-5076

MESSAGE NO. 146 CLASSIFICATION CONF PAGES 6

FROM R. KIMMITT
(NAME) (EXTENSION) (ROOM NUMBER)

MESSAGE DESCRIPTION NSDD ON "FOOD FOR PROGRESS"

<u>TO (AGENCY)</u>	<u>DELIVER TO:</u>	<u>DEPT/ROOM NO.</u>	<u>EXTENSION</u>
<u>BRAVO</u>	<u>CHARLES HILL</u>		
<u>KILO 1</u>	<u>CHRISTOPHER HICKS</u>		
<u>DELTA</u>	<u>COL. R.J. AFFOURTIT</u>		
<u>LIMA</u>	<u>HELEN ROBBINS</u>		
<u>ALPHA</u>			
<u>BRAVO</u>	<u>MALCOLM BUTLER</u>		

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REMARKS SYST 91256