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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

ZAMBIA - COMMODITY IMPORT LOAN

AID-DLC/P-2208

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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November 15, 1976

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Zambia - Commodity Import Loan

Attached for your review are recommendations for authorization of a loan to the Republic of Zambia in an amount not to exceed Twenty Million ($20,000,000) United States Dollars to provide foreign exchange for essential public and sector imports and related services to be agreed upon by the GRZ and AID.

No meeting is scheduled for this loan proposal. However, please advise us of your concurrence or objections as early as possible, but in no event later than close of business on Monday, November 22, 1976. If you are a voting member, a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

Attachments:
- Summary and Recommendations
- Annexes A & B

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CLASSIFICATION

AID 1120-1 (8-68) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. AFR-77-01 2. COUNTRY ZAMBIA 3. CATEGORY Commodity Financing - Standard Procedure 4. DATE October , 1976

5. TO: Daniel Parker, Administrator, AID

6. OYB CHANGE NO. Not Applicable

7. FROM: Stanley S. Scott, Assistant Administrator, Bureau for Africa

8. OYB INCREASE

TO BE TAKEN FROM: Not Applicable

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 20,000,000

10. APPROPRIATION - ALLOTMENT: 72-1161006 656-61-698-00-57-71

11. TYPE FUNDING: [XX] LOAN [ ] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [XX] INFORMAL [ ] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: Dec. 1976 - Jan. 1978

14. TRANSACTION ELIGIBILITY DATE: Loan Auth. Date

15. COMMODITIES FINANCED

Commodities declared eligible under the AID Commodity Eligibility Listing will be eligible for AID financing. A specific list of eligible commodities will be made part of the Implementation Letters/Commodity Procurement Instructions.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	Code 941	U.S.:	$18,000,000
Limited F.W.:	$20,000,000	Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	$2,000,000

18. SUMMARY DESCRIPTION

This loan represents U.S. assistance to Zambia being made available to help the Government of the Republic of Zambia overcome a serious, but temporary, balance of payments problem and complements an IMF standby agreement.

The proposed loan will provide foreign exchange for essential public and sector imports and related services to be agreed upon by the GRZ and AID. It is expected that the GRZ will elect to utilize approximately $5 million for parastatal sector imports and $15 million for the public sector.

A loan to the Government of the Republic of Zambia is hereby authorized in the amount of $20,000,000 for financing the items described above, subject to the following terms and conditions.

1. Interest and Terms of Repayment. The Borrower shall repay the loan to A.I.D. in United States Dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years from such date. Borrower shall pay to A.I.D. in United States Dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of

19. CLEARANCES	DATE
REG/DP CWard (draft)	11/11/76
REG/GC TBork (draft)	11/11/76
AFR/DR JWithers (draft)	11/11/76
SER/FM TBlacka (draft)	11/11/76
SER/COM WSchmeisser (draft)	11/11/76
PPC/DPRE EHogan (draft)	11/11/76
AFR/ESA OCylke (subs)	11/11/76
AA/AFR HNorth (subs)	11/11/76

20. ACTION

[ ] APPROVED [ ] DISAPPROVED

Daniel Parker

AUTHORIZED SIGNATURE DATE

Administrator

TITLE

CLASSIFICATION:

the Loan and on due and unpaid interest.

2. Procurement will be restricted to AID geographic Code 941.

3. Such other terms and conditions as AID may deem advisable.

<u>Loan Committee</u>

Chairman:	AFR/ESA, OCylke
Country Desk:	AFR/ESA, LPompa
Legal:	GC/AFR, EDragon
Commodity Management:	SER/COM, PElissabide
State Department:	AF/E, PSmith
Other:	PPC/DPRE, JWestley
	AFR/DR, HJohnson
	AFR/DP, DWilson
Drafter:	AFR/ESA, RThompson

Z A M B I A

COMMODITY IMPORT LOAN

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Zambia: Commodity Import Loan

I. Political and Economic Background

The situation in southern Africa has been changing rapidly over the last two years. In the early 1960's it appeared that the countries of southern Africa might follow the rest of Africa toward independence and majority rule within a fairly short period. By the early 1970's, however, the regimes of white-ruled southern Africa seemed firmly entrenched, and capable of staying in power possibly for decades. This all changed abruptly with the decision by the Portuguese (following the overthrow of the Caetano regime in 1974) to withdraw from Portugal's African colonies, including Angola and Mozambique. Angola gained independence in November 1975 in the midst of a three-corner struggle among different guerilla groups which brought about armed Cuban intervention on behalf of the victorious faction. Mozambique became independent in June 1975. The existence in Angola and Mozambique of independent governments which came to power after a decade of guerilla warfare has greatly increased the pressure for military solutions to the problem of white minority rule in Rhodesia and Namibia (South West Africa). It is now clear that unless a peaceful solution can be found quickly, both Rhodesia and Namibia will be plunged into large-scale guerilla warfare, leading possibly to further outside intervention and eventually to racial warfare in South Africa.

The U.S. has consistently encouraged a peaceful transition to majority rule in southern Africa. In response to the increased urgency of a peaceful solution, Secretary of State Kissinger travelled to Africa in April 1976 to confer with leaders of the independent countries bordering southern Africa, and subsequently held talks with South Africa's Prime Minister Vorster. In his major address on southern Africa, delivered in Lusaka, Zambia on April 27, 1976, Secretary Kissinger reiterated U.S. support for a peaceful transition and spelled out U.S. policy toward Rhodesia, Namibia and South Africa. With respect to Rhodesia, where the situation is currently the most critical, the major elements of U.S. policy include support for majority rule within two years of the conclusion of a negotiated settlement, assistance to bordering countries which sustain economic losses in enforcing sanctions against Rhodesia, a pledge of aid for a newly independent Zimbabwe, and assistance to facilitate protection of minority rights.

The pursuit of a negotiated settlement requires the vigorous support of neighboring independent states, which must maintain sanctions against Rhodesia and encourage all parties to move toward a peaceful settlement. One of these states is Zambia, which borders Rhodesia along the Zambezi River and was previously joined with Rhodesia (and

Malawi - then Nyasaland) in the Central African Federation. Although Zambia has had to bear an extremely heavy financial burden to maintain sanctions since Rhodesia's Unilateral Declaration of Independence (UDI) in 1965, Zambia's President Kenneth Kaunda has always supported a political solution in Rhodesia and has provided moderate leadership for African efforts to bring about a negotiated settlement. However, President Kaunda's continued ability to play a constructive and moderating role in the Rhodesian situation is threatened by Zambia's worst economic crisis since independence. The crisis is partially attributable to the continued heavy cost of sanctions against Rhodesia, and to other factors, but is primarily the result of a rapid decline in copper prices since mid-1974. Zambia has introduced a series of austerity measures, beginning in early 1975 and culminating in a 20 percent devaluation of the Zambian Kwacha in July 1976. Zambia has also turned to multilateral and bilateral donors for assistance. Thus far the International Monetary Fund (IMF) has provided the largest amount of short-term assistance, including a recently-negotiated standby arrangement for $71 million. The World Bank has just approved a $30 million program loan and other bilateral donors have provided about $30 million on loan and grant terms.

The U.S. has not had a bilateral development assistance program in Zambia, but did provide a $5 million program loan in 1973 following Zambia's decision to close her border with Rhodesia and cease using the Rhodesian railway. Zambian officials first approached the U.S. for financial assistance in late 1975. Following further discussions during Secretary Kissinger's visit in April Zambia submitted a request for about $140 million in financial assistance for 1976 and 1977. In June the U.S. made available a $10 million Housing Investment Guarantee for Zambia, and in August signed a PL-480 agreement for 3,000 tons of vegetable oil valued at $1.6 million. During the February-June 1975 period, the Export-Import Bank authorized for Zambia $15 million in credits for mining machinery and equipment and $10 million for civil aircraft. The proposed $20 million Security Supporting Assistance loan, which is specifically provided for in AID's FY 1977 appropriation bill, supplements the other U.S. assistance and is intended to support the financial and economic program agreed to by the Government of the Republic of Zambia (GRZ) with the IMF and the World Bank. The program should enable Zambia to maintain economic and political stability.

II. Loan Analysis

A. Proposed Commodity Import Loan

AID proposes to lend the GRZ $20 million from Security Supporting Assistance funds on standard concessional AID terms. The primary purpose of the loan is to provide balance of payments assistance by financing high-priority imports of equipment, materials and spare parts. An additional purpose of the loan is to support budget expenditures for development programs through the generation of local currency (Zambian Kwacha) counterpart funds. The dollar value of U.S. exports to Zambia has risen rapidly in recent years from less than $50 million in 1973 to $120 million in 1975. U.S. exports to Zambia are made up largely of mining and transport equipment, industrial and agricultural chemicals, and spare parts. All commodities normally eligible for AID financing will be eligible under the proposed loan. Because many mining and transport equipment items are covered under Export-Import Bank financing, the proposed AID loan will be utilized primarily for other items, including fertilizer, agricultural and industrial equipment and spare parts, and chemicals (see Section III.B.).

B. Zambia's Economic Situation

Zambia's economy is heavily dependent on copper, which in normal years accounts for nearly one-third of GNP, over 90 percent of export earnings, and up to half of government revenues. By contrast, manufacturing accounts for 13 percent of GNP and agriculture for less than 10 percent. Fluctuations in world copper prices are reflected in wide fluctuations in export earnings and government revenues, which makes good economic management an extremely difficult task. Since independence in 1964, copper prices have peaked three times (1966, 1969/1970 and 1973/1974), with the highest average annual prices nearly twice the level of the lowest. The latest cycle began in mid-1973, when copper prices turned sharply upward in response to strong demand in the industrialized countries. Copper prices rose to a post-independence high of $1.52 per pound in early 1974, then dropped rapidly as most industrialized countries moved into recession following the oil price increases of late 1973 and early 1974. Copper prices remained low throughout 1975 and into 1976. The average price in 1975 was $0.56 per pound, as compared with the annual average of $0.93 for 1974; in real terms, the 1975 price is the lowest annual price since 1957.

The impact of the drop in copper prices was magnified by a decline in copper exports from 673,000 tons in 1974 to 630,000 tons in 1975. The drop in export volume was largely a result of transport difficulties. Since the nearest seaport is 1,000 miles from Zambia's copperbelt, transport has always played a particularly critical role, both for the import of equipment and materials for the mines and for the export of copper and other minerals. In the past most imports and exports used the railway connecting the copperbelt via Rhodesia with the Mozambique port of Beira. After UDI in 1965, Zambia began attempting to develop alternative transport routes, but as of January 1973 (when the Zambia/Rhodesia border was closed) the Beira route still accounted for about half of Zambia's imports and exports. Following the 1973 border closure, this traffic was diverted to the railway route to Lobito in Angola (1,600 miles from the copperbelt) or the road route to Dar es Salaam in Tanzania (1,200 miles from the copperbelt). In mid-1975, however, the civil war in Angola resulted in the closure of the railway to Lobito and the loss of substantial amounts of Zambia-bound cargo. Copper exports were then routed entirely through Dar es Salaam, but port congestion there resulted in copper stockpiles awaiting shipment averaging 70,000 tons (as compared with a more normal 30,000 tons).

The combined effect of the decline in copper prices and in export volume was a drastic drop in export earnings. Copper export earnings declined by 44 percent, from $1,303 million in 1974 to $726 million in 1975, and total export earnings declined from $1,506 million to $883 million (see Table I, Annex B). At the same time, imports increased by 20 percent, resulting in Zambia's first trade deficit ever, and a swing in the current account (which includes freight and travel payments, investment income, salary remittances, etc.) from a slight surplus in 1974 to a record deficit of $719 million in 1975. This deficit was partially offset by capital inflows attributable to government borrowing and borrowing in the Eurodollar market by the two major copper mining companies. Nevertheless, over half of the current account deficit had to be financed by drawing down foreign exchange reserves (by $213 million) and by accumulating arrears on payments for imports and transfers ($156 million). At the end of 1975, Zambia's foreign exchange reserves stood at $147 million (equivalent to about one month's imports).

The decline in copper export earnings has also had a substantial impact on GNP and on government revenues. Although final figures are not yet available, per capita GNP probably declined by about 5 percent (to $430 at the old exchange rate, or $345 at the new exchange rate). If increases in import prices are taken into account, the decline in average real incomes was even greater. Government revenues from minerals declined from $530 million in 1974 to less than $100 million in 1975, resulting in a decline of nearly 30 percent in total revenues. At the same time recurrent expenditures rose by about 30 percent, leading to a record budget deficit of $490 million (equivalent to over 22 percent of the estimated 1975 GNP of $2,159 million).

C. Zambia's Financial and Economic Program

The GRZ has introduced various policy measures as the dimensions of the current crisis have become more apparent. The most important stages in the development of the current financial and economic programs have been a drastic cutback in import licenses in January 1975; the decision to devote increased efforts to agricultural and rural development announced in President Kaunda's "Watershed Speech" of June 1975; the austerity program introduced with the 1976 budget in January 1976; and finally the policies and targets worked out with the support of the IMF and the World Bank, together with the 20 percent devaluation of the Kwacha on July 9, 1976 (from K1 = $1.56 to

K1 = $1.24). The program is designed to permit the Zambian economy to overcome the current balance of payments and budget crises while laying the basis for a pattern of development less dependent on copper (particularly through increased agricultural production for import substitution and for export).

The major elements of the financial or stabilization program, in addition to the devaluation, include increases in consumer prices and a reduction in consumer subsidies; a freeze on salaries of government employees; reductions in recurrent and capital budget expenditures; increases in customs duties and in excise and income taxes; and increases in interest rates; and a restriction on the expansion of credit. The quantitative criteria for the IMF standby arrangement include limits on the overall expansion of credit and on the expansion of credit to the government, and targets for the phased reduction in payments arrears.

The major elements of the economic or development program are not as specific, primarily because the government has not completed its work on the Third National Development Plan (TNDP), which will cover the period 1977-1981. The major emphasis in the plan will be on rural development, and agriculture is to be the main source of economic growth. Major objectives of the TNDP will be to raise income levels in the subsistence sector, reduce disparities between rural and urban areas, and eliminate the gap between domestic agricultural demand and production. (Food imports now make up over 5 percent of total imports and account for 40 percent of market demand for food). The GRZ has already taken a major step to increase agricultural production by announcing (February 1976) increased producer prices for major agricultural commodities. In its discussions with the World Bank concerning the IBRD program loan, the GRZ has agreed to keep agricultural prices under review and to announce them well in advance of the planting season. The GRZ has also agreed to take steps to strengthen the Ministry of Rural Development and to improve provincial administration.

The GRZ stabilization program has already reduced the budget deficits to more manageable proportions. As a result of additional measures taken subsequent to the introduction of the budget in January 1976, the GRZ now estimates that 1976 non-mineral government revenues will be nearly 15 percent above their 1975 level, and will roughly equal recurrent expenditures. Recurrent expenditures have been budgeted at a figure about 10 percent below the 1975 levels and development or capital expenditures at almost 25 percent below 1975, leaving a projected overall deficit of about $250 million (or roughly half the level of the 1975 deficit).

The stabilization program has also improved Zambia's balance of payments prospects substantially. The restrictive fiscal and credit policies are expected to reduce merchandise imports from $950 million in 1975 to roughly $700 million in 1976. On the export side, earnings from copper should improve somewhat. Exports are projected to increase slightly to around 650,000 tons, and the opening of the Tanzania-Zambia railway in July 1976 together with the recent elimination of congestion at the port in Dar es Salaam should make it possible to avoid the marketing problems of 1975. If copper prices continue their slow recovery from the 1975 lows, the annual average for 1976 could equal the World Bank forecast of $0.67 per pound, compared with $0.56 per pound in 1975. As of mid-October 1976 the price of copper was $0.60 per pound. On the basis of these assumptions for imports and exports, the IBRD has projected a decline in Zambia's current account deficit to $310 million, 60 percent below the 1975 deficit of $720 million (see Table 1, Annex B). Allowing for payment of $76 million in arrears and a reduction in reserves equivalent to the $55 million in net 1976 drawings from the IMF, the IBRD has estimated that Zambia will require about $380 million in financial assistance in 1976. Roughly $270 million of this amount is expected to be covered by disbursements from existing loans leaving an external gap for 1976 of about $110 million.

D. Economic Prospects

As discussed above, copper production accounts for over 90 percent of Zambia's export earnings and about one-third of GDP. Given this dominance, Zambia's economic performance is necessarily highly dependent upon the behavior of the copper price. Fluctuations in the world price of copper will be transmitted into the economy and manifested as fluctuations in the economy--particularly in foreign exchange earnings and the balance of payments. The volatile nature of the world copper market and the linkages to the economy suggest the likelihood that Zambia's economy will continue to exhibit a substantial degree of economic instability. The magnitude of the impact on foreign exchange receipts of copper price fluctuation can be illustrated as follows: In recent years Zambian copper exports have been averaging about 650,000 metric tons per annum or about 1.42 billion pounds. Since the level of exports has been largely unresponsive to price changes, a one cent change in the average annual price results in a $14.2 million change in foreign exchange earnings. Thus the 38 cent/pound decline experienced in the average copper prices (from 93 to 55 cents/pound) between 1974 and 1975 was largely responsible for the reduction in copper foreign exchange earnings of $577 million. (Part of the reduction--about 10 percent--was due to a decline in quantities exported).

Using the IBRD forecast of copper prices, Zambia's medium-term economic prospects are rather bleak. The extremely depressed price of copper which generated a current account deficit of $719 million in 1975 has shown only a marginal improvement in 1976. The 1976 current account deficit is projected to be $310 million. The projected current account deficits appear in Table 11, Annex B. Using the IBRD forecast of copper prices and assuming a modest increase in copper exports, Zambia's current account deficits are projected at $167.4 million and $82.5 million for 1977 and 78 respectively. Should copper prices fail to rise as forecast, the deficits would, of course, be larger. The current account deficits for 1980 and 1985 are projected at $138.2 million and $105.2 million respectively. These figures are based upon the IBRD copper price forecasts which project the nominal 1985 copper price to be about $1.92 per pound. This forecast suggests that the economic uplift that copper provides the economy is likely to deteriorate through time.

Line (7) of Table 11 projects Zambia's debt-service ratio. Although the projections indicate debt levels within Zambia's repayment capabilities, the high debt-service ratio reflects the relative deterioration of Zambia's foreign exchange earnings potential over time as the role of copper declines.

E. Other Donor Assistance

A number of donors are assisting Zambia in financing its external resources gap. As noted above, the World Bank recently approved a $30 million program loan. Canada has extended a $10 million commodity import loan, and European donors have provided $23 million, including a $10 million grant from the U.K., a $3 million loan from Germany, a $2 million loan from the Netherlands, and an $8 million grant from the European Economic Community. Thus the loans and grants made available to Zambia for balance of payments assistance so far total $63 million, and cover over half of the external financing gap. The proposed $20 million U.S. loan would increase total balance of payments assistance to $83 million.

The other major source of balance of payments support has been the IMF, which is included in the balance of payments table under the "change in reserves" item in Table 1. In November 1975 the IMF agreed to drawings by the GRZ under the oil and compensatory facilities and under the first credit tranche. Net use of IMF resources by the end of 1975 amounted to about $23 million. In July 1976 the IMF approved a $71.3 million standby arrangement for Zambia which permits drawings from the second and third credit tranches and gives the GRZ access to IMF resources totalling $55 million in 1976. The IMF will review Zambia's situation in December 1976 to determine what further steps should be taken in 1977.

F. Debt Service

Zambia's debt service ratio (service payments on government and government guaranteed debt as a percentage of export earnings) has remained relatively low in recent years (4-5 percent), but is now rising due to large Zambian borrowings in 1975. As noted in Section II.D. above, projections of Zambia's debt service ratio depend heavily on assumptions concerning copper production and prices; these will be the most important factors affecting the evolution of Zambia's balance of payments and related borrowing requirements. The IBRD's analysis of Zambia's debt service prospects assumes that copper production and exports will expand to 800,000 tons by 1980 and increase at 2 percent per annum thereafter, and that the movement of copper and other international prices will result in a strong improvement in Zambia's terms of trade. On these assumptions Zambia's debt service ratio will rise from 8 percent in 1975 to 16 percent in 1980, and then decline to 13 percent by 1985 (see Table II, Annex B). If copper prices or production fall below projections, of course, the debt service ratio could be higher. While Zambia should have no difficulty in servicing the proposed U.S. loan, the uncertainty of the debt service prospects underlines the importance of providing the proposed loan on concessional terms.

III. Loan Administration

A. Loan Implementation Procedures

A.I.D.'s Standard Commodity Financing Procedure as set forth in A.I.D. Regulation 1 shall be applicable in its entirety. All public sector procurement will be by formal competitive bid procedures. For purposes of implementing the loan, all parastatal agencies in Zambia which are more than 50 percent owned by the GRZ will be treated as public sector entities. Since all procurement by these organizations is normally turned over to the Central Supply and Tender Board and carried out by formal tender procedures, treating the parastatal as members of the public sector will not present any departure from the normal procedures. Procurement by the parastatal sector if any will be carried out under normal commercial practices, observing the requirements of A.I.D. Regulation 1.

The GRZ remains well aware of problems that delayed implementation of the 1973 $5 million loan, notably bureaucratic difficulties in selecting essential commodities for public sector end use. Intent on preventing such a reoccurrence, the GRZ has already identified specific requirements of both the public and parastatal sectors. A substantial portion of the loan has been tentatively earmarked for fertilizer, provided procurement lead time from the U.S. can be fitted into the planting season schedule in Zambia. An alternate list of essential commodities is presently being reviewed by the GRZ and A.I.D.

The administrative responsibility for the loan will rest with the Ministry of Finance, and will include preparation of all reports and assuring compliance with all A.I.D. requirements. Also, the Ministry of Finance will participate with the Ministry of Economic and Technical Cooperation in allocation of the funds. It is now anticipated that 75 percent of the loan funds will be allocated to the public sector and the parastatals and the remaining 25 percent to private sector importers.

Primary responsibility for fulfilling A.I.D.'s part of the implementation function will rest with REDSO/EA in Nairobi, which is able to furnish extended TDY services during the critical periods of implementation. A.I.D./W will provide additional TDY support as necessary.

Following is the proposed implementation schedule:

Loan Authorization	November 1976
Loan Signing	November 1976
CP's met	December 1976
1st L/Comm opened	January 1977
1st L/Credit issued	February 1977
First Shipment	June 1977
First Loan Disbursement	July 1977
Final Shipment	June 1978

B. Commodities

The authorized source of procurement under the loan will be A.I.D. Geographic Code 941, subject to A.I.D.'s more restricted source requirements for certain commodities. Although all commodities in the A.I.D. Commodity Eligibility Listing will be eligible for financing under the loan, it is anticipated that the funds will be used primarily to finance the following categories of commodities:

(1) Fertilizer
(2) Agricultural and industrial equipment, and spare parts
(3) Chemicals

C. Zambian Import Procedures

At present, all imports into Zambia are subject to license control. This involves a process of first applying for a foreign exchange allocation through the GRZ's Technical Committee and, if successful, then applying for an import license through the Ministry of Commerce. Licenses are issued quarterly on the basis of quotas set jointly by the Bank of Zambia and the Ministry of Commerce. The actual release of foreign exchange is controlled by the Bank of Zambia; the release need not necessarily be at the time payments are due. However, imports tied to certain foreign loans, such as this one, are handled separately. A ministerial committee will allocate specific amounts for previously agreed upon end uses, and an approved import license will insure the immediate opening of a Letter of Credit against AID-issued Letters of Commitment. Thus, it is anticipated that importers will save a substantial amount of time in getting orders placed and Letters of Credit opened under this modified procedure.

D. Loan Disbursement

The proceeds of the loan are expected to be disbursed within an 18-month period after the time the loan agreement is executed. However, in view of the fact that a considerable amount of the loan is to be utilized by the public sector (which will involve the more time-consuming process of formal competitive bidding) and taking into account possible delays in the delivery of heavy equipment with long lead times, the terminal disbursement date will be set 24 months from the loan agreement date. The terminal date for requesting disbursing authorizations will be set at 18 months from the loan agreement date.

The method of disbursement will be through A.I.D.'s standard Letter of Commitment/Letter of Credit procedure. Direct A.I.D. Letters of Commitment to suppliers will be used for the procurement of fertilizer. The approved applicant for the Letters of Commitment will probably be the National Commercial Bank of Zambia, which is wholly owned by the GRZ and was the approved applicant under the last program loan.

Currently, as a result of the shortage of foreign exchange, some Letters of Credit are being opened on the basis of 90 and 180-day time drafts, i.e., payment is made to the suppliers by the opening bank 90 or 180 days after the date of shipping documents. However, this will not be the case with the Letters of Credit covered by the loan, since the funds will be immediately available from A.I.D. and payment will be made by the U.S. bank upon presentation of the required documentation.

E. Commodity Arrival and Disposition

Since 1973 Zambia has been faced with several problems in moving imports from the sea to their landlocked country. However, now that the Tazara railroad between Dar es Salaam and Zambia is operational, and coupled with the fact that the port of Dar es Salaam (where Zambia is allotted two berths and storage facilities) is now relatively clear, transportation of the A.I.D.-financed commodities to Zambia is not expected to be a problem. Also, it is anticipated, on the basis of the current situation, that once the goods arrive in Zambia they will be promptly cleared through customs.

IV. Other Considerations

A. Impact on the U.S. Balance of Payments

Procurement under this loan will be limited to A.I.D. Geographic Code 941 (the U.S. and most developing countries). However, given Zambian import priorities, the entire amount of the loan is likely to be spent in the U.S. The short-run and long-run impact of the A.I.D. financing on the U.S. economy will depend on the items imported. To the extent that the loan is used for fertilizer, U.S. exporters will benefit by displacing traditional European suppliers, although U.S. exporters would not necessarily be able to establish a longer-run market in Zambia due to the transport cost advantage of European suppliers. Utilization of the loan for imports by U.S. firms operating in Zambia might result in some substitution of A.I.D.-financed transactions for commercial U.S. exports, but substitution should be minimal due to the extremely tight foreign exchange controls now in effect. In any case, the longer-run impact would be favorable since imports by agents of U.S. firms would enable them to maintain the market position of U.S. equipment suppliers. Imports by parastatals and Zambian government agencies would also result in a favorable impact on the U.S. balance of payments, since it would permit U.S. suppliers to establish new relationships and would result in follow-up orders for U.S. spare parts.

B. Use of U.S. Government Excess Property

Given the nature of the items the Zambians are interested in purchasing, it is unlikely that U.S. government excess property would be appropriate for financing under this loan. However, A.I.D. will review the possibilities for the financing of excess property under the loan.

C. Use of Procurement Consultants

The loan agreement provides that loan proceeds may be used to finance the services of a U.S. firm or firms to assist the GRZ in the preparation and issuance of IFBs, the analysis of awards, the execution of supply contracts, etc. Although the GRZ has no current plans for the utilization of procurement consultants, A.I.D. will encourage the GRZ to do so if appropriate.

D. Relation to Export-Import Bank Credits

The EXIM Bank has no applications from Zambia pending Board action at this time. The Bank expressed no objections to the proposed loan. A.I.D. will closely coordinate its loan with EXIM credits and guarantees so that A.I.D. will not finance items which EXIM has already agreed to finance.

E. Counterpart Generation

The Kwacha counterpart generated by private and public sector imports under the loan will accrue to the GRZ for allocation to development activities included in the GRZ budget. Since the GRZ budget is based on the calendar year, and given that most of the counterpart should be generated in 1977, the bulk of the counterpart funds is likely to be utilized to support the 1977 budget. Although utilization of counterpart under the IBRD program loan is restricted to capital budget items, the GRZ has requested that counterpart funds under the A.I.D. loan be available for recurrent budget items as well, since the difficult budget situation has forced the GRZ to cut back drastically on many critical development-related recurrent expenditures (e.g., rural road maintenance and betterment, operating expenses of the agricultural extension service, etc.).

The GRZ will establish a separate account for the counterpart generated by the loan funds. The counterpart will be deposited by the public sector and parastatals upon the foreign exchange from the loan being made available to them. An exception to this procedure may be a case where it would be necessary for an organization to obtain a supplemental budget, which could delay the deposit of the counterpart by two to three months.

F. Performance Criteria

The proposed A.I.D. program loan provides additional support for the financial and economic program which Zambia has adopted with the assistance of the IMF and the IBRD. Although the A.I.D. loan agreement will not contain any additional policy conditions or covenants, it will provide for consultations between the U.S. and the GRZ concerning the Borrower's progress in meeting the targets and objectives of the stabilization program and the Borrower's progress in meeting the targets and objectives of the economic program.

As noted above, the quantitative criteria for the IMF standby arrangement include a phased ceiling on overall credit expansion, with a sub-ceiling on credit to government, and a phased reduction of payment arrears. The program implies a reduction in the rate of credit expansion from 72 percent in 1975 to 17 percent in 1976, and a reduction in arrears in foreign exchange payments from about $200 million in December 1975 to about $90 million in December 1976 and under $40 million by the end of March, 1977. The GRZ has also agreed to eliminate direct import controls gradually as the balance of payments situation improves.

The IBRD performance criteria cover agricultural pricing policy, policy toward rural development and provincial administration, and budget policy. A clause on pricing policy is included in the loan agreement between the IBRD and GRZ, which states that the GRZ shall "...adopt and implement all measures which are necessary to maintain adequate price incentives for agricultural production." The other performance criteria are included in separate letters. In the first letter the GRZ has noted its intent to strengthen project planning in the Ministry of Rural Development, to carry out a management study of the Ministry with a view toward possible reorganization, and to strengthen planning and administration at the provincial level. In the second letter, the GRZ has noted that it has decided to insulate the recurrent and development budget from the revenue impact of copper price fluctuations by establishing a special Development Equalization Account. In years when the recurrent budget surplus plus mineral revenues exceed the amount needed to finance the development budget, the excess amount will be used to build up balances in the Development Equalization Account. These balances will be used in years when the recurrent surplus and mineral revenues are insufficient to finance development expenditures at an appropriate level.

The nature and frequency of consultations between the GRZ and A.I.D. will depend upon the direction in which U.S.-Zambian relationship evolves during the two-year period of the loan. However, the first discussions will probably be held in late 1976 or early 1977, to coincide with the release of the IBRD Basic Economic Report on Zambia, and review by the IMF of Zambia's progress under the Stand-by Arrangement. A.I.D. will be particularly interested in those aspects of the program which relate to agricultural and rural development.

G. Loan Terms

The previous $5 million program loan for Zambia was extended on standard A.I.D. concessional terms, i.e., 40 year amortization including a 10-year grace period, with interest of 2 percent during the grace period and 3 percent thereafter. Current Security Supporting Assistance loans to Middle Eastern countries and Zaire have also been extended on standard concessional terms. Given Zambia's current financial and economic position and prospects, and the loan terms made available to other A.I.D. borrowers, the proposed loan should be extended on standard concessional terms.

Recommendations

It is recommended that you authorize a $20 million loan to the Government of the Republic of Zambia subject to the following terms:

a. Repayment to A.I.D. in U.S. dollars within forty (40) years after the first disbursement, including a grace period not to exceed ten (10) years.

b. Interest payable to A.I.D. in U.S. dollars at two percent (2%) during the grace period and three (3%) thereafter.

c. Commodities and related services financed under the loan shall have their source and origin in the countries included in A.I.D. Geographic Code 941.

d. Such other terms and conditions as AID may deem advisable.

Table I

ANNEX B

ZAMBIA: BALANCE OF PAYMENTS, 1974-76

(US $ million)

	1974 Actual	1975 Preliminary	1976 Projected
Exports, Goods & NFS	1,506	883	950
of which: Copper	(1,303)	(726)	(780)
Imports, Goods & NFS	-1,198	-1,402	1,020
Net Factor Services and Transfers	-240	-200	-240
Current Account Balance	+68	-719	-310
Debt Repayment	-35	-31	-126 /1
Other Net Capital Flows	-173	119 /2	-
Change in Reserves (+ = decrease)	-9	213	55
of which: IMF, net		(22)	(55)
Financial Assistance, gross	149	418	381
Disbursements from Loans Committed by end 1975	137	339	269
Suppliers Credits	(2)	(48)	(41)
Financial Institutions	-	(153)	(31)
Official Assistance	(135)	(138)	(197)
of which: IBRD	50	50	57
Others:	12	79	63
Canadian Loan	-	-	(10)
German Loan	-	-	(3)
UK Grant	-	-	(10)
EEC Grant	-	-	(8)
Netherlands Loan	-	-	(2)
IBRD Program Loan	-	-	(30)
Remaining Gap	-	-	49

/1 Including repayments of arrears estimated at $76 million.

/2 Including an accumulation of payments in arrears estimated at $156 million.

Source: Bank of Zambia, IBRD estimates.

Table II

ANNEX B

Zambia: Summary Balance of Payments Projections

(Current dollars, million)

	1975 (prelim.)	1976 1/	1977	1978	1980	1985
(1) Exports (Incl. NFS)	883.0	950.0	1,331.4	1,728.7	2,102.3	3,559.0
(2) Imports (Incl. NFS)	-1,402.0	-1,020.0	-1,243.8	-1,543.9	-1,935.5	-3,274.2
(3) Net Factor Services and Transfers	- 200	- 240	- 255	- 270	- 305.0	- 390.0
(4) Current Account Balance	- 719	- 310	- 167.4	- 85.2	- 138.2	- 105.2
(5) Net Capital Flows, excluding reserves	506.0	+ 255.0	+ 233.0	+ 159.5	+ 120	+ 120
(6) Change of Reserves (+=Decrease)	213.0	55.0	- 65.6	- 74.3	+ 18.2	+ 14.8
(7) Debt Service Ratio	8	18 2/	15	13	16	13

1/ IBRD Estimate

2/ Includes payment of the $76 million in arrears outstanding at the end of 1975.

PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT.

1.	App. Sec. 113. Describe how the Committees on Appropriations of the Senate and House have been or will be notified concerning the project.	FY 1977 Congressional Presentation
2.	FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	Yes, if applicable
3.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No further legislative action is required to implement the program.
4.	FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?	Not applicable
5.	FAA Sec. 611(e). If loan is for capital assistance, (e.g., construction) project, and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?	Not applicable
6.	FAA Secs. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?	Not applicable

7.	FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	(a) Loan will finance import of commodities with long-term objective of increasing Zambia's ability to engage in international trade. (b) Under AID Regulation I procedures, private initiative and competition will be fostered. (c) No direct impact. (d) No direct impact. (e) Loan will promote efficiency through imports of needed commodities. (f) No direct impact.
8.	FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Regulation I assumes there will be maximum private participation in transactions financed under the loan.
9.	FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.	No contractual or other services are being financed under the loan.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 640C. Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?	No

B. FUNDING CRITERIA FOR PROJECT.

(a) Development Assistance Project Criteria

1. FAA Sec. 102(c); Sec. 111. Extent to which activity will effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; extent to which it will help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life.	Not applicable
2. FAA Secs. 103, 103A, 104, 105, 106, 107. Is assistance being made available:	
a. for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; if for agricultural research, is full account taken of needs of small farmers;	Not applicable
b. for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;	Not applicable
c. for education, public administration, or human resources development; if so, extent to which activity strengthens non-formal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;	Not applicable
d. for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	Not applicable

(1) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	Not applicable
(2) to help alleviate energy problem;	Not applicable
(3) research into, and evaluation of, economic development processes and techniques;	Not applicable
(4) reconstruction after natural or manmade disaster;	Not applicable
(5) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	Not applicable
(6) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	Not applicable
e. by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	Not applicable
3. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?	Not applicable
4. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?	Not applicable

5. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs; (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy. — Not applicable

6. FAA Sec. 281(a). Extent to which the assistance will contribute to objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private and local governmental institutions. — Not applicable

7. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. — Not applicable

8. FAA Sec. 201(b)(3); Sec. 211(a)(1). In what ways does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities; or of educational or other institutions directed toward social progress? — Not applicable

9. FAA Sec. 201(b)(2); Sec. 201(e); Sec. 211(a)(3). Information and conclusion on an activity's economic and technical soundness. — Not applicable

10.	FAA Sec. 201(b)(4); Sec. 211(a)(2). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.	Not applicable
11.	FAA Sec. 201(b)(9); Sec. 211(a)(8). Information and conclusion on whether the activity will contribute to the achievement of self-sustaining growth.	Not applicable
12.	FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance of payments position.	Not applicable
13.	FAA Sec. 653(b). Is assistance within country or international organization allocation for fiscal year reported to Congress (or not more than $1 million over that figure plus 10%)?	See (c)2., below.

(b) Development Assistance Project Criteria (Loans only)

1.	FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.	Not applicable
2.	FAA Sec. 201(b)(2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.	Not applicable
3.	FAA Sec. 201(d). Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.	Not applicable
4.	FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?	Not applicable

5. FAA Sec. 201(f). Describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.	Not applicable
6. FAA Sec. 201(f). What provisions have been made for appropriate participation by the recipient country's private enterprise?	Not applicable
7. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.	Not applicable
8. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	Not applicable
(c) Project Criteria Solely for Security Supporting Assistance	
1. FAA Sec. 531. How will this assistance support or promote economic or political stability?	See Sect. I and II of Project Paper.
2. FAA Sec. 653(b). Is assistance within country or international organization allocation for fiscal year reported to Congress (or not more than $1 million over that figure plus 10%)?	Yes

CHECKLIST OF STATUTORY CRITERIA

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY

1.	FAA Sec. 116. If assistance is to a government, has it engaged in consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that such assistance will directly benefit the needy?	No
2.	FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No
3.	FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	a. No b. Zambia has no ships under its registry. c. The question of Zambian aircraft carrying cargo to or from Cuba has not arisen to our knowledge. However, Zambia has diplomatic relations with Cuba and would be un likely to enforce sanctions against Cuba at our behest.
4.	FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	Yes. Secretarial Determination No. 77-1 dated 10/28/76.

5. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

We are not aware of any such case.

6. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities benefically owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

7. FAA Sec. 620(f). Is recipient country a Communist country?

No

8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No

9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

No

10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the A.I.D. Administrator within the past year considered denying assistance to such government for this reason?

No, because no recent effort has been made by the U.S. to undertake an Investment Guaranty Agreement with Zambia.

11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,

Not applicable

a. has any deduction required by Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by A.I.D. Administrator?

12. FAA Sec. 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

No

13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisiticated weapons system? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

Under the FY 1975 assessment of defense expenditures as required by Sect. 620(s), it was concluded that there is no impediment to consideration of economic aid to Zambia.

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

15. FAA Sec. 620(u). What is the payment status of the country's U.N. Obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?

Ct rent

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No

17. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?

No

B. FUNDING CRITERIA FOR COUNTRY.

(a) Development Assistance Country Criteria

1. FAA Secs. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.

Not applicable

2. FAA Sec. 201(b)(5), (7) & (8); Sec. 208; 211(a)(4), (7). Describe extent to which country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution. — Not applicable

(b) Creating a favorable climate for foreign and domestic private enterprise and investment. — Not applicable

(c) Increasing the public's role in the developmental process. — Not applicable

(d) (i) Allocating available budgetary resources to development. — Not applicable

(ii) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations. — Not applicable

(e) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise. — Not applicable

(f) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures. — Not applicable

3. FAA Secs. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made? — Not applicable

4. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs? — Not applicable

(b) <u>Security Supporting Assistance Country Criteria</u>

1.	FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?	No
2.	FAA Sec. 531. Is the assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?	Yes
3.	FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Not applicable. This assistance is to be a loan.

STANDARD ITEM CHECKLIST

(A) Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? — Yes

2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed? — Yes

4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? — Yes

5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — Yes

6. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 percentum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — Yes

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Not applicable

(B) Construction

1.	FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?	Not applicable
2.	FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Not applicable
3.	FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?	Not applicable
4.	App. Sec. 105. If for capital (e.g., construction) project, is there provision for A.I.D. approval of contract terms and firms to provide engineering, procurement and construction services?	Not applicable
5.	App. Sec. 108. Compliance with regulations on employment of U.S. and local personnel? (A.I.D. Regulation 7).	Not applicable

(C) Other Restrictions

1.	FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	Not applicable
2.	FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	Not applicable
3.	FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.?	Yes
4.	FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?	Yes

5. Will arrangements preclude use of financing:

(a)	FAA Sec. 114: to pay for performance of abortions or to motivate or coerce persons to practice abortions?	Yes
(b)	FAA Sec. 620(g): to compensate owners for expropriated nationalized property?	Yes
(c)	FAA Sec. 660: to finance police training or other law enforcement assistance, except for narcotics programs?	Yes
(d)	FAA Sec. 662: for CIA activities?	Yes
(e)	App. Sec. 103: to pay pensions, etc., for military personnel?	Yes
(f)	App. Sec. 107: to pay U.N. assessments?	Yes
(g)	App. Sec. 110: to carry out provisions of FAA Secs. 209(d) and 251(h)? (transfer to multilateral organization for lending).	Yes
(h)	App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes
(i)	App. Sec. 504: to furnish petroleum fuels produced in the continental U.S. to Southeast Asia for use by non-U.S. nationals?	Yes