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TELEGRAM

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RELO-01 TLLE-01 AFMG-03 PRE-06 BLOJ-01 /003 A1 1111

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TO SECSTATE ASHDC IMMEDIATE 6472

UNCLAS SECTION 01 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AERPP PAIP (660-0121)

REF: STATE 846537

1. SUMMARY. THIS CABLE CONTAINS THE TEXT OF THE MISSION'S PAIP FOR THE ZAIRE AERPP PROJECT. CONSULTATIONS WITH WOLGIN AND PEASLEY WERE CONCLUDED ON FEBRUARY 25TH WITH AGREEMENT TO PROCEED ALONG THE LINES SUGGESTED IN THE REFTEL. IT WAS DECIDED THAT THE PAIP SHOULD PRESENT SEVERAL OPTIONS FOR USE OF THE FUNDS. EACH OPTION IS DISCUSSED AND RANKED. THE MISSION CONSULTED THE IMF REPRESENTATIVE IN KINSHASA ABOUT EACH OPTION AND WAS ASSURED UNOFFICIALLY THAT ALL WERE CONSISTENT WITH THE IMF PROGRAM. CONDITIONALITY IS SIMILAR TO THE REFORMS AGREED TO BY THE GOZ IN NEGOTIATIONS WITH THE WORLD BANK ON THE INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC). GIVEN THIS CLOSE RELATIONSHIP AND THE POSSIBILITY THAT THE AERPP PROJECT'S FUNDS MAY BE DISBURSED THROUGH MECHANISMS SIMILAR TO THE WORLD BANK'S, THE MISSION REQUESTS THAT THE BANK BE INFORMED AS SOON AS POSSIBLE OF WASHINGTON'S DECISION CONCERNING PROGRAM OPTIONS. IN PARTICULAR, THE BANK ASKED IN KINSHASA THAT IT BE INFORMED BEFORE THE END OF MARCH WHICH OPTION A.I.D. WOULD PURSUE, SO THAT THE APRIL NEGOTIATIONS WITH THE GOZ ON THE ISAC CAN TAKE ACCOUNT OF A.I.D.'S PROGRAM. FINALLY, NOTE THAT ALTHOUGH THE PROJECT IS PROGRAMMED FOR DOLS 15 MILLION, PER THE REFTEL, ALL OF THE OPTIONS PRESENTED COULD ABSORB AND QUICKLY DISBURSE MORE FUNDS, IF THEY BECOME AVAILABLE.
END SUMMARY

2. TEXT OF AERPP PAIP (660-0121). QUOTE:

AERPP PAIP

PRIVATE INDUSTRIAL INPUT SUPPORT
(660-0121)

1. - INTRODUCTION

A - THE MACRO ECONOMY

1 - POLICY REFORMS

SINCE 1982 ZAIRE HAS ENGAGED IN A SWEEPING ECONOMIC POLICY REFORM PROGRAM INCLUDING:

- -- AN 80 PERCENT DEVALUATION AND THE ESTABLISHMENT OF A FLOATING EXCHANGE RATE SYSTEM THROUGH THE COMMERCIAL BANKS;
- -- REMOVAL OF MOST GOVERNMENT CONTROLS ON INTEREST RATES;

- -- CREATION OF A DOMESTIC MONEY MARKET WITH THE ISSUANCE OF SHORT-TERM TREASURY BILLS;
- -- LIFTING OF QUANTITATIVE RESTRICTIONS ON IMPORTS;
- -- MAJOR REFORMS IN FARMERIAL MANAGEMENT;
- -- LIBERALIZATION OF AGRICULTURAL PRICES AND ELIMINATION OF AGRICULTURAL MARKETING PARASTATALS;
- -- DRAMATIC IMF-LED REDUCTIONS IN OVERALL GOVERNMENT SPENDING;
- -- EASING OR ELIMINATION OF MANY ADMINISTRATIVE BOTTLENECKS TO PRIVATE SECTOR ACTIVITY;
- -- EFFORTS TO REGULARIZE EXTERNAL DEBT-SERVICE PAYMENTS AND ELIMINATE, OVER TIME, COMMERCIAL AND INVISIBLE ARREARS;
- -- OPENING DISTRIBUTION OF PETROLEUM PRODUCTS TO PRIVATE COMPETITION AND MAJOR REFORMS IN THE PRICING STRUCTURE AND MECHANISM.
- 2 - EFFECTS OF THESE REFORMS

AS A RESULT, THERE HAS BEEN A RAPID IMPROVEMENT IN MANY MACROECONOMIC AGGREGATES AND THE STABILIZATION PROGRAM IN ZAIRE CAN BE VIEWED AS A MAJOR SUCCESS. FOR EXAMPLE:

- -- INFLATION HAS BEEN DRASTICALLY REDUCED, FROM 83 PERCENT IN 1983 IN TERMS OF THE GDP DEFLATOR (IT WAS MORE THAN 100 PERCENT MEASURING FROM DECEMBER, 1982 TO DECEMBER, 1983 IN KINSHASA'S CONSUMER MARKETS) TO LESS THAN 40 PERCENT IN BOTH 1984 AND 1985;
- -- THE CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS HAS BEEN DRASTICALLY REDUCED, FROM 4.3 PERCENT OF GDP IN 1983 TO 1.8 PERCENT OF GDP IN 1985;
- -- THE GOZ'S BUDGET HAS BEEN TURNED AROUND, FROM A DEFICIT OF 6.0 PERCENT OF GDP IN 1983 TO A

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UNCLAS SECTION 02 OF 09 KINGHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AEPRP PAIP (660-0121)

- PROJECTED SURPLUS OF 0.9 PERCENT IN 1985;
- -- CREDIT TO THE PRIVATE SECTOR HAS BEEN INCREASED, BY 10 PERCENT IN 1984 AND 14 PERCENT THROUGH THE FIRST SIX MONTHS OF 1985 (ANNUAL RATES IN TERMS OF CONSTANT PURCHASING POWER), REVERSING THE REDUCTION OF 22 PERCENT IN 1983;
- -- GROWTH IN GDP HAS RESUMED: AFTER FALLING AT A RATE OF 0.8 PERCENT PER YEAR IN 1982/83, GDP GREW AT ABOUT 2.8 PERCENT PER YEAR IN 1984/85.

- HOWEVER, THE RATE OF GROWTH UNDER THE STABILIZATION PROGRAM REMAINS UNSATISFACTORY. CAPACITY UTILIZATION, PARTICULARLY IN THE MODERN MANUFACTURING SECTOR, IS STILL BELOW 50 PERCENT AND BOTH PUBLIC AND PRIVATE INVESTMENT LEVELS ARE LOW. THIS RESULTS PARTLY FROM LOW INVESTOR CONFIDENCE AND PARTLY FROM DEPRESSED PRICES FOR EXPORTS, PARTICULARLY COPPER. DECREASED EXPORT EARNINGS AND HIGH DEBT SERVICE OBLIGATIONS HAVE MEANT THAT RESOURCES AVAILABLE FOR INVESTMENT IN ZAIRE ARE VERY LIMITED. PRIMARILY, HOWEVER, THE ABSENCE OF GROWTH IS THE NATURAL SHORT-TERM OUTCOME OF THE FINANCIAL AUSTERITY THAT IS PART AND PARCEL OF THE IMF PROGRAM. THIS STABILIZATION PROGRAM HAS BEEN HIGHLY SUCCESSFUL IN DEPRESSING BOTH PUBLIC AND PRIVATE SECTOR DEMAND.

- DESPITE ALL THE POLICY CHANGES THAT HAVE TAKEN PLACE, THE DEPRESSED COPPER MARKET, THE ENORMOUS DEBT SERVICE OBLIGATIONS, AND THE PROBABLE STAGNATION OF FOREIGN ASSISTANCE LEVELS ARE LIKELY TO MEAN SLOW GROWTH FOR A LONG TIME TO COME. GROWTH, IF IT COMES, WILL HAVE TO BE GENERATED BY PRIVATE INVESTMENT, BOTH INDIGENOUS AND FOREIGN.

- B - PROGRAM PURPOSE

- THE PURPOSE OF THIS AEPRP IS TO ENCOURAGE EFFICIENT PRIVATE INVESTMENT IN ZAIRE, BOTH INDIGENOUS AND FOREIGN.

- C - FUNDING

- THE PROJECT IS PROGRAMMED FOR DOLS 15 MILLION FROM AFRICA BUREAU'S SPECIAL AEPRP FUND IN THE ESF ACCOUNT. HOWEVER, ALL THE OPTIONS DESCRIBED BELOW COULD ABSORB AND QUICKLY DISBURSE MORE FUNDS, IF THEY WERE MADE AVAILABLE.

- D - CONSTRAINTS

- THERE ARE A NUMBER OF CONSTRAINTS TO ACHIEVING MORE EFFICIENT PRIVATE INVESTMENT IN ZAIRE. THESE INCLUDE:

- (1) POLICY IMPEDIMENTS,
- (2) CREDIT SHORTAGES,
- (3) FOREIGN EXCHANGE SHORTAGES;
- (4) LACK OF INFRASTRUCTURE;
- (5) LACK OF INVESTOR CONFIDENCE;
- (6) LIMITED EFFECTIVE DEMAND.

- THIS PROGRAM WILL DEAL WITH POLICY IMPEDIMENTS BY SUPPORTING THE INDUSTRIAL-SECTOR POLICY CONDITIONS NEGOTIATED BY THE WORLD BANK, WHICH ARE DESCRIBED BELOW. DEPENDING ON THE OPTION CHOSEN FOR USE OF THE FUNDS, THE PROGRAM WILL ALSO EASE FOREIGN-EXCHANGE CONSTRAINTS AND CREDIT SHORTAGES. THE INABILITY OF THE GOZ TO ADEQUATELY FINANCE BOTH ITS DEVELOPMENT AND INFRASTRUCTURE PROGRAMS, A RESULT AND A CAUSE OF THE CONSTRAINTS ABOVE, WILL BE ADDRESSED BY THE COUNTERPART FUNDS GENERATED UNDER THE AEPRP. HOWEVER, THE LAST THREE CONSTRAINTS - LACK OF INFRASTRUCTURE, LACK OF INVESTOR CONFIDENCE, AND LIMITED EFFECTIVE DEMAND - WILL ONLY BE ALLEVIATED OVER TIME AS ECONOMIC PERFORMANCE CONTINUES TO IMPROVE AND POLICY CHANGES BECOME INSTITUTIONALIZED.

- I - THE WORLD BANK INDUSTRIAL SECTOR PROGRAM

- A - THE INDUSTRIAL SECTOR CREDIT

- THE WORLD BANK IS PROPOSING TO BRING BEFORE ITS BOARD IN APRIL A DOLS 75 MILLION INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC: DOLS 15 MILLION IDA AND DOLS 60 MILLION SPECIAL AFRICAN FACILITY) IN SUPPORT OF REFORMS IN THE INDUSTRIAL SECTOR. THESE REFORMS INCLUDE:

- 1 - PRICE LIBERALIZATION -- THE ELIMINATION OF ALL PRICE CONTROLS ON INDUSTRIAL PRODUCTS;

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UNCLAS SECTION 03 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AEP RP PAIP (660-0121)

- 2 - PRIVATIZATION OF INDUSTRIAL INVESTMENT --
- CONTINUE TO GIVE PRIORITY TO THE PRIVATE SECTOR
- IN INDUSTRIAL INVESTMENT PLANS AND TO EXPLORE
- POSSIBILITIES TO DIVEST PUBLIC ENTERPRISES IN
- INDUSTRY;
- 3 - EXCHANGE RATE REGIME -- CONTINUE TO ALLOW THE
- MARKET MECHANISM TO DETERMINE EXCHANGE RATES;
- 4 - TARIFF SIMPLIFICATION -- REDUCTION OF MAXIMUM
- RATES TO 60 PERCENT AND RAISING OF MINIMUM RATES
- TO 10 PERCENT WITH THE DEVELOPMENT OF A PLAN FOR
- FURTHER REALIGNMENT TO EQUALIZE EFFECTIVE RATES
- OF PROTECTION AMONG DIFFERENT INDUSTRIAL
- PRODUCTS;
- 5 - EXPORT PROMOTION -- ABOLITION OF EXPORT TAXES,
- REMOVAL OF ADMINISTRATIVE BOTTLENECKS TO EXPORTS;
- 6 - TAX REFORM -- EXACT CHANGES REMAIN TO BE
- DETERMINED BY ONGOING STUDIES, BUT THE OVERALL
- PURPOSE IS TO REMOVE FISCAL BARRIERS AND
- DISINCENTIVES TO PRIVATE INDUSTRIAL INVESTMENT.
- THE REFORMS ARE DISCUSSED FURTHER BELOW. THE CREDIT
- WILL BE PROVIDED IN TWO TRANCHES OVER A TWELVE TO EIGHTEEN
- MONTH PERIOD THROUGH FOREIGN-EXCHANGE DISBURSEMENTS
- THROUGH THE BANK OF ZAIRE UPON RECEIPT FROM COMMERCIAL
- BANKS OF EVIDENCE OF PRIVATE SECTOR IMPORTS OF INDUSTRIAL
- RAW MATERIALS AND SPARE PARTS. THE IMF WILL RAISE THE
- CEILING ON COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR BY
- AN AMOUNT EQUAL TO THE FOREIGN EXCHANGE INJECTION.

- B - SOFIDE CREDIT
- THE OTHER MAIN PORTION OF THE WORLD BANK'S INDUSTRIAL
- SECTOR PROGRAM IN ZAIRE FOR 1986 IS ITS DOLS 45 MILLION
- EIGHTH LINE OF CREDIT TO SOFIDE, THE MIXED PRIVATE-PUBLIC
- DEVELOPMENT BANK. THIS CREDIT SUPPLIES THE FOREIGN
- EXCHANGE FOR THE IMPORT COMPONENTS OF PRIVATE-SECTOR
- INDUSTRIAL PROJECTS FINANCED BY SOFIDE. THE PRIVATE
- ENTREPRENEURS BEAR THE FOREIGN-EXCHANGE RISK AND MEET THE
- PROJECT'S LOCAL COSTS FROM THEIR OWN RESOURCES OR THROUGH
- SUPPLEMENTARY LOCAL CURRENCY LOANS FROM SOFIDE. ALTHOUGH
- NOT FUNDAMENTALLY A POLICY-REFORM PROGRAM, FIFTEEN YEARS
- OF CREDITS AND TECHNICAL ASSISTANCE FROM THE WORLD BANK TO
- SOFIDE HAVE CREATED A VIABLE INSTITUTION FOR SUPPORTING
- PRIVATE-SECTOR DEVELOPMENT. INTEREST RATES ON SOFIDE'S
- LOANS ARE POSITIVE AND THE CAPACITY TO APPRAISE
- TECHNICALLY AND FOLLOW UP THE LOAN PORTFOLIO IS
- INCREASING.

111 - THE AEP RP PROPOSAL

- A - REFORMS

- THIS PROGRAM WILL SUPPORT THE GOZ POLICY REFORMS
AGREED UPON BY THE WORLD BANK AND THE GOZ IN THE CONTEXT
OF THE ISAC. THE REFORMS UNDER DISCUSSION WERE LISTED
ABOVE, NUMBERED 1 THROUGH 6.

- ON 21 FEBRUARY 1986, THE GOZ ISSUED A PUBLIC
ANNOUNCEMENT SUSPENDING ALL PRICE CONTROLS ON INDUSTRIAL
PRODUCTS, APPARENTLY FULFILLING ONE OF THE WORLD BANK'S
CONDITIONS FOR OPENING FORMAL NEGOTIATIONS IN WASHINGTON
IN APRIL (POLICY REFORM NO. 1).

- TWO OTHER GENERAL POLICY CONDITIONS UNDER DISCUSSION
FOR THE ISAC ARE CONTINUATIONS OF LIBERAL, PRIVATE-MARKET
ORIENTED FOREIGN EXCHANGE AND INVESTMENT POLICIES, WITH NO
SPECIFIC BENCHMARKS ESTABLISHED (POLICY REFORMS NO. 2 AND
NO. 3). THE U.S. MISSION WILL GIVE PARTICULAR WEIGHT TO
NO. 3 CONCERNING THE LIBERALIZED FOREIGN-EXCHANGE REGIME.
THE U.S. MISSION WILL CONTINUE TO MONITOR THROUGH ITS
CONTACTS IN THE BUSINESS AND BANKING SECTORS THE OPERATION
OF THE FOREIGN-EXCHANGE ALLOCATION SYSTEM AND THE LIBERAL
IMPORT SYSTEM TO INSURE AGAINST SLIPPAGE IN THESE AREAS.
THIS FREE FOREIGN-EXCHANGE MARKET, THOUGH WORKING, IS
EXTREMELY WEAK. IT IS BEING DRIVEN MORE BY THE DESIRES OF
THE COMMERCIAL BANKS AND THE CENTRAL BANK TO ENSURE THAT
THE MECHANISM DOES NOT COLLAPSE THAN IT IS BY FREE MARKET
FORCES. THE MAJOR STRAIN ON THIS SYSTEM RESULTS FROM THE
POLICY REFORMS IN THE PETROLEUM MARKETING SECTOR AND THE
RESULTANT REQUIREMENT FOR THE FREE FOREIGN-EXCHANGE MARKET
TO SUPPLY OVER DOLS. 100 MILLION PER YEAR FOR ZAIRE'S
PETROLEUM IMPORTS.

- THE KEY INNOVATIONS IN THE ISAC'S LIST OF POLICY
CONDITIONS ARE REFORMS NO. 4 AND NO. 5 CONCERNING THE

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UNCLAS SECTION 04 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AERPP PAIP (660-0121)

EVERYDAY FISCAL INCENTIVES AND DISINCENTIVES THAT SHAPE PRIVATE INVESTMENT DECISIONS IN THE INDUSTRIAL SECTOR. THE ESSENCE OF THE REFORMS IS TO REMOVE ARBITRARY GOVERNMENTAL FAVORITISM AS A FACTOR IN DETERMINING IN WHICH INDUSTRIES ENTREPRENEURS CHOOSE TO ESTABLISH AND EXPAND PRODUCTIVE CAPACITY. TO DO THIS, THE SYSTEM OF IMPORT, EXPORT, AND BUSINESS TAXES NEEDS TO BE "NEUTRAL": THAT IS TO SAY, BASICALLY UNIFORM FOR A WIDE RANGE OF PRODUCTS.

- THE WORLD BANK TAKES A GRADUAL APPROACH TOWARD ACHIEVING THIS GOAL. AS A FIRST STEP, THE RELATIVELY SMALL EXPORT TAXES WILL BE ABOLISHED, AND THE RANGE OF IMPORT TARIFFS WILL BE NARROWED INTO A BAND BETWEEN 10 AND 50 PERCENT. IN THE MEDIUM TERM, THE GOAL WILL BE TO REDUCE THAT BAND TO A SINGLE FIGURE, 30 PERCENT, WHICH WOULD BE THE UNIFORM TARIFF RATE. IT WOULD BE APPLIED ESSENTIALLY FOR REVENUE PURPOSES AND NOT FOR GOVERNMENTAL CONTROL OVER INVESTMENT CHOICES. STILL UNDER STUDY IS THE SYSTEM OF INTERNAL TAXES AND ACCOUNTING REGULATIONS WHICH (ALONG WITH VESTIGES OF DIRECT GOVERNMENT INVESTMENTS IN INDUSTRY) AFFECT PRIVATE INDUSTRIAL INVESTMENT POLICY CONDITIONS NO. 6 AND NO. 21. IN THE INTERIM, IT IS POSSIBLE THAT INDUSTRIES ESTABLISHED UNDER FAVORABLE FISCAL INCENTIVES, DESPITE POSSIBLE COMPARATIVE DISADVANTAGE IN BASIC BUSINESS TERMS, WILL BE ACCORDED RELIEF FROM THE STRICTURES OF THE NEW TARIFF REGIME, IN ORDER TO CUSHION THE EFFECTS OF THE INDUSTRIAL STRUCTURAL ADJUSTMENT PROGRAM ON EMPLOYMENT AND INVESTOR CONFIDENCE.

- THE MISSION SUPPORTS THIS APPROACH. IT WILL TAKE SEVERAL YEARS OF MACROECONOMIC STABILITY, SOUND DEBT MANAGEMENT, AND INFRASTRUCTURAL INVESTMENT FOR THE INVESTMENT CLIMATE IN ZAIRE TO IMPROVE TO THE POINT WHERE MAJOR INFLOWS OF PRIVATE CAPITAL (AND VOLUNTARY REINVESTMENT OF INDIGENOUS ZAIRIAN WEALTH) WILL TAKE PLACE ON A LARGE SCALE. IT IS HIGHLY DESIRABLE THAT THE GOZ START NOW TO ESTABLISH A SYSTEM OF TAXATION, REGULATION, AND PUBLIC (DIS-) INVESTMENT THAT WILL ALLOW FUTURE PRIVATE INVESTMENT TO SEEK THE AREAS OF GREATEST LONG-TERM BENEFIT FOR THE ZAIRIAN ECONOMY. AS THE WORLD BANK POINTS OUT, THIS WILL MEAN GREATER EMPHASIS THAN IN THE PAST ON EXPORTS AND ON USING ZAIRIAN RATHER THAN IMPORTED INPUTS. IN THE MEANTIME, IT WILL BE DESIRABLE TO AVOID UPSETTING BUSINESS CONFIDENCE BY PRECIPITOUS CHANGES IN THE REGULATIONS UNDER WHICH EXISTING INDUSTRY HAS BEEN

ESTABLISHED. IN FACT, IT IS DESIRABLE TO ACTIVELY MAINTAIN CONFIDENCE IN THE GOZ'S COMMITMENTS TO PRIVATE INDUSTRY. THEREFORE, THE MISSION WILL SUPPORT THE CONCEPT OF MAKING PARTICULAR ALLOWANCES FOR EXISTING FIRMS AT THEIR PRESENT OPERATING CAPACITIES. AN EXCEPTION MIGHT BE ANY CLEARLY NEGATIVE VALUE ADDED OPERATIONS, WHERE THE FINISHED PRODUCT COULD BE IMPORTED FOR LESS THAN THE COST OF THE IMPORTED INPUTS ALONE.

- AS AN ALTERNATIVE OR ADDITION TO THIS SET OF CONCERNS, THE MISSION COULD PROPOSE TO SUPPORT THE 1985 REFORM OF THE FUEL DISTRIBUTION AND PRICING SYSTEM. THIS WAS THE GOZ'S MAJOR REFORM IN THE PAST YEAR: A VERY POLITICALLY SENSITIVE MEASURE ADOPTED PRIMARILY AT THE URGING OF THE IMF. PRIVATE FUEL DISTRIBUTORS (INCLUDING TWO U.S. FIRMS: MOBIL AND TEXACO) WERE ALLOWED TO BEGIN IMPORTING THEIR OWN SUPPLIES, THUS ELIMINATING A PARASTATAL IMPORT MONOPSONY. INTERNAL FUEL PRICING WAS ALSO RATIONALIZED: CROSS-SUBSIDIZATION OF CHEAP DIESEL FUEL BY HIGH GASOLINE PRICES WAS ELIMINATED, PRICES WERE ADJUSTED TO COVER COSTS, AND REGIONAL VARIATIONS IN PRICES WERE ALLOWED. PRICES ARE NOW SCHEDULED TO BE REVISED EVERY THREE MONTHS FOLLOWING A TECHNICAL FORMULA DESIGNED TO ENSURE FULL-COST PRICING. SO FAR, IT APPEARS THAT THERE HAVE BEEN SOME DELAYS IN REVISIONS.

- AT THE SAME TIME, THE PRIVATE FUEL IMPORTERS' NEW DEMANDS FOR FOREIGN EXCHANGE TO EFFECTUATE THEIR IMPORTS UNDER THE LIBERALIZED POLICY HAVE PUT VERY SUBSTANTIAL STRESS ON THE PRIVATE INTERBANK FOREIGN-EXCHANGE MARKET. SINCE SEPTEMBER, 1985, THIS HAS BEEN THE MAJOR FACTOR RESTRICTING FREE-MARKET FOREIGN-EXCHANGE AVAILABILITIES, THUS REDUCING FREE TRADING WITHIN THE MARKET AND HOBBLING ITS OPERATIONS.

- THE MISSION COULD PROPOSE A COVENANT ON THE PART OF THE GOZ TO CONTINUE AND STRENGTHEN IMPLEMENTATION OF THE

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AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AERPP PAIP (660-0121)

FUEL-PRICING AND IMPORTATION REFORMS AGREED TO WITH THE IMF IN 1985. THE U.S. MISSION WOULD CONTINUE TO MONITOR PERFORMANCE UNDER THIS REFORM THROUGH ITS CONTACTS WITH PRIVATE U.S. FUEL DISTRIBUTORS IN ZAIRE. THESE MEASURES WOULD INDIRECTLY BE VERY IMPORTANT TO THE TRANSPORTATION SECTOR, WHICH IS VITAL TO THE MISSION'S DEVELOPMENT-ASSISTANCE PROGRAM IN AGRICULTURE. AT THE SAME TIME, THE AERPP PROGRAM'S SUPPORT TO PRIVATE IMPORTS WOULD ADDRESS THE DIFFICULTIES THAT FINANCING PRIVATE FUEL IMPORTS HAS CAUSED FOR THE INTERBANK FOREIGN-EXCHANGE MARKET. THE LINK WOULD BE TIGHTENED IF WASHINGTON OPTS FOR A CIP THAT INCLUDES FUEL IMPORTS.

B - STUDIES

THE PROGRAM WILL SET ASIDE DOLS 400,000 TO FINANCE PROGRAM IMPLEMENTATION SERVICES AND STUDIES EXAMINING POLICY CONSTRAINTS TO PRIVATE INVESTMENT IN THE FINANCIAL AND CAPITAL MARKETS. THESE STUDIES WILL CONTINUE FINANCIAL ANALYSIS DONE FOR PAAD DESIGN, SHOULD A BANK-LOAN MECHANISM BE CHOSEN FOR THE AERPP PROJECT. THEY WILL ULTIMATELY FEED INTO THE MISSION'S NEW PRIVATE-ENTERPRISE SUPPORT PROGRAM (WHICH INCLUDES PROJECT 660-0120, SCHEDULED FOR AUTHORIZATION IN FY 1987), COUNTERPART-FUND LOANS TO SOFIDE AND OTHER INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS), AND SUBSEQUENT ACTIVITIES.

C - PROGRAM OPTIONS

1. USING COMMERCIAL BANKS AS THE IMPLEMENTING AGENCIES

THIS WOULD WORK ROUGHLY AS FOLLOWS: A.I.D. WOULD SIGN A LETTER OF COMMITMENT TO A BANK IN THE U.S. FOR THE EVENTUAL LETTERS OF CREDIT UNDER THIS PROGRAM. THE IMF HAS INDICATED THAT IT WOULD RAISE THE CEILING ON COMMERCIAL BANK LENDING BY THE ZAIRE EQUIVALENT OF THIS ACCOUNT, AS FOR THE WORLD BANK'S ISAC. THE COMMERCIAL BANKS WOULD MAKE LOANS FOR PROJECTS THAT WOULD INCLUDE IMPORTATION OF RAW MATERIALS AND SPARE PARTS, REPLENISHING THEIR FUNDS THROUGH THE CENTRAL BANK'S DISCOUNT FACILITY SO AS NOT TO TIGHTEN LOCAL CREDIT CONDITIONS. THE LOANS WOULD BE REVIEWED AND APPROVED BY A.I.D. FOR FOREIGN-EXCHANGE PURCHASES UNDER THE TERMS OF THE GRANT TO THE GOZ. THE INDUSTRIAL BORROWERS WOULD USE SOME OF THE LOAN PROCEEDS TO OPEN LETTERS OF CREDIT THROUGH A.I.D.'S

LETTER OF COMMITMENT. (IT IS ASSUMED THAT THE RESTRICTION TO PROCUREMENT FROM THE U.S. COULD BE WAIVED, CONSISTENT WITH PAST PRACTICE FOR OTHER PRIVATE-SECTOR BANK-LOAN PROJECTS IN AFRICA. E.G., USAID/AFRICA'S RURAL PRIVATE ENTERPRISE PROJECT.) THE BANKS WOULD DRAW ON A.I.D.'S ACCOUNT IN THE U.S. TO FUND THE LETTERS OF CREDIT, PAYING (THEIR CLIENTS' BORROWED) ZAIRES INTO THE GOZ'S COUNTERPART FUND. THE COUNTERPART FUNDS WOULD THEN BE PROGRAMMED BY USAID AND THE GOZ FOR SUPPORT OF USAID PROJECTS OR LENT TO SOFIDE OR OTHER IFIC TO EXPAND INDUSTRIAL CREDIT. IN THE CASE OF SOFIDE, THE LOCAL-CURRENCY FUNDS WOULD COMPLEMENT THE WORLD BANK'S FOREIGN-EXCHANGE CREDIT TO SOFIDE.

DISCUSSION

THIS OPTION IS THE ONE MOST SIMILAR TO THE DISBURSEMENT MECHANISM FOR THE WORLD BANK'S ISAC, AND WOULD THUS COMPLEMENT MOST DIRECTLY THE AERPP'S LINKAGE TO POLICY CONDITIONALITY OF THAT IBRD CREDIT. COLLABORATION WITH COMMERCIAL BANKS IS ALSO CONSISTENT WITH USAID'S OA-FUNDED PROJECT PROPOSED FOR FY 87, PRIVATE SECTOR SUPPORT (660-0120).

ONCE THE FINANCIAL ARRANGEMENTS WERE MADE, DISBURSEMENT WOULD BE FAIRLY RAPID (12 TO 18 MONTHS), AND COUNTERPART FUNDS WOULD BE GENERATED AS FAST AS THE GRANT WAS DISBURSED. A.I.D.'S DOLLARS WOULD GO DIRECTLY TO IDENTIFIABLE PRIVATE IMPORTS NEEDED FOR INDUSTRIAL CAPACITY UTILIZATION.

THIS WOULD BE USAID/KINSHASA'S FIRST ACTIVITY DIRECTLY DEPENDING ON COMMERCIAL BANKS, AND THUS IT IS POSSIBLE THAT THERE WOULD BE SOME UNFORESEEABLE DELAYS IN ARRIVING AT SATISFACTORY ARRANGEMENTS.

2. USING SOFIDE AS THE IMPLEMENTING INSTITUTION

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ACTION OFFICE AIDP-06

INFO AAAF-02 AFCD-02 AFCW-03 FPA-02 AFPP-04 AFR-05 GC-01
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CPS-02 STAG-02 PPR-01 SAST-01 AFDA-02 AURI-01 STFA-01
RELO-01 TELE-01 AFMG-03 PRE-06 BLOS-01 /063 A1 1111

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-08 DCDE-00 L-03
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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC IMMEDIATE 6477

UNCLAS SECTION 06 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AERPP PAIP (660-0121)

- THIS OPTION WOULD WORK ROUGHLY AS FOLLOWS: A.I.D. WOULD SET UP A LETTER OF COMMITMENT TO A U.S. BANK IN FAVOR OF SOFIDE. SOFIDE WOULD MAKE MEDIUM- TO LONG-TERM INDUSTRIAL, AGRICULTURAL, OR AGROINDUSTRIAL LOANS FOR PROJECTS WITH IMPORT COMPONENTS. SOFIDE'S LOANS ARE NOT SUBJECT TO ANY CEILING. AGAIN, IT IS ASSUMED THAT A WAIVER OF U.S. PROCUREMENT WOULD BE GRANTED. THE IMPORT COMPONENTS OF THESE LOANS WOULD BE ADVANCED IN U.S. DOLLARS AND REPAYED IN ZAIRE'S AT THE EXCHANGE RATE PREVAILING WHEN EACH INSTALLMENT WAS DUE. SOFIDE WOULD PRESENT THE CREDIT DOCUMENTS TO A.I.D. FOR REVIEW AND APPROVAL FOR FOREIGN-EXCHANGE FINANCING THROUGH THE U.S. BANK. (THE LOCAL-COST COMPONENT OF THE LOAN WOULD BE FUNDED THROUGH SOFIDE'S OWN RESOURCES OR BY THE ENTREPRENEUR; NOTE THAT SOFIDE HAS SOME LOANS FROM USAID'S COUNTERPART FUND.) AT THE TIME SOFIDE DRAWS DOWN U.S. DOLLARS, IT WOULD INCUR A DEBT TO THE GOZ, PAYABLE AT THE EXCHANGE RATE CURRENT ON THE DAY WHEN EACH INSTALLMENT IS DUE, AT A TENOR SOMEWHAT LONGER THAN THAT OF THE PRIVATE BORROWER'S LOAN (E.G., ONE YEAR LONGER), AND AT AN INTEREST RATE LOWER THAN THE PRIVATE BORROWER'S INTEREST RATE BY AN APPROPRIATE MARGIN (E.G., 8 PERCENTAGE POINTS LOWER). THE PRIVATE BORROWER WOULD REPAY THE LOAN TO SOFIDE, AND SOFIDE WOULD REPAY ITS DEBT, WITH THE PROCEEDS GOING TO THE GOZ'S COUNTERPART FUND.

- DISCUSSION

- THIS OPTION WAS SUGGESTED BY THE WORLD BANK'S TEAM VISITING KINSHASA IN THE PRE-NEGOTIATION STAGES OF THE INDUSTRIAL SECTOR ADJUSTMENT CREDIT (ISAC). THE ADMINISTRATIVE MECHANISM IS VERY SIMILAR TO THAT OF THE COMMERCIAL-BANK OPTION. A.I.D.'S DOLLARS WOULD DIRECTLY FINANCE LONGER-TERM PROJECTS THAN UNDER THE COMMERCIAL-BANK OPTION, AND COUNTERPART FUNDS WOULD ONLY BE GENERATED WITH A CORRESPONDING LAG (FROM FIVE TO TEN YEARS). LOANS FROM THE COUNTERPART FUND TO SOFIDE MIGHT BE NEGOTIATED SEPARATELY. HOWEVER, THE WORLD BANK TEAM INDICATED THAT THE BANK WOULD RE-ARRANGE ITS FUNDS SO AS TO MAINTAIN THE TOTAL WORLD BANK-A.I.D. CREDIT TO SOFIDE AT DOLS 45 MILLION, SHIFTING THE EQUIVALENT OF A.I.D.'S FUNDS TO THE ISAC. THUS THE NET EFFECT OF A.I.D.'S PROJECT WOULD BE SIMILAR TO THE COMMERCIAL-BANK OPTION, EVEN THOUGH THE ATTRIBUTION OF THE FUNDS WOULD BE TO SOFIDE.

- BECAUSE SOFIDE HAS ALREADY ADMINISTERED LINES OF CREDIT LIKE THE ONE UNDER THIS OPTION, ADMINISTRATIVE ARRANGEMENTS COULD PROBABLY BE COMPLETED RELATIVELY QUICKLY. SOFIDE IS A KNOWN INSTITUTION THAT IS, ALTHOUGH NOT WITHOUT DRAWBACKS (NO PRESENT OWNERSHIP BY THE GOZ AND SOME ELEMENTS OF POLITICAL CONTROL IN ITS DIRECTION), WORTHY OF TRUST AND SUPPORT. SUBSTANTIAL INSTITUTIONAL ANALYSIS AND DEMAND ANALYSIS WOULD BE AVAILABLE FROM THE WORLD BANK. ITS INTEREST RATES ARE POSITIVE. THE APPARENT DISBURSEMENT RATE OF A.I.D.'S DOLLARS WOULD BE LESS RAPID THAN UNDER THE COMMERCIAL BANK OPTION (UP TO 36 MONTHS), BUT THE EFFECTIVE DISBURSEMENT RATE TO THE ZAIREAN ECONOMY WOULD BE IDENTICAL TO THAT UNDER THE COMMERCIAL-BANK OPTION IF THE WORLD BANK FUNGES THE SOFIDE CREDIT AND THE ISAC AS IT HAS SUGGESTED.

- 3. USAID-IMPLEMENTED CIP

- THIS OPTION WOULD WORK ROUGHLY AS FOLLOWS: USAID WOULD REQUEST AND RECEIVE A BLANKET WAIVER OF STRICT U.S. SOURCE/ORIGIN AND SHIPPING REQUIREMENTS, CHANGING THE GEOGRAPHICAL ELIGIBILITY CODE TO 941 FOR EXAMPLE, MEANING THE U.S. AND MANY LESS DEVELOPED COUNTRIES. THE ELIGIBLE COMMODITIES WOULD BE DEFINED AS ANY RAW MATERIALS, SPARE PARTS, OR INPUTS NEEDED TO INCREASE CAPACITY UTILIZATION IN A BROAD RANGE OF PRIVATE INDUSTRY, CONSISTENT WITH THE WORLD BANK'S INDUSTRIAL SECTOR ADJUSTMENT CREDIT. SOME PROBABLE CANDIDATES FOR SOAP PRODUCTION (USES LOCAL PALM OIL), TISSAKIM FOR BANGLADESHI JUTE FOR SACKS (USED IN AGRICULTURAL MARKETING), AND MOEIL AND TEXACO FOR BRAZILIAN REFINED PETROLEUM PRODUCTS (THE LATTER COULD BE TIED TO GOZ LIBERALIZATION OF FUEL DISTRIBUTION, RATIONALIZATION OF FUEL PRICING, THE INTERBANK FOREIGN-EXCHANGE MARKET, AND U.S. FIRMS IN ZAIRE). U.S. BANK LETTERS OF COMMITMENT WOULD BE OPENED FOR EACH IMPORTER.

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ACTION AID-00

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INFO ARAF-02 AFCD-02 AFCW-03 FPA-02 AFPD 04 AFTR-05 GC-01
GCAF-01 GCFL-01 FM-02 FLD-02 C-02 CALI-02 CMGT-05 CPP-01
CPS-02 STAG-02 PPP-01 EAST-01 AFDA-02 AGRI-01 STFA-01
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TO SECSTATE WASHDC IMMEDIATE 6478

UNCLAS SECTION 07 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AERPP PAIP (650-0121)

- DISCUSSION:
- WITH GEOGRAPHIC CODE 941 AND A BROAD INDUSTRIAL TARGET GROUP, THIS OPTION WOULD BE A RELATIVELY EASY EXTENSION OF THE CIP PROGRAMS ALREADY IN PLACE, AND A POTENTIALLY EXTREMELY RAPIDLY DISBURSING PROGRAM ONCE THE FINANCIAL MECHANISM IS IN PLACE (1 TO 2 MONTHS IF PETROLEUM PRODUCTS ARE INCLUDED).
- THE PETROLEUM-PRODUCTS OPTION IS ALSO ATTRACTIVE FROM THE POLICY POINT OF VIEW. IT WOULD RELIEVE PRESSURE ON THE FRAGILE FREE-MARKET FOREIGN-EXCHANGE SYSTEM AND SUPPORT THE GOZ'S REFORM OF FUEL IMPORTATION AND PRICING POLICIES, AS HAS BEEN DESCRIBED ABOVE. IF CONTINUATION AND FULL IMPLEMENTATION OF THAT REFORM IS MADE A CONDITION OF THE AERPP PROGRAM, A.I.D. SUPPORT TO PRIVATE PETROLEUM-PRODUCTS IMPORTATION WOULD BE A VERY VISIBLE DIRECT SUPPORT TO THE REFORM PACKAGE.
- WITH THE PETROLEUM-PRODUCTS OPTION, IT WOULD BE POSSIBLE TO CONSIDER AN ADDITION TO POLICY CONDITIONALITY, NAMELY A COVENANT ON THE PART OF THE GOZ TO CONTINUE AND STRENGTHEN IMPLEMENTATION OF THE FUEL-PRICING AND IMPORTATION REFORMS AGREED TO WITH THE IMF IN 1985. THIS COULD BE MONITORED BY THE U.S. MISSION THROUGH ITS CONTACTS WITH PRIVATE U.S. FUEL DISTRIBUTORS IN ZAIRE.

D - PROGRAMMING COUNTERPART FUNDS GENERATED

- ALL COUNTERPART FUNDS WILL BE PROGRAMMED BY USAID IN COLLABORATION WITH THE GOZ'S PLANNING MINISTRY DURING THE REGULAR ANNUAL EXERCISE. THE PRINCIPAL USE OF COUNTERPART FUNDS IS TO SUPPORT USAID'S BILATERAL DEVELOPMENT PROGRAM. USAID HAS RECENTLY INSTITUTED A PROGRAM OF COUNTERPART-FUND LOANS TO IFIS (SOFIOE AND THE AGRICULTURAL CREDIT BANK). IT IS LIKELY THAT THESE PROGRAMS WOULD BE EXPANDED WITH SOME OF THE COUNTERPART GENERATED UNDER THE AERPP PROGRAM. A SUBSTANTIAL AMOUNT OF COUNTERPART ALSO SUPPORTS THE GOZ'S INVESTMENT BUDGET, WHICH HAS BEEN DRASTICALLY CUT UNDER THE PROGRAM OF FINANCIAL RESTRAINT.

IV- MISSION RECOMMENDATION

- IN DEVELOPING THE MISSION'S RECOMMENDATIONS AS TO THE BEST MECHANISM FOR IMPLEMENTATION OF THE AERPP, THE MISSION HAS EXAMINED THE THREE BASIC OPTIONS DISCUSSED ABOVE UNDER EACH OF TWO ASSUMPTIONS: STRICT U.S. PROCUREMENT, AND BLANKET WAIVER OF PROCUREMENT AND

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SHIPPING TO A GEOGRAPHIC CODE AT LEAST AS BROAD AS 941 (INCLUDING THE U.S. AND MOST LESS DEVELOPED COUNTRIES) THE OPTIONS WERE RATED WITH RESPECT TO THE FOLLOWING SIX CONSIDERATIONS:

1. LINKAGE TO THE WORLD BANK'S ISAC: BOTH SUPPORT OF THE POLICY CONDITIONS AND SIMILARITY IN THE IMPLEMENTATION METHODOLOGY.
2. SUPPORT FOR U.S. POLICY DIALOGUE PROCESS: CONSIDERATION WAS GIVEN TO WHETHER THE IMPLEMENTATION METHOD WOULD CONTRIBUTE TO OUR UNDERSTANDING OF POLICY PROBLEMS AND INVOLVEMENT IN DIALOGUE LEADING TO FUTURE ACTION.
3. U.S. CONTROL OVER A.I.D.'S DOLLARS: THE MISSION HAS PLACED HEAVY EMPHASIS ON ENSURING THAT A.I.D.'S DOLLARS WILL BE ACCOUNTED FOR AND THAT THEIR ACTUAL USE CAN BE STRONGLY DOCUMENTED.
4. SPEED OF DOLLAR DISBURSEMENT: IN CONFORMITY WITH THE PURPOSE OF THE AERPP AND ITS LINKAGES TO THE WORLD BANK ISAC, A FAST DISBURSING MECHANISM WAS GIVEN FAVORABLE CONSIDERATION.
5. SPEED OF COUNTERPART GENERATION: THE MISSION HAS PLACED CONSIDERABLE IMPORTANCE, CONSIDERING CURRENT SHORTAGES OF LOCAL CURRENCY, ON THE SPEED WITH WHICH COUNTERPART FUNDS CAN BE GENERATED NOT ONLY TO SUPPORT THE ONGOING PROGRAM BUT ALSO TO PROVIDE FUNDS FOR THE MISSION'S NEW PRIVATE SECTOR INITIATIVES.
6. LOW MISSION MANAGEMENT BURDEN: ALTHOUGH THE MISSION CAN ABSORB WITHIN CURRENT STAFFING LEVELS AN INCREASED AERPP WORKLOAD, THE MISSION HAS TAKEN INTO ACCOUNT BOTH THE DURATION AND THE INTENSITY OF THE NEW AERPP WORKLOAD.

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INFO ARAF-02 AFCC-02 AFCA-03 FPA-02 AFPD-04 AFTR-05 GC-01
GCAF-01 GCFE-01 FM-02 FLD-02 C-02 CALI-02 CMGT-05 CPP-01
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UNCLAS SECTION 08 OF 09 KINSHASA 04150

AIDAC

FOR AFR/DP/PAR: JERRY WOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AEPRP PAIP (660-0121)

MISSION RANKING OF AEPRP OPTIONS

-
-
DESIRABLE: - COMMERCIAL-BANK LOAN FUNDING, PROCUREMENT FROM CODES 899 OR 941.

-
ACCEPTABLE: - CIP, PROCUREMENT FROM CODES 899, 941 OR 000.

-
MARGINALLY ACCEPTABLE: COMMERCIAL-BANK LOAN FUNDING, PROCUREMENT FROM CODE 000; AND SOFIDE LOAN FUNDING.

-
- THE OPTION OF USING COMMERCIAL BANKS AS THE IMPLEMENTING MECHANISM RANKS FIRST ON THE BASIS OF ITS CLEAR PRIVATE-SECTOR LINKAGES, THE POTENTIAL SPEED OF ITS DISBURSEMENT AND GENERATION OF COUNTERPART FUNDS, AND ITS LINKAGES WITH BOTH THE WORLD BANK'S DISBURSEMENT MECHANISM UNDER THE ISAC AND USAID'S PLANNED PRIVATE-SECTOR PROGRAM. HOWEVER, THIS EVALUATION DEPENDS ON WAIVER OF THE U. S. PROCUREMENT AND SHIPPING RESTRICTIONS. AS DISCUSSED ABOVE, IT HAS BEEN FOUND THAT PRIVATE LENDERS HAVE GREAT DIFFICULTY ADAPTING EXISTING PRACTICES TO THESE RESTRICTIONS. THIS WOULD TEND TO SLOW DISBURSEMENT AND INCREASE THE MISSION MANAGEMENT LOAD IN WHAT IS ALREADY A NEW AREA. THUS, IF IT PROVES NOT TO BE POSSIBLE TO GRANT A BLANKET WAIVER FROM THE RESTRICTION TO CODE 000, THIS OPTION LOSES MUCH OF ITS APPEAL RELATIVE TO THE OTHER OPTIONS.

-
- THE CIP OPTION WITH PROCUREMENT AND SHIPPING FROM 899 OR 941 SOURCES HAS THE MECHANICAL ADVANTAGES OF BEING POTENTIALLY VERY RAPID IN DISBURSEMENT OF DOLLARS AND GENERATION OF COUNTERPART FUNDS AT RELATIVELY LITTLE COST IN TERMS OF MISSION MANAGEMENT OR UNCERTAINTY OF OPERATIONAL MECHANISMS. HOWEVER, A CIP'S CONNECTION WITH THE WORLD BANK'S ISAC WOULD BE WEAKER THAN THE OTHER OPTIONS'. A CIP'S CONTRIBUTION TO THE POLICY DIALOGUE AND PRIVATE-ENTERPRISE PROGRAMS WOULD THUS BE RELATIVELY WEAK UNLESS IT WERE LINKED TO THE FULE POLICY REFORMS.

-
- ON FIRST EXAMINATION, THE SOFIDE OPTION, COUPLED WITH A SHIFT OF WORLD BANK FUNDS EQUIVALENT TO THE AEPRP FROM THE SOFIDE CREDIT TO THE ISAC, SEEMED TO BE THE MISSION'S

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AIDAC

FOR AFR/DP/PAR: JERRY VOLGIN AND AFR/PD: CAROL PEASLEY

E.O. 12356: N/A
SUBJECT: ZAIRE'S AEPRP PAIP (660-0121)

BEST OPTION. HOWEVER, FURTHER STUDY HAS INDICATED THAT THIS OPTION WAS LESS DESIRABLE. IT IS ESPECIALLY WEAK IN ITS SLOW GENERATION OF COUNTERPART FUNDS, WHICH WOULD ONLY BECOME AVAILABLE WHEN MEDIUM- TO LONG-TERM LOANS ARE REPAYED (IN 5 YEARS OR LONGER). FURTHERMORE, SDFIDE'S EXPERIENCE WITH DONOR CREDITS TIED TO PROCUREMENT IN SPECIFIC COUNTRIES IS THAT THEY DISBURSE VERY SLOWLY, SO A GEOGRAPHIC WAIVER WOULD BE NECESSARY FOR THIS OPTION ALSO.

- THE MISSION IS CONVINCED THAT SDFIDE AND ITS MEDIUM-TERM LENDING PROGRAMS SHOULD BE SUPPORTED, BUT IT HAS BEEN CONCLUDED THAT THIS SUPPORT CAN BE MORE EFFECTIVELY HANDED AFTER ADDITIONAL ANALYSIS AND WITH THE INFUSION OF COUNTERPART FUNDS. IN FACT, SDFIDE HAS TOLD THE MISSION THAT, WITH THE NEW WORLD BANK CREDIT, LOCAL CURRENCY AVAILABILITY RATHER THAN FOREIGN EXCHANGE WOULD BE ITS KEY CONSTRAINT.

- IT SHOULD BE NOTED THAT ALL THE OPTIONS AFFORD FULL CONTROL OVER THE USE OF A.I.D.'S DOLLARS. THUS, ALL THE OPTIONS ARE EQUALLY RESPONSIVE TO SENSITIVITIES CONCERNING UNCONTROLLED CASH-GRANT OPERATIONS OR EVEN THE INDIRECT, ATTRIBUTION-TYPE DISBURSEMENT METHOD OF THE WORLD'S SECTOR CREDIT.

V. - PAAD DEVELOPMENT SCHEDULE AND RESOURCE REQUIREMENTS

- THE MISSION PLANS TO ARRANGE FOR ONE FINANCIAL EXPERT, POSSIBLY THROUGH AFR/PRE'S IQC MECHANISM, TO DO AN INSTITUTIONAL ANALYSIS OF THE CREDIT AND FOREIGN-EXCHANGE MARKETS. THIS WILL SERVE EITHER FOR THE PAAD OR FOR DEVELOPMENT OF THE PRIVATE SECTOR SUPPORT PROJECT, 660-0120, SHOULD THE CIP MECHANISM BE CHOSEN FOR THE AEPRP. THIS WORK WILL BE STARTED AS SOON AS POSSIBLE.

- FOR DRAFTING THE PAAD ITSELF, THE MISSION REQUESTS TDY ASSISTANCE FROM A POLICY OR PROJECT DESIGN OFFICER IN THE AFRICA BUREAU. IF THE COMMERCIAL-BANK OPTION IS SELECTED, THE PROJECT-DESIGN OFFICER WILL NEED TO REVIEW AND BECOME EXPERT ON VARIOUS METHODS WHICH A.I.D. HAS UTILIZED IN THE PAST TO DISBURSE DOLLARS UNDER IFI (BANK-LOAN) PROGRAMS. DEPENDING ON THE AVAILABILITY OF THAT ASSISTANCE, THE MISSION WOULD SUBMIT THE PAAD IN JUNE OR JULY, 1986. END QUOTE. GROVE

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Mike Zak

(For Immediate Attention)
PROJECT DOCUMENT AND MEETING NOTICE TRANSMITTAL

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FOR ACTION: EA Date 03/17/86

FROM: PPC/PDPR/SI:LB

PD-A/W)-36/

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SUBJECT: PAIP Zaire 660-0121

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Document	Country	Project Number		
AEPRP PAIP				
Project Title				
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Amount-AID contrib.	Loan	Grant	Other	

Project (Issues) Meeting:

Day	Date	Time	Room No.
Executive Meeting: TUES	03/18	2:30 PM	6944
Day	Date	Time	Room No.

Other Type of Meeting:

Day	Date	Time	Room No.
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Comments of PDPR/SI or Additional Information:

1. Your division is responsible for assigning a PPC Project Review officer (PRO) for this project. Please review the document and take all necessary actions in accordance with current PPC guidance (See Eriksson to PPC Staff memo "PPCs Review of FIDs, PFs, HGs and PL 480 Proposals", dated August 26, 1982.) Please provide, at the earliest, copies of any PPC staff issues paper/memoranda (with notational comments if any made by the DAAA or AAA/PDPR) prepared on this project, citing the project number and title.
2. PPC issue papers should be cleared with the appropriate FB regional coordinator and AAA/PDPR BEFORE the Executive Committee meeting at which time PPC is expected to present its position on a project. As a general rule, bureaus are required to provide PPC with project documents a week in advance before executive committee meetings, and if possible, at least seven calendar days before issues meetings. Exceptions may, however, have to be accommodated. If circumstances warrant, we may request via the AAA/PDPR, that bureaus delay executive meetings or advise them that PPC will respond within two working days after an executive committee meeting.

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- DAAA/PDPR (without attachment)

NOTICE OF MEETING

TO: See Distribution
FROM: AFR/PD, Laurence Hausman *LH*
MEETING: ECPR Meeting

ECPR
DATE: Tuesday, March 18, 1986
TIME: 2:30 P.M.
PLACE: 6944 N.S.

AGENDA

Zaire AEPRP PAIP (660-0121)
Chairperson: Lois Richards

Attachments:
Zaire 04150

Distribution:

DAA/AFR:ARLove 6936 NS	PPC/PD:HHandler 3841 NS
DAA/AFR/CWA:LRichards 6944 NS	PPC/PDPR/SP:RSheppard (5) 3894 NS
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AFR/PD:AHarding 2744 NS	SER/AAM/OS:PJHagan 733 SA-14
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GC/AFR:TBork (2) 6889 NS	BIFAD/S:JOWeis 5314A NS
AFR/DP:JGovan (Actg) (3) 3913 NS	AAA/AFR/PRE:HIMunson* 6671 NS
Geographic Desk or RA (2)*	STATE:AF/C:RFrisbie 4246 N.S.
AFR/TR:KSherber (3) 2497 NS	LEG/CLS:SAbrams 2895 N.S.
AFR/TR:Divisions (6) 2485 NS	

Project Committee Members:

AFR/PD/CCWAP:HHelman	AFR/PD:CPeasley
AFR/DP:JWolgin 3909 N.S.	AF/C:RFrisbie 4246 N.S.
GC/AFR:AVance 6891 N.S.	AF/EP:PDaley 5242 N.S.*
AFR/CCWA:RMAushammer 2664 N.S.	

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