1

70

PO-AAX 099
ISN = 54100

ECPR

PID ISSUES PAPER

COUNTRY:	Zaire
PROGRAM NAME:	Private Sector Support Projecy (660-0120)
LOP FUNDING:	$40,000,000
AUTHORIZATION VENUE:	A.I.D/W
CN EXPIRATION DATE:	CN to be done prior to obligation (Project included in FY 88 CP)

1. DESCRIPTION:

This project will support the GOZ's Structural Adjustment Program by providing balance of payments support to the private sector while assisting implementation of policy changes. The project will provide foreign exchange and local currency for short and medium-term lending by commercial banks to medium and smaller-scale Zairian private enterprises. The availability of significant additional amounts of foreign exchange and local currency will help stabilize the market for foreign exchange, encourage further liberalization and boost private sector activity during the period when financial sector reform and development are occurring. The project will facilitate evolution of the financial sector, which by the end of the project will enable commercial banks to more efficiently mobilize and allocate financial resources to private enterprises.

2. ISSUES:

Issue #1: Is the project overly ambitious?

Discussion: The Project Committee reiterated the concern first raised at the concepts review that other viable options and lower funding scenarios should be considered by the mission given the "pilot" nature of the project and the consequential higher risks associated with it. Success of this project is closely tied to success of the total GOZ reform package and given Zaire's political and economic environment, there is considerable doubt that it will be successfully implemented. Furthermore, it was felt that the current lack of understanding of the credit fund target group and therefore its potential impact begs the question whether the credit activity will be consistent with broader Mission strategic objectives (e.g., need for decentralized development, possible credit support of enterprises which add little to local value-added). The PC also noted that, at the current LOP level, the project will essentially drive the future Mission strategy before it is developed in early 1989. Since the PID still lacks focus for both the policy reform and credit fund components it was suggested that alternative funding scenarios be offered in fund design.

In response, the Mission argued that: (1) $40 million is needed in order to have any impact on policy issues in a large country like Zaire; (2) the MSE group has the capacity to absorb the $40 million in a constructive manner; and, (3) a program management problem would arise if the $40 million level were not approved. The Mission also felt that its understanding of MSE's in Zaire was deeper than the perceptions noted by the PC.

Recommendation: It is suggested that the Mission be requested, as part of the PP design to: (1) identify specific policy issues to be addressed and explicitly stipulate the manner and specific CP's to disbursement; (2) document the absorbtive capacity of the MSE group to be addressed; and, (3) develop measurable quantitative progress indicators. The Mission should enhance the TOR of the upcoming study of the MSE target group to better define the nature of the project borrowers and the expected impact that the project lending component will have on Zairian development.

Issue #2: Is the target MSE group acceptable?

Discussion: Project credit will probably be essentially limited to those enterprises on the higher side of the MSE spectrum which already have relatively greater access to credit. The Mission argued that this latitude in beneficiary selection has to be given in order to draw down funds at an acceptable rate and for the project to be sustainable. The Mission would like to focus its activity more on needier target groups in the future and plans to address this concern in the PP, but at this time suggests that the project be limited to this target group. The Mission stated that this project should be thought of as a building block providing an analysis base for future projects that could eventually target less established groups in the private sector.

This project was recognized by the PC as innovative and responsive to Africa Bureau basic priorities: private sector, building on existing institutions, and focused on stimulating economic growth.

Recommendation: The PC recommends that the credit fund target beneficiary group be clearly defined and understood and that this should be a primary concern of the previously noted MSE study. If the beneficiary group is ultimately not acceptable, a fall-back position could be a form of modified AEPRP which drops the credit component, although the PC was inclined to concur in the retention of the project approach. If it is determined that credit is not the primary constraint to development of the beneficiary group, care should be taken to analyze these constraints and adequate attention should be paid to them.

Issue # 3: Does the activity adequately address concerns with the need to involve women?

Discussion: There is no indication that the project will ensure that women are a part of the target population nor is there any indication that gender disaggregated information will become an integral facet of the monitoring and evaluation of the project's activities. As stated in the PID, it is expected that the project will bypass most Zairian women because they are not likely to be found in any appreciable number among the project target group.

PPC/WID requested that further project development not be approved until women were properly incorporated into the project design. The Project Committee agreed that it is probably unlikely to find women entrepreneurs in the current MSE group and that any project requirements in this area should be carefully balanced with field realities.

Recommendation:

The PP design should explicitly address how gender dissaggregated data can be gathered, analyzed and monitored. WID concerns should be properly noted and progressively introduced into the project implementation as possibilities arise.

Issue # 4: Should PP approval authority be delegated to the field?

Discussion: The Mission requested ad hoc delegation of approval authority in the PID based on the fact that substantial study had, and will be conducted, and that the PID has adequately addressed concerns of the A.I.D./W concept paper review. The Mission suggested that the delegation could be made subject to A.I.D./W review of the final conditionality to be included in the grant agreement on financial sector reform. The Project Committee was reluctant to recommend delegation considering the risks and yet unclear definition of the policy and MSE components of the project noted in Issues #1 and #2.

Recommendation:

The ECPR should consider the following DOA options:

1. Accept the mission proposal.
2. Require A.I.D./W review of both the upcoming credit study and policy proposal.
3. Require PP review in A.I.D./W.

3. CONCERNS AND ISSUES RESOLVED AT THE ISSUES MEETING.

Appropriateness of Incentives: The Mission is anticipating the targetting of certain groups or geographic regions by offering incentives in the form of offering lower interest rates to banks for lending to target groups. Concern was expressed about possible subsidization under these circumstances and Agency policy against subsidization. It was suggested that alternatives be considered such as set-asides for specific regions or target groups. The Project Committee agreed that the project should avoid subsidies. However, it was recognized that set-asides may be difficult to implement because funds may not be utilized. The Project Committee agreed that the Mission should continue to develop and explore this issue in the course of the PP design.

Fast Disbursement of $5 million: The project will disburse up to $5 million of project funds under the current CIP terms and conditions used in the $15 million Structural Adjustment Support Grant. The Project Committee queried why it was necessary to expend this untargetted amount under this project instead of amending the Structural Adjustment Support Grant. The Mission argued that an amendment would be difficult because the additional funds would require the identification of additional policy reform. The Project Committee requested that the PP review this issue and attempt to avoid unlinked, fast-disbursment of funds, if possible.

Monitoring Plan: Considering the risks involved with this project and the increasingly felt need in the Agency to measure implementation performance, the Mission needs to carefully define a monitoring/evaluation plan which provides ongoing management monitoring in relationship to avowed project objectives. In the event that any of the previously noted risks of the project became reality, a mechanism for rapid project readjustment should be identified. Quantitative indicators of performance for all key aspects of the project will be required.

Disruption of Foreign Exchange Rates: PPC flagged its concern that the project not disburse funds when there is a wide discrepancy between official and parallel foreign exchange rates and thereby contribute to corruption. Currently there is an estimated difference of 30 percent between the two rates. The Project Committee recommended and the Mission concurred, that some mechanism be built into the project that would avoid this situation.