PD ABM-873

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number 660-0121 — 660-K-603A $200,000; ~~660-K-603 $14,800,000~~

2. Country: ZAIRE

3. Category: African Economic Policy Reform Program Structural Adjustment Supp Grant

4. Date

5. To: Mark L. Edelman, Assistant Administrator for Africa

6. OYB Change Number

7. From: AFR/PD, Carol Peasley

8. OYB Increase

To be taken from:

9. Approval Requested for Commitment of: $ 15,000,000

10. Appropriation Budget Plan Code: GESA-86-31600-KG39; 200,000 GESA-86-31660-KG32 ~~637-61-660-00-59-61~~

11. Type Funding: ☐ Loan ☒ Grant

12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None

13. Estimated Delivery Period: 24 months

14. Transaction Eligibility Date

15. Commodities Financed

Only commodities eligible for AID financing and capable of supporting the agricultural, industrial, or manufacturing sectors in Zaire shall be financed with this Grant.

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	$7,600,000
Limited F.W.	~~$15,000,000 (Code 941)~~	Industrialized Countries	
Free World		Local	
Cash		Other	~~Selected Free World (941) $7,400,000~~

18. Summary Description

The purpose of the Structural Adjustment Support Grant is to support the adoption and implementation of a series of policy reforms designed to promote efficient private industrial investment and to re-initiate the growth of per capita incomes. These reforms are (1) tariff-rate simplification to lower the average and the variation in effective rates of protection, (2) reduction of export taxes and simplification of export procedure and (3) maintenance of liberal exchange-rate, pricing and import policies.

The program will be implemented through provision of import financing to private sector importers for the agro-industrial sector. Local currency generated will be jointly programmed by USAID and the GOZ and will be used for development activities supportive of the reforms.

19. Clearances	Date
~~AFR/DP:JPatterson (Draft)~~	8-27-86
~~GC/AFR:AVance (Draft)~~	8-29-86
~~AFR/CCWA:PGuild (Draft)~~	9-1-86
~~AFR/CONT:TRattan (Draft)~~	9-3-86
~~DAA/AFR:LRichards (Draft)~~	9-5-86
~~PPC/PD:RMaushammer (Draft)~~	9-10-86
~~M/FM/PAFD~~ : ESOwens (Draft)	8-25-86

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: Mark L. Edelman — Date: 9-19-86

Title: Assistant Administrator for Africa

AID 1120-1 (5-82)

CLASSIFICATION:

BEST AVAILABLE COPY

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley

SUBJECT: Zaire AEPRP Structural Adjustment Support (660-0121)

I. **Problem:** Your approval is requested for a grant of $15.0 million from the Economic Support Fund appropriation account to Zaire for Structural Adjustment Support (660-0121). It is planned that the entire amount will be obligated in FY 1986.

II. **Discussion:** In conjunction with an overall structural adjustment program in Zaire, which includes a World Bank Industrial Sector Credit of $75.0 million, this grant of $15.0 million further contributes to opening opportunities for the private sector, through a series of policy reforms which improve the climate for investment and services. Specifically, the GOZ, through the reform sought by this project will:

- enact tariff and tax reforms;
- prepare a medium-term plan for making import duties more uniform and widely applicable and adhere to the plan.

The GOZ will also agree to use the local currency generated through the importation of commodities financed by the Project (CIP) to support AID's on-going development projects, a significant portion of which are being implemented by PVOs.

The primary elements of this project are the accomplishment of policy reforms and the making available of foreign exchange to increase the flow of commodities to the private sector. A secondary benefit will be the generation of local currency to support AID development projects. The remainder will be applied to meet GOZ contributions to AID projects.

Grant resources will finance the importation of raw materials, spare parts, and equipment exclusively by and for the Zairian private agro-industrial sector. This will increase working capital and raise capacity utilization, production and sales. The AID and World Bank funds will also enable private industry to expand.

Funds under this grant will be released in two tranches. The first tranche will include $200,000 for administration and monitoring of the import financing and the policy reforms and $7.4 million for imports. The second tranche will include $7.4 million for imports. Only those commodities identified as contributing to the agro-industrial sector in Zaire will be eligible.

The ECPR approved this project on June 20, 1986, with agreement upon the following covenants and conditions precedent:

Covenants

(1) The GOZ, through the central bank (the Bank of Zaire), will continue to use a free, interbank market system to establish official floating exchange rates.

(2) The GOZ will maintain the existing liberal system of imports. This means that the GOZ will not, except as A.I.D. may agree in writing, impose any new licensing requirements or quantitative restrictions on imports.

(3) The GOZ will maintain the existing liberal policy concerning pricing of agricultural and industrial products. This means that the GOZ will not, except as A.I.D. may agree in writing, impose new price controls, ex ante or ex post.

(4) The GOZ will maintain a system of importation for refined petroleum products permitting direct private importation and a system of pricing of individual fuel within Zaire that recovers full cost for each fuel from the sellers' customers.

(5) The GOZ will place in a special account and budget the equivalent of $14.8 million in counterpart funds generated by imports under this agreement for purposes as agreed upon between AID and the GOZ.

Conditions Precedent

a. First Tranche

Prior to disbursement of the first tranche, the GOZ will provide to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(i) The GOZ has revised the schedule of import tariffs, such that, except as A.I.D. may agree in writing, no tariff will exceed 60 percent (ad valorem) and no tariff will be less than 10 percent.

(ii) The GOZ has eliminated all taxes on exports, except as A.I.D. may agree in writing.

(iii) The GOZ has established a simplified and streamlined

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control procedure for exports, acceptable to A.I.D.

(iv) The GOZ has adopted revenue and expenditure measures acceptable to A.I.D. that are sufficient to offset recently announced civil service salary increases.

b. Second Tranche

Prior to disbursement of the second tranche, the GOZ will provide to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(i) The GOZ has presented a four year program of tariff reform acceptable to A.I.D. which will aim at establishing uniform rates of protection of about 30 percent.

III. Special Concerns

IEE: The Initial Environmental Examination recommended a negative determination be made for this project as none of the commodities to be financed are expected to have any adverse effect on the environment.

Implementing Agencies: The Structural Adjustment Support Grant Agreement will be signed with the Ministry of Planning. USAID/Kinshasa in cooperation with the Ministry of Planning will have primary responsibility for the monitoring and implementation of the program. The Ministry of Planning will issue financial requests to USAID and will share in the responsibility for monitoring local currency deposits.

Responsible Officers: H. Lee Braddock, Chief, USAID/DEO is the officer responsible for the project in the field. Howard Helman, Chief, AFR/PD/CCWAP, is the officer responsible for the project in AID/W.

Statutory Checklists: Attached to PAAD.

Gray Amendment: Technical Services for the project are being accomplished through extension of local hire personnel in place. Procurement under the C.I.P. will be Code 941; Gray Amendment entities are being encouraged to take advantage of the CIP through marketing of eligible commodities to private companies in Zaire.

Local Cost Financing: Local currency disbursements will not be made until programming determinations required by Handbook 1 B, Chapter 18 have been executed. Local currency financing, if any, only applies to the $200,000 management portion of the grant.

Waivers: The Code 941 Blanket Source/Origin Waiver is attached to the project authorization.

Justification to Congress: The Congressional Notification for this project was forwarded on July 25, 1986. The 15 day waiting period expired August 8, 1986. Objections raised by Congressional staff led to protracted discussions; clearance to proceed was obtained on September 17, 1986.

Recommendation: That you sign the attached PAAD and thereby approve Life of Project funding of $15.0 million.

APPROVE: Mark L. Edelman

DISAPPROVE: ____________

DATE: 9-19-86

Attachments: PAAD
Statutary Checklists

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley

SUBJECT: Zaire AEPRP Structural Adjustment Support (660-0121)

I. Problem: Your approval is requested to add the following stipulations to the evaluation component of the grant.

II. Discussion: The Subcommittee of Africa of the Foreign Affairs Committee has recommended that the following conditions be included as part of the grant:

A. All of the funds in the grant are limited to imports by agro-industries.

B. AID presents to the Foreign Affairs Committee not later than March 1, 1987 an independent evaluation of the impact of Zaire's two previous commodity import programs and the subject grant. The evaluation will assess the programs'impact on:

1. employment and worker standard of living in the industrial sector;

2. availability of assisted imports in the various geographic areas and to small farmers generally;

3. actual, as opposed to formal and official, price liberalization in farming areas.

C. AID adds the criteria listed above to those already planned or contemplated for the annual evaluations of the ZAEPRP.

Recommendation: That you accept (1) limiting imports to Zaire's agro-industry and (2) the additional evaluations and evaluation criteria as requested by the Subcommittee. All necessary changes are reflected in the PAAD.

APPROVE: Mark L. Edelman

DISAPPROVE: ________

DATE: 9-19-86

Zaire Structural Adjustment Support Grant

Project 660-0121

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I. EXECUTIVE SUMMARY AND RECOMMENDATIONS

A. Executive Summary

The Structural Adjustment Support Grant is proposed as a $15 million industrial import financing program in support of reforms in Zaire's industrial development policy. This grant would be funded by Economic Support Funds under the African Economic Policy Reform Program. The specific reforms are: (1) reform of import tariff rates in order to reduce the average level of and disparities between effective rates of protection, (2) reduction of export taxes and simplification of export procedures, and (3) maintenance of recently adopted liberalization of pricing and markets for foreign exchange, imports, and agricultural and industrial commodities. These measures will be included as covenants and conditions precedent to disbursement, which will be divided over two tranches. The import financing will be used for private-sector imports of materials and replacement parts and equipment needed to increase capacity utilization in the Zairian private agro-industry. Local currency generated will be used to support AID development projects.

Zaire is currently undertaking a program of economic recovery based on the successful monetary and fiscal stabilization still in progress. A key element of the program for recovery and resumption of growth is the adoption of a new industrial policy.

The GOZ's approach to development policy in the 1960s and '70s inadvertantly created an industrial structure that was excessively dependent on imported inputs and protected local markets. This was the result of ill-considered direct governmental investment in industry and of directing private investment with arbitrary tax and administrative concessions rather than letting it be oriented by underlying economic costs and market opportunities. This policy penalized agriculture and other potential local suppliers of industrial inputs and made Zaire's economy much more vulnerable to foreign-exchange shortages. Thus, this policy was partly to blame for the very poor performance of the Zairian economy, given the falling terms of trade throughout the years of crisis.

The GOZ has been studying its industrial policy for two years with the support of the World Bank. A group of reforms have been identified, including those to be supported by this grant, which are necessary to encourage private investment and to orient it to economically efficient lines of production. The reforms specifically supported by this grant will tend to increase the demand for local inputs, especially agricultural materials, since 70 percent of Zairian industry is based on agriculture, and to encourage development of new export products.

The World Bank plans to support this program through an Industrial Sector Adjustment Credit which will also supply inputs to Zairian industry. It has actively solicited U.S. financial support for this effort. A.I.D.'s industrial commodity import financing would directly complement and support the World Bank's leading role in assisting the GOZ to study, identify, and implement its industrial policy reforms. Furthermore, along with the World Bank's credit the A.I.D. financing will mitigate the effects of the stabilization program's tight credit ceilings on private business's working capital and capacity utilization. Zairian industry's capacity utilization is estimated at 50 percent. Current imports of inputs run at about $300 million per year. With the World Bank's credit and A.I.D.'s grant, this would be increased to about $400 million, permitting capacity utilization to rise to roughly 70 percent. Future capacity utilization rates would depend on structural adjustment and thus on policy reforms, as well as on world economic conditions and the monetary/fiscal stabilization program.

USAID/Kinshasa is experienced in the implementation of commodity import programs under its two ongoing Agricultural Inputs Support grants. The import program proposed is designed to be complementary to the World Bank's credit, and thus is targeted at augmenting supply lines for existing productive capacity and is designed to disburse quickly. For this purpose, a waiver is requested to permit importation from countries in A.I.D.'s Geographic Code 941. This will permit private participation in the program without requiring retooling for new sources of materials. It will also be necessary for expeditious disbursement, given the availability of relatively untied credit for the same purposes from the World Bank.

Local currency generated by this program will be deposited in a special account and jointly programmed by USAID and the GOZ's Ministry of Plan. The local currency generated, $14.8 million equivalent, will support AID development projects. The majority will assist projects that raise the output of Zairian agro-industrial inputs and improve the internal marketing channels for those commodities.

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B. Recommendation

It is recommended that a Structural Adjustment Support Grant in the amount of $15,000,000 be authorized for Zaire from ESF funds under the African Economic Policy Reform Program.

II. BACKGROUND: ECONOMIC CONDITIONS AND GROWTH PROSPECTS

The standard account of the evolution of economic conditions in Zaire divides the period of independence into periods bounded roughly by the years 1967, 1974, 1978, and 1983.[1] The period before 1967 actually began before Independence with the civil rebellion of January, 1959 in Leopoldville (Kinshasa). This shock initiated the destruction and flight of expatriate skills and capital upon which colonial development of the Belgian Congo (Zaire) had been so overwhelmingly based. The years 1958 and 1959 are still the peak in production and exports for many 'traditional' industries in Zaire.

Unfortunately, Independence did not end civil strife. Zaire's traditional political groupings had been mobilized in the late 1950's for limited participation in government and then for resistance to Belgian rule. After Independence, the new political system was unable to establish a consensus on the relationship between the new central state and these traditional groupings. Armed regional rebellions developed in several areas, aiming either at replacing the central regime or at secession. Central authority was also undermined internally by political divisions based on traditional regional groupings.

Between 1960 and 1965, the central government gradually brought the rebellions under control through the military assistance of the United Nations and individual governments friendly to the regime, as well as through supplementing the indigenous armed forces with hired expatriate forces. As the military situation became clearer, the problem of political divisions was also solved, if only superficially at first, by the army's coup d'etat under General Mobutu in November, 1965. In time, Mobutu proved capable of forging a stable regime which largely submerged divisive regional factors.

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1 See the series of World Bank Economic Memoranda on Zaire, appearing in 1975, 1977, 1979, 1981, 1983, and 1985.

A. 1967-74

The beginning of the second period is marked by the return to relative calm and the major monetary reform of June, 1967, in which a new currency, the Zaire, was created with a value of US$ 2.00. The period through 1974 is characterized economically by relatively favorable terms of trade, rapid growth, and development of ambitious public investment projects. Politically, the period is characterized by efforts to replace expatriate control over resources by Zairian control.

On the economic side, the external terms of trade reached an all-time high in 1969, which has not since been equaled.[1] The peak in nominal copper prices reached in 1974 contributed to the peak in imports registered in that year. Thanks to the availability of export revenues, investment was as high as 23.5 percent of income during the period 1968-73. This fueled relatively rapid growth of domestic economic activity: GDP is estimated to have grown at about 7 percent per year.

An important aspect of economic activity in this period was the program of large government investments in major industrial projects. Emblematic of the public investment program in this period are the oil refinery on the Atlantic coast at Muanda (operated by a parastatal, SOZIR), the steel mill east of Kinshasa at Maluku (operated by another parastatal, SOSIDER), and the Inga hydroelectric power complex, including two generating installations on the Zaire River 200 km southwest of Kinshasa at Inga and a line carrying power from that site 1,800 km to the copper belt in Shaba Region, southeastern Zaire.

All these great projects share several characteristics.[2] They are realizations of President Mobutu's personal political commitments, for which the government contributed the bulk of the

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1 See Figure 1: Zaire's External Terms of Trade. The external terms of trade are the quantity of imports that can be bought in world markets for a given quantity of Zairian exports.

2 Young, Crawford and Thomas Turner, The Rise and Decline of the Zairian State, (Madison: The University of Wisconsin Press, 1985), pp. 296 ff.
The World Bank, The Economy of Zaire (Washington, D.C.: 1975), vol. I, p. 23-32.
The World Bank, Zaire Economic Memorandum: Recent Economic and Sectoral Developments and Current Issues (Washington, D.C.: 1981), vol. II, pp. 139 ff ("Viability of the Refinery").

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capital. In fact, several major projects were executed under the capital budget of the Presidency rather than by a government ministry. Much of the capital was borrowed from overseas with the government's guarantee. Furthermore, the projects were all heavily dependent on imported inputs. No Zairian crude oil was available for the refinery (and crude discovered since is unsuitable), Zairian iron ore reserves remain to be developed and would be inordinately expensive, and even the hydroelectric complex requires very substantial expenditures on expatriate management.

None of these projects has proven to be economical (although a more limited development of hydroelectric power for the region around Kinshasa would have been justified). The steel mill has virtually ceased to operate. The refinery and overall Inga-Shaba complex operate far below capacity, do not recover costs, and only replace less expensive alternate sources of supply. The total cost of only these refinery, steel, and power projects was about US$ 2 billion expressed in the purchasing power of the early 1970s, which is equivalent in 1985 U.S. purchasing power to about US$ 4 billion.

Private investment during this period was also strongly conditioned by government policy, as implemented through tariff protection, import quotas, and fiscal advantages. These were offered on an _ad hoc_ basis virtually upon request.[1] New foreign investments in, e.g., vehicle assembly and tire manufacture, were elicited by these methods during this period. These industries also were dependent on imported inputs (kits of vehicles to be assembled, synthetic rubber).

In contrast, the rural economy was not targeted for major investments. National agricultural output per capita probably fell, and imports of food grew.[2]

Nonetheless, the 1967-74 period was perceived as a boom. Zairians were optimistic and their aspirations to take control of the economy and its assets were naturally high. This had been one of the goals of Independence whose realization had been delayed by the disruptions of 1960-65. The principal objects of this movement were the great land concessions of the Leopoldian and Belgian

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1 The World Bank, _The Economy of Zaire_ (Washington, D.C.: 1975), vol. II, pp. 55 ff. ("Manufacturing").

2 Ibid., vol. I, pp. 25, 41.

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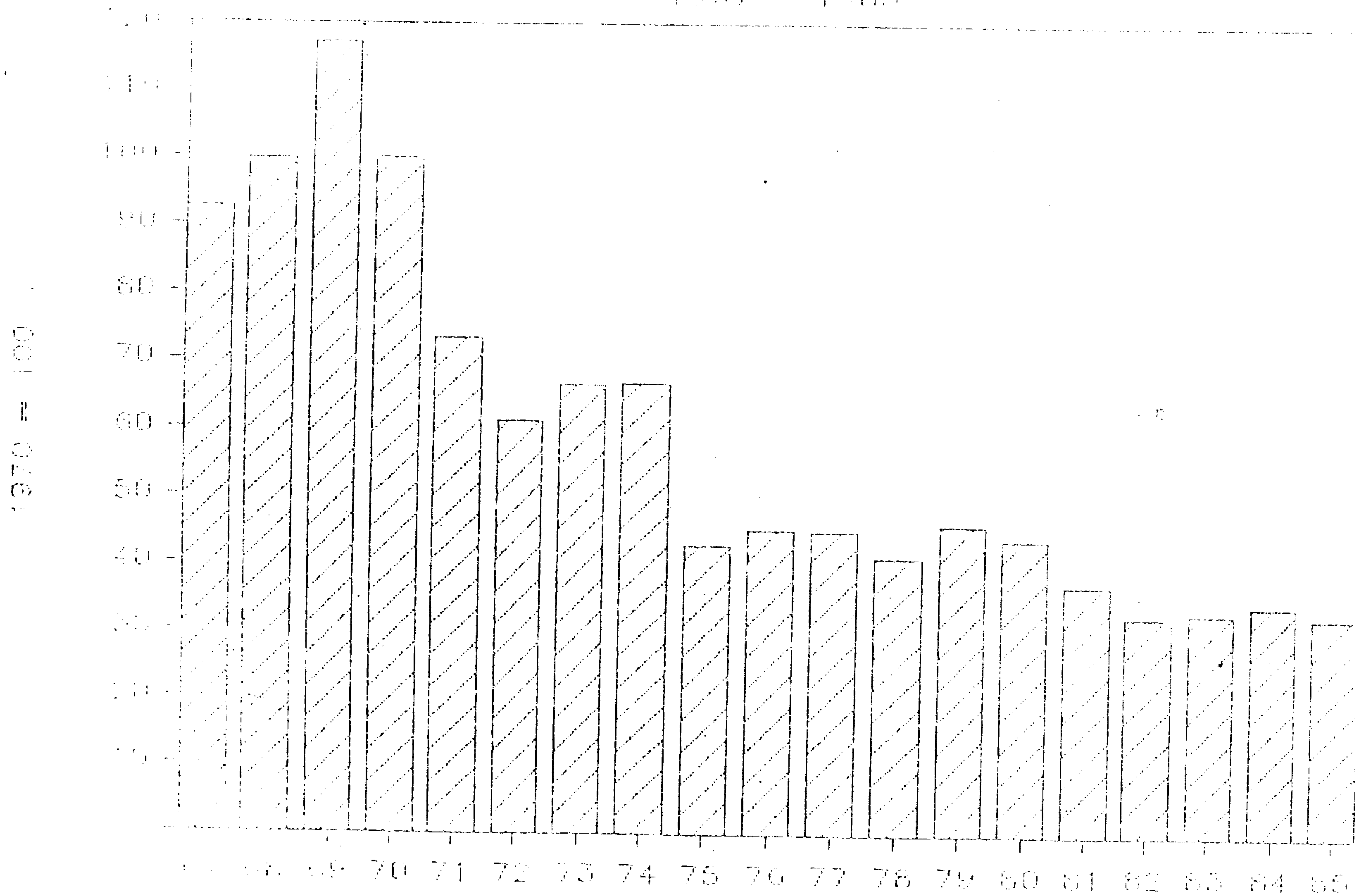
FIGURE 1

Zaire's External Terms of Trade

1967 - 1985



eras and the mining enterprises built on them. In fact, some major concessions had been annulled in 1964. The most important action, however, was the nationalization of the major copper-mining company in 1967 and the creation of a parastatal, now called GECAMINES, to manage it. The GOZ paid (generous) compensation for all of these rights and properties.

At a different level, the agribusiness, plantation, and rural commercial sectors were still largely owned and managed by businessmen of European, Middle Eastern, or South Asian origin. In late 1973, President Mobutu decided that all such businesses should be taken over by ethnic Zairians ("zairianization"). This was largely accomplished in the following year by prominent Zairians acting in their private capacities.

The effects of these takeovers were, on the positive side, short-term capital gains for ethnic Zairians and a somewhat accelerated process of introducing ethnic Zairians into management, and, on the negative side, rapid decapitalization and disorganization of agribusiness and the rural economy, and a lasting blow to Zaire's investment climate for private enterprise.

B. 1974-78

The year 1974 is recognized as the year when Zaire's growth bubble burst and the crisis began, mainly because of the major drop in the price of copper that occurred in mid-year (basically as a result of the sudden, drastic increase in the world price of petroleum). In fact, however, signs of impending problems had been gathering for several years. High copper prices up to 1974 only temporarily masked these problems.

--- Using a base wider than just copper prices, Zaire's overall terms of trade had already peaked in 1969. (See Figure 1.) The drop in the terms of trade between 1974 and 1975 was certainly important, but overall not the sole cause of the difference between the terms of trade of the late 1960s and those the late 1970s.

--- The decline in certain traditional agricultural exports was already evident by 1975. (see Figure 2, Zaire's Exports.)

-- Zaire's per capita imports were already showing some slippage between 1970 and 1973. (See Figure 3: Zaire's Per Capita Merchandise Imports.) After imports' peak in 1974, the slippage resumed for two years, only to collapse in 1977 and 1978.

--- The growth in Zaire's money supply was already accelerating starting in 1970; after a pause in 1974 and 1975, that acceleration resumed in 1976-78. (See Figure 4: Inflation Rate of Zaire's Money Supply.)

--- Real per capita expenditures by the GOZ on goods and services also show a general declining trend from 1970 onwards. (See Figure 5: GOZ Expenditures on Goods and Services.)

--- The main part of Zaire's debt, in terms of constant dollars, was already accumulated in 1974. (See Figure 6: Zaire's External Public Debt.) The debt burden in terms of the quantity of exports required to pay off that debt was, however, greatly increased by the drop in export prices after 1974. (See Figure 7: Exports Required to Pay Off the Debt.)

Therefore, the zairianization and copper-price shocks of 1974 took an already increasingly difficult situation and turned it into a full crisis. In 1975, the GOZ went to the IMF for help in meeting external payments. The first of what turned out to be a series of Standby Agreements with the IMF went into effect in March, 1976 (see Figure 8: Zaire's Agreements with the IMF). It was accompanied by a loan from the Compensatory Finance Facility, recognizing the fact that falling terms of trade were an important source of Zaire's external payments problem.

Figure 2

ZAIRE'S EXPORTS

Source: Conjoncture Economique

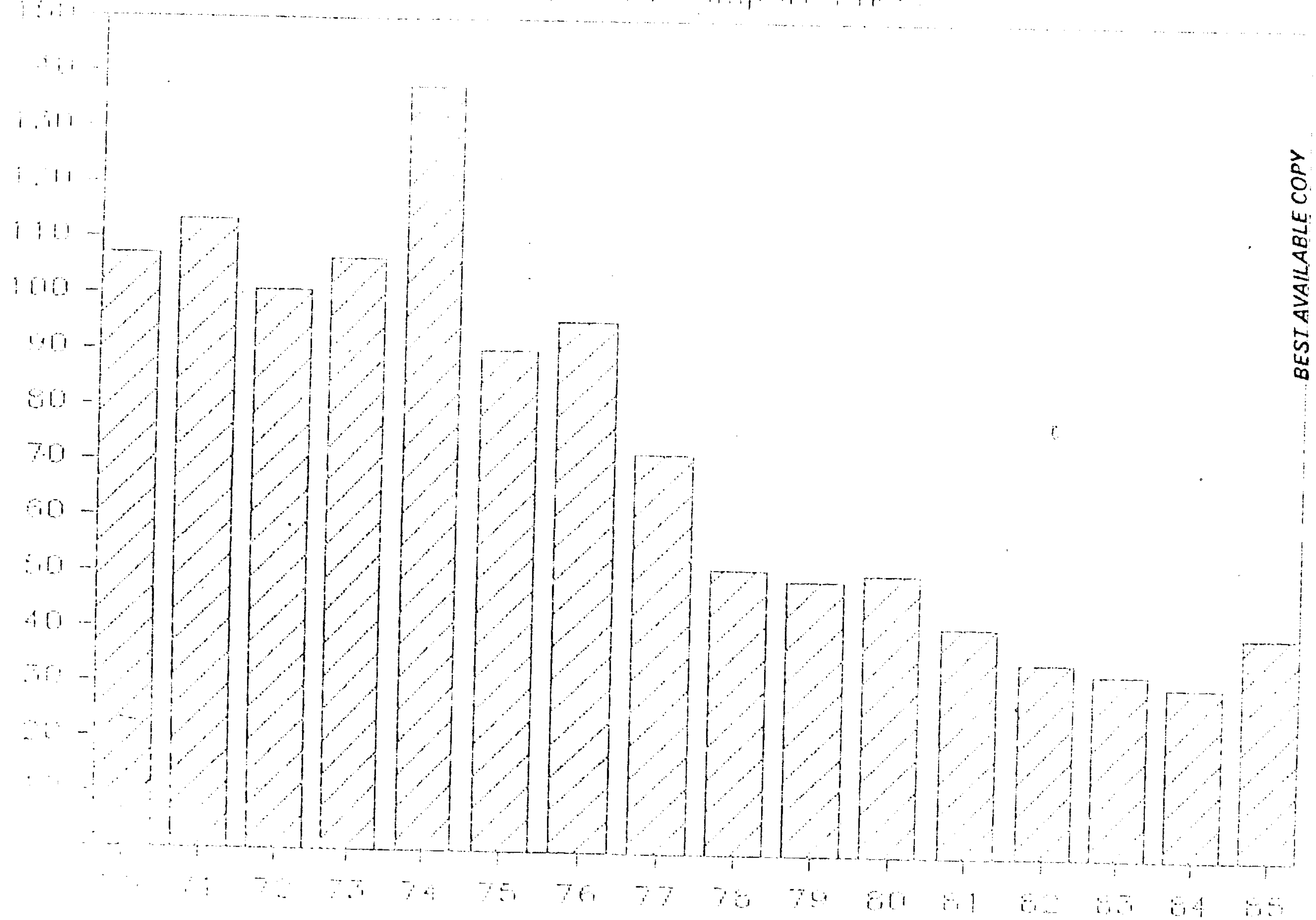
(in millions of kg unless otherwise noted)

Commodity	1968	1975	1982	1984
Copper	323	410	464	449
Crude oil	0	9.1 (1976)	8.1	12.3
Cobalt	9.5	11.5	6.9	13.4
Diamonds (million carats)	11.4	12.5	6.2	18.1
Coffee	51	59	68	77
Palm products	241	113	39	39
Rubber	40	24	15	15

Figure 3

Zaire's Per Capita Merchandise Imports

Deflated by Import Prices



Source: Bank of Zaire and World Bank

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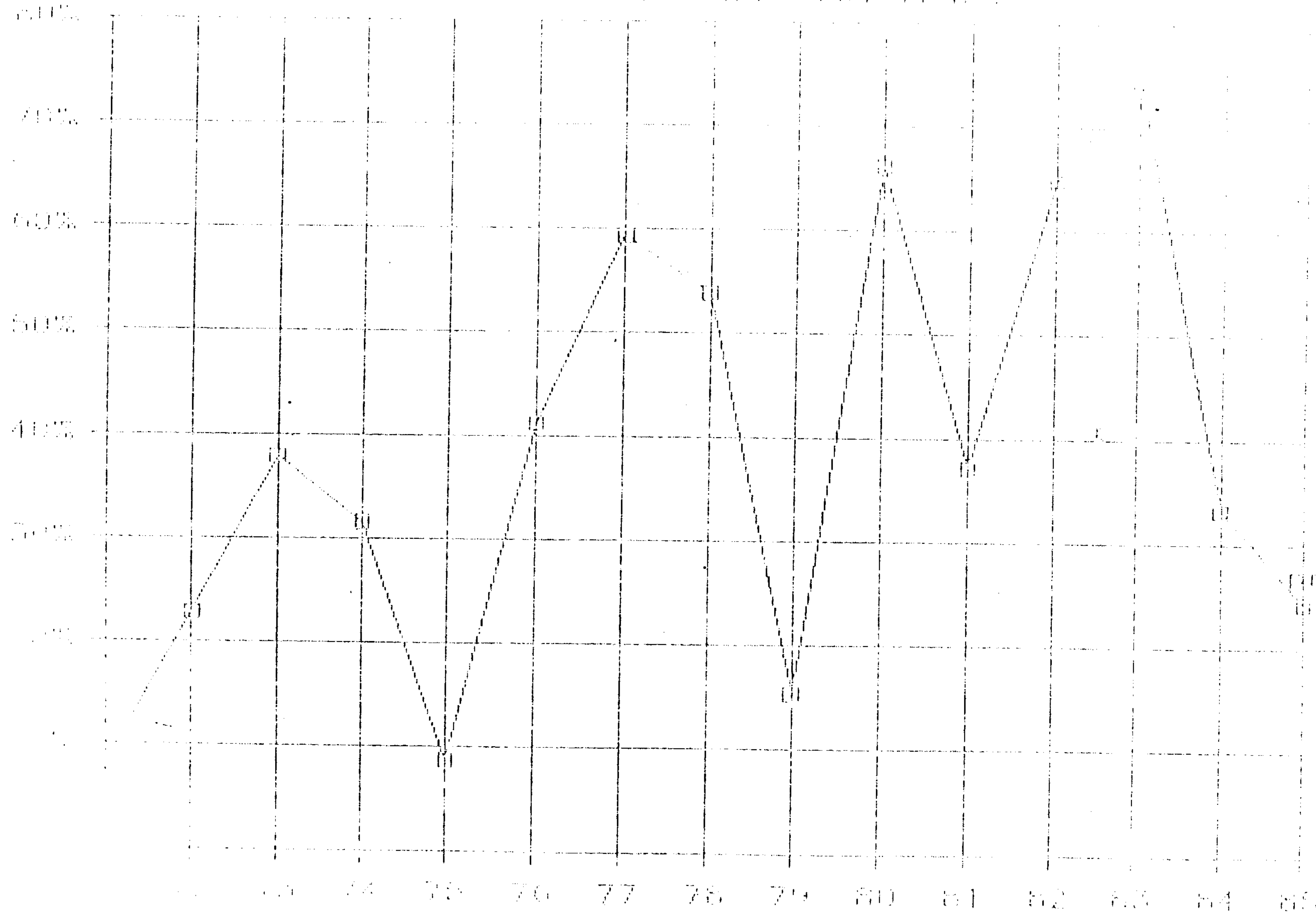
Figure 4

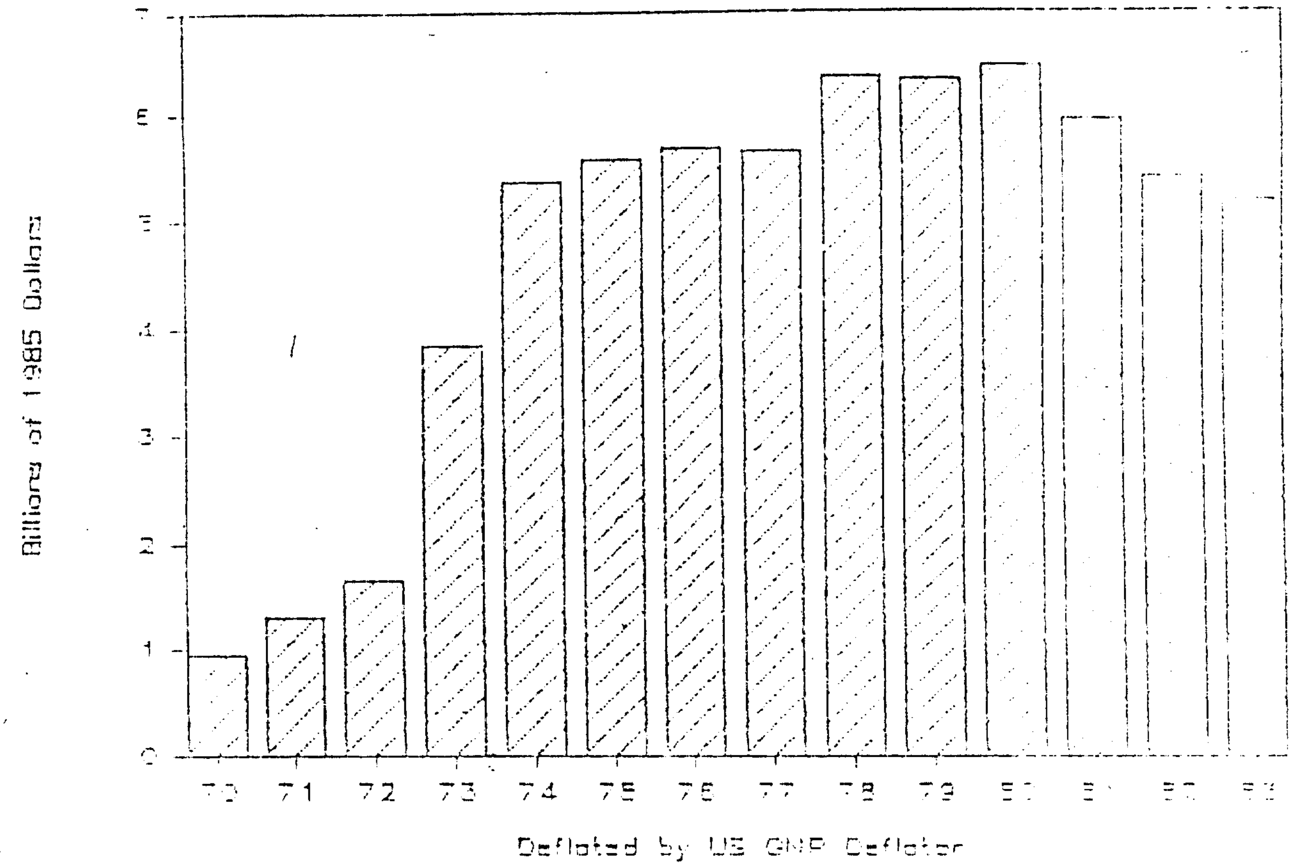
Inflation Rate of Zaire's Money Supply



Source: Bank of Zaire, Annual Reports.

FIGURE 6: Zaire's External Public Debt

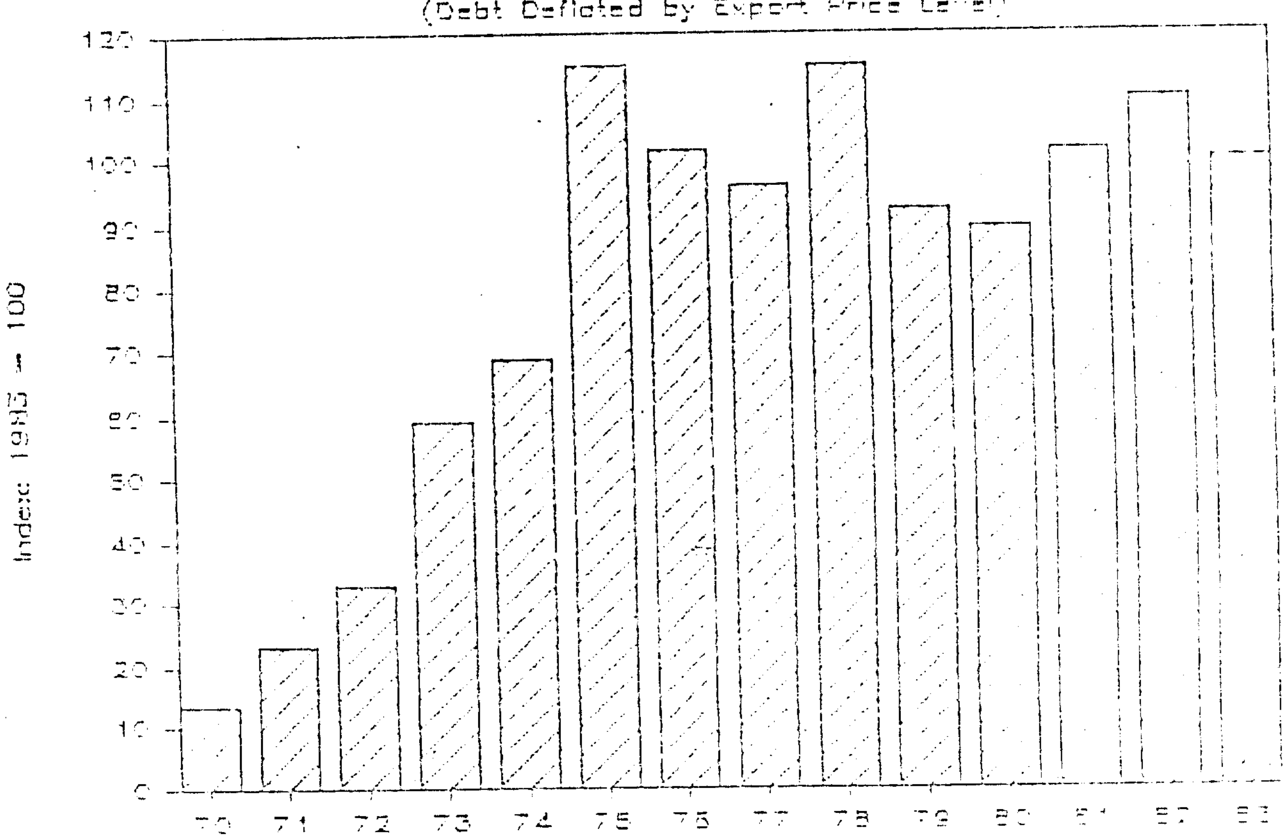
Disbursed or Committed



Deflated by US GNP Deflator

FIGURE 7:
Exports Required to Pay Off the Debt

(Debt Deflated by Export Price Level)



NB: Dividing the dollar value of the debt by the price index for exports gives a measure of the physical quantity of exports required to generate enough foreign exchange to pay off the debt.

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FIGURE 8:

ZAIRE'S AGREEMENTS WITH THE IMF

1976.........
Standby Agreement and Compensatory Financing Facility
*
*
1977........ *
Standby Agreement and Compensatory Financing Facility
*
*______ (cancelled)
1978.........

1979.........

Standby Agreement
1980........ *
*
*
*
1981........ *

Extended Fund Facility and Compensatory Finance Facility
*
1982........ *
*______ (cancelled)

1983........ "Shadow" program (unfunded)
*
*
*
1984........ Standby Agreement and Compensatory Finance Facility
*
*
*
1985........ *
Standby Agreement
*
*
1986........ *
(present) Standby Agreement
*
*
1987........ * (Planned duration: 22 months.)
*
*
*
1988........

The GOZ also recognized the damage that zairianization had caused to the private sector. It first attempted to mitigate this damage by state intervention in the firms affected. By 1976, however, the GOZ was forced to start re-privatization of most of these enterprises.

For the first Standby Agreement, the GOZ devalued the official rate for the Zaire from US$ 2.00 to US$ 1.16. (See Figures 9 and 10: Official Devaluations of the Zaire.) This seemingly large devaluation was in fact only a modest step toward equilibrium, as the official rate still averaged nearly twice the parallel rate in 1976. (See Figure 11: Overvaluation of the Zaire.[1]) In 1977, the GOZ refused to devalue at all. The payments crisis continued, but adequate recognition of the seriousness of the situation seemed to escape the GOZ, as it failed to fulfill the terms of the second Standby Agreement of 1977-78, which was effectively annulled in November, 1977.

C. 1978-82

The year 1978 proved to be something of a turning point in the GOZ's approach to the crisis, although the change in policy since that time has been gradual and economic deterioration continued for years thereafter. It was a difficult year, as a bad drought in Bas Zaire and the aftermath of two invasions of Shaba in 1977 and 1978 sapped national economic production.

But 1978 also saw the beginning of a series of more active measures on the part of the GOZ. After the cancellation of the IMF's Standby program in November, 1977, President Mobutu announced the Mobutu Plan for economic rehabilitation. This began a series of plans and programs that have developed with time into more considered approaches to governmental development expenditure. The GOZ devalued the currency's official rate twice in late 1978 for a total of 44 percent. Also, a wide range of marketing parastatals

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[1] The parallel exchange rate used in computing Figure 11 has been estimated in many years using the rate of change in the money supply (see Figure 4) as a proxy for the change in the parallel market rate. Extrapolations using this method from known parallel rates of the late 1960s to the early 1980s, as well as _vice versa_, are accurate to within 10 percent.

in the agricultural sector were abolished or reorganized in 1978. The GOZ generally undertook some internal institutional changes in order to improve decision making.

As a result, the dialogue with the IMF resumed and a new Standby Agreement was reached in 1979. When the GOZ succeeded in meeting its terms, a major Extended Fund Facility was granted (June, 1981). Finally, in 1982 the GOZ began a comprehensive liberalization of agricultural pricing.

Nonetheless, there were still serious problems with economic management. Neither the GOZ's expenditures nor the foreign-exchange assets of the Bank of Zaire were under control. The Zaire was still badly overvalued. Furthermore, 1981 and 1982 were again difficult years from the point of view of the terms

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FIGURE 9:

OFFICIAL DEVALUATIONS OF THE ZAIRE

	Devaluation	New Rate	Notes
1967.........	67 percent	$ 2.00	Officially in terms of gol
1968.........			
1969.........			
1970.........	0 percent	$ 2.00	Officially in terms of the U.S. dollar.
1971.........			
1972.........			
1973.........			
1974.........			
1975.........			
1976.........	42 percent	SDR 1.00	Officially in terms of the
1977.........			
1978.........	11 percent	SDR 0.90	
1979.........	44 percent	SDR 0.50	In two steps at the end of
	25 percent	SDR 0.375	
1980.........	30 percent	SDR 0.2625	
1981.........			
	40 percent	SDR 0.1575	
1982.........			
1983.........			
	78 percent	SDR 0.03542	Floating thereafter.

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Figure 10

Official Devaluations of the Zaire

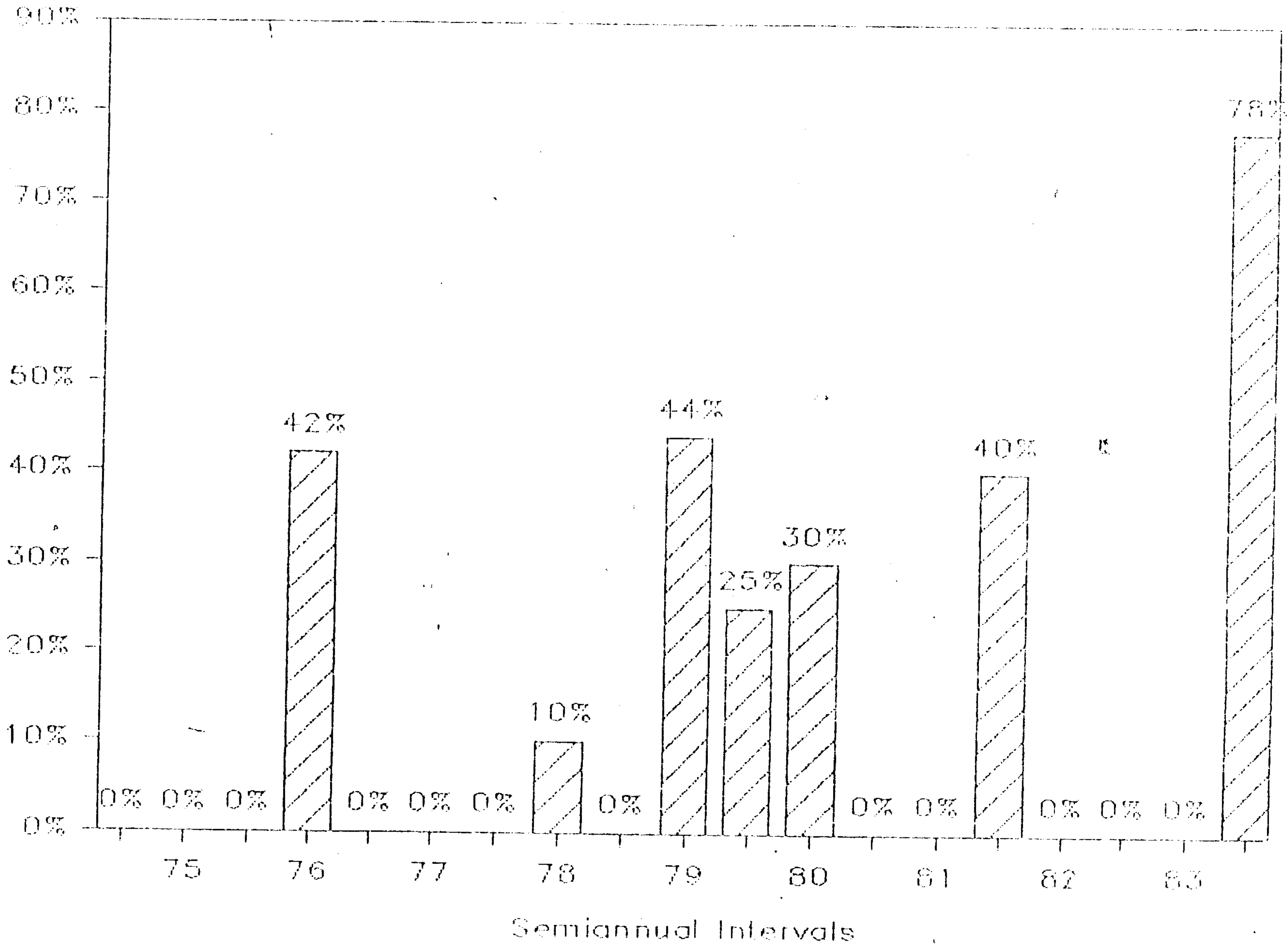

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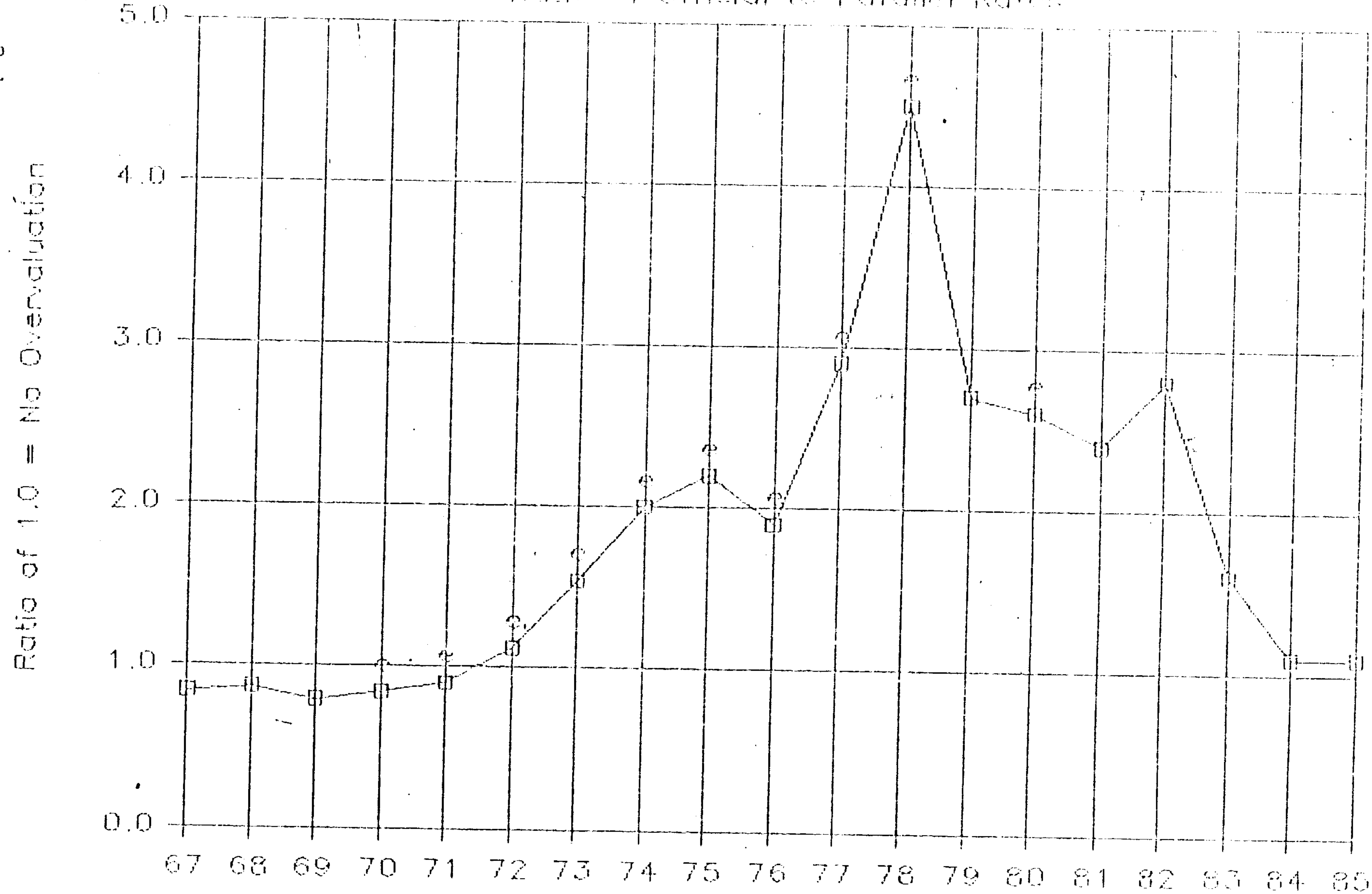
Figure 11

Overvaluation of the Zaire

Ratio of Official to Parallel Rates



e = Estimated by Growth of Money Supply

of trade. As a result, the GOZ was unable to meet its fiscal engagements, and the Extended Fund Facility had to be canceled in June, 1982. A Compensatory Financing Facility granted in March of that year was suspended at the same time.

In retrospect, 1982 appears to have been the trough of the crisis. One telling example: 1982 saw the low point in the purchasing power of institutional credit to the private sector - just one-third of the level in the peak year, 1974 (see Figure 12, Credit to Firms and Households).

D. 1983 - Present

The period 1983 and afterward is in some ways a continuation of the previous period. It is marked, however, by a new degree of seriousness on the part of the GOZ and by the first signs of a genuine turnaround in economic management and economic activity. The GOZ has to date been meeting fiscal and monetary targets continuously for 3-1/2 years, the rate of growth of the money supply has declined to relatively low levels for over 2 years, and GDP appears to have risen for 2 years in a row. In September, 1983, the GOZ abandoned import licensing and official control over the exchange rate. An official policy of liberalization has been established. The GOZ has pledged itself to withdraw from direct intervention in production and commerce and to concentrate on furnishing infrastructure. Credit to the private sector has increased. As a result of all this, Zaire has gained a new image in international circles. (The present situation will be discussed fully in section III, below.)

E. Summary

The review of the economy's experience shows that Zaire's crisis was due not just to external events, but also to the GOZ's chosen approach to economic and national development. Between 1967 and 1974, Zaire pursued an exuberant program of governmental investment and governmentally-induced private investment in industries heavily dependent on imported inputs and not well matched to the demands of Zairian consumers and industry. Zaire was also cavalier in its attitude toward the private sector, acting as if the country could take over private assets without adequate respect for the need for continuing experienced management and capital reinvestment.

Zaire is now potentially positioned for a resumption of growth, as it was in 1967. Inflation is down, although not eliminated, and depreciation of the currency, although continuing, is gradual and

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more or less predictable, in contrast to the pre-1983 era when a sudden, massive devaluation was always a possibility. Business confidence in the future is up, even though the disinflationary policy of tight credit has made business operations extraordinarily difficult at present.

The challenge at this point is to ensure that the basis of future expansion is more sound than in 1967-74. The key elements of public policy necessary are:

--- Realistic economic planning of public expenditures and investments, to avoid both excessive deficit spending (the source of inflation and currency depreciation) and unproductive investment projects (which historically were a main source of the external debts not covered by export revenues).

--- Liberal policy concerning pricing and exchange rates, to avoid giving industry uneconomic incentives by setting arbitrary official pricing and to avoid the uncertainty of sudden large changes in administered prices.

--- Neutral, moderate, and fair taxation, to encourage investment but also to avoid arbitrarily directing it into tax-sheltered industries. ("Neutral" means a system of taxes where tax rates are reasonably similar for various activities: e.g., a "flat" tax. "Fair" also implies that actual tax collections correspond to the tax laws.)

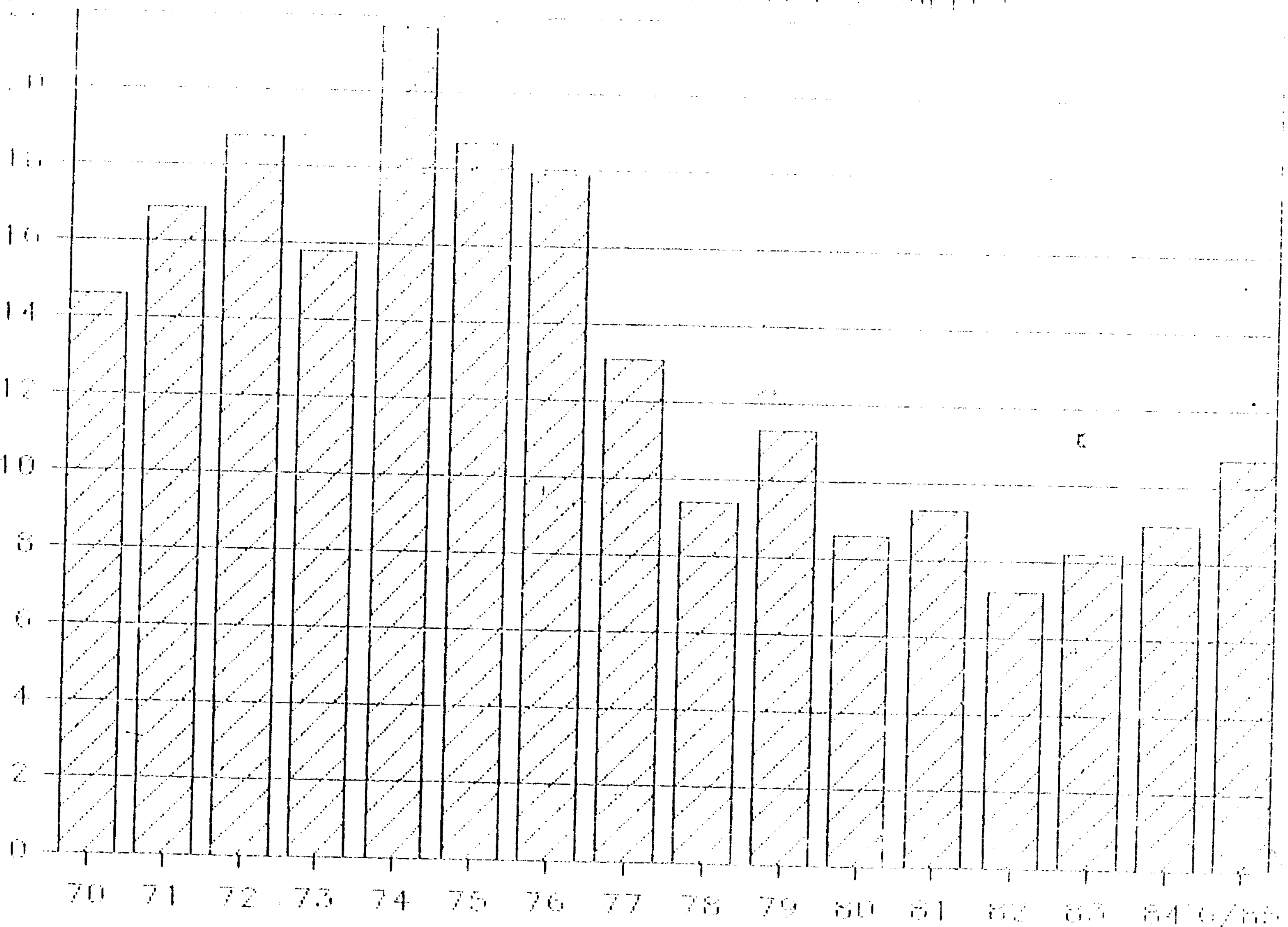
--- Support for the private sector, to make private investment in Zaire more politically secure and economically productive.

The desired effect of such a policy environment would be resumption or acceleration of private investment, largely using low-cost local inputs and labor to produce either for the broadest parts of the local market or for export. Public infrastructural investment would broaden the accessible local market, both for inputs and outputs. This pattern of investment would be better able to weather the difficult foreign-exchange shortages, in the sense that the level of domestic output that could be produced with a restricted level of imports would be greater than with 1974's industrial structure.

Figure 12

Credit to Firms and Households

(Deflated by Growth of Money Supply)



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III. THE CURRENT SITUATION

A. The Monetary/Fiscal Program and the IMF

The year 1985 was marked by adverse movements in the terms of trade and slower growth in production than in 1984. Largely as a result, the zaire depreciated rapidly throughout the year. Although depreciation against the U.S. dollar was slow at the end of the year, this was a consequence of the dollar's overall weakness. Against the Belgian franc, in which the biggest share of Zaire's foreign trade is denominated, the zaire slipped 36 percent (BFr 1.56 to BFr 1.00) from fourth quarter, 1984 to fourth quarter, 1985.

Despite the continued shortage of foreign exchange and depreciation of the currency, the interbank foreign-exchange system continued to work during 1985. The spread between the bank exchange rate and parallel rates remained tolerable at less than 10 percent, with much lower volumes being traded in the parallel market than before the floating of the zaire. However, trading between commercial banks in the market varied between dull and nonexistent, and even the relatively small gap between the bank rate and the parallel rate suggests that the interbank market is imperfect. The interbank foreign exchange market system is clearly under strain, but still has the commitment of the GOZ and of the private sector.

In terms of 1985 purchasing power (assuming 30 percent inflation between 1984 and 1985), the GOZ's overall budget balance was a deficit of almost 1.6 billion zaires (over US$ 32 million) in 1984, but a surplus of about 2 billion zaires (over US$ 40 million) in 1985. At the same time, service of the public debt increased from 11.7 to 16.7 billion zaires and payment of arrears increased from 3.0 to 3.8 billion zaires.

This is a very creditable fiscal achievement, especially given the care taken to give the GOZ's number-one taxpayer, GECAMINES, adequate resources for its rehabilitation program. The GOZ has undertaken a long list of measures to improve revenue collection under existing laws and has raised taxes in certain cases. Nonetheless, it has also been necessary to cut expenditures on goods and services substantially (see Figure 5, above).

The total amount of bank credit was to be held to about 30 percent growth in 1985. Through June, the growth was below that pace overall, but at a 45 percent annual rate for the private sector (enterprises and households).

Overall monetary and fiscal performance in 1985 was successful. As a result, the GOZ negotiated a new Standby Agreement with the IMF to succeed the agreement that reached its term on April 23, 1986. The new agreement is to last 22 months and to furnish Zaire SDR 214 million of balance of payments support. A target of 20 percent has been set by the GOZ for inflation this year. Very strict limits will continue to be placed on overall GOZ spending, GOZ borrowing from the central bank, monetary growth, and overall bank credit. Meeting these targets will continue to imply reduction of the GOZ's investment budget, continued improvement in the system of collecting taxes due (especially import tariffs), and tight domestic credit.

B. The Investment and Industrial Programs: The World Bank and Other Donors

While the monetary and fiscal reforms have had considerable success in their domains, the Zairian economy is still hampered by the tight foreign-exchange and credit situation and the weakness of the country's institutional and physical infrastructure. The World Bank, in the context of the Consultative Group of donors to Zaire, has recommended a strategy for action in this environment. This strategy calls for (1) better management by the GOZ and donors together of the public investment program and (2) increased donor financial support in return for structural-adjustment measures to improve the incentive structure for Zairian private industry.

The first part of the strategy focuses on a 3-year Public Investment Program running through 1989. The previous Public Investment Program of 1983-85 was considerably underfulfilled, mainly because a number of poorly planned investments were programmed without adequate financing. Partly as a result, disbursement of donor financing was withheld in many cases for lack of adequate financing of local costs by the GOZ. This exacerbated what has been a general reduction in external financing to Zaire since 1980.

In this context, the World Bank has called on the GOZ and the donors to concentrate upon a "core" set of investments within the Public Investment Program, to ensure that resources will be available for the most necessary elements of the Program. Improvement in execution of the Public Investment Program will also require reform and institution-building to improve both management in the GOZ and collaboration between the GOZ and donors concerning investment projects.

The second part of the World Bank's recommended strategy focuses on the incentive environment for the private sector (and for parastatals if managed with an eye to financial results). Its

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goals are better use of domestic raw materials, establishment of export-oriented industries, and establishment of efficient import-substitution industries. The main aspects of the strategy in this regard are tariff reform, further pricing liberalization, export promotion, and improvement of credit markets and institutions.

Industry in the narrow sense of processing and manufacturing (excluding thus agriculture, mining, services, and commerce) has underperformed relative to GDP since 1970. While commercialized GDP grew by a total over 7 percent from 1970 through 1984, itself a terrible record in the context of population growth of over 2.5 percent <u>per year</u>, industrial output actually <u>fell</u> by 19 percent (see Figure 13, Industrial Output in Zaire). The share of industry in GDP was only 5 percent in 1984, which is low even by standards of the low-income world. Preliminary estimates for 1985 indicate that GDP grew by 2 percent while industrial output declined slightly, thus reducing the share of industry in GDP even further. Capacity utilization in many industries is under 50 percent.

One of the main reasons for this poor performance is the lack of inputs. Relatively little was done in the GOZ's development strategy after 1967 to encourage production of Zairian industrial crops.[1] Instead of rehabilitating and maintaining infrastructure, for example, the agribusiness sector was thrown into turmoil by zairianization. Domestic production of industrial crops was also hampered by price controls and parastatal marketing over much of the period. Nonetheless, production of consumption goods, which is based on local agricultural inputs, fared somewhat better than production in the remainder of the industrial sector: see Figure 12.

The GOZ's development strategy concentrated on import substitution through tariff protection and fiscal incentives, which were to be had virtually for the asking in the early 1970s. As the 1970s progressed, overvaluation of the zaire naturally furnished exaggerated protection to all import-competing industries. However, to take advantage of the opportunities created by this protection, entrepreneurs needed imported inputs. And after 1975, it was often the GOZ that decided, through import-licensing, who could import inputs.

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[1]Approximately 70 percent of Zairian industry is based on Zairian agricultural inputs (palm products for soap and margarine, cotton for textiles, coffee for drying, sugar for refining, and so forth). Many of the outputs from this sector are basic consumer goods for local markets.

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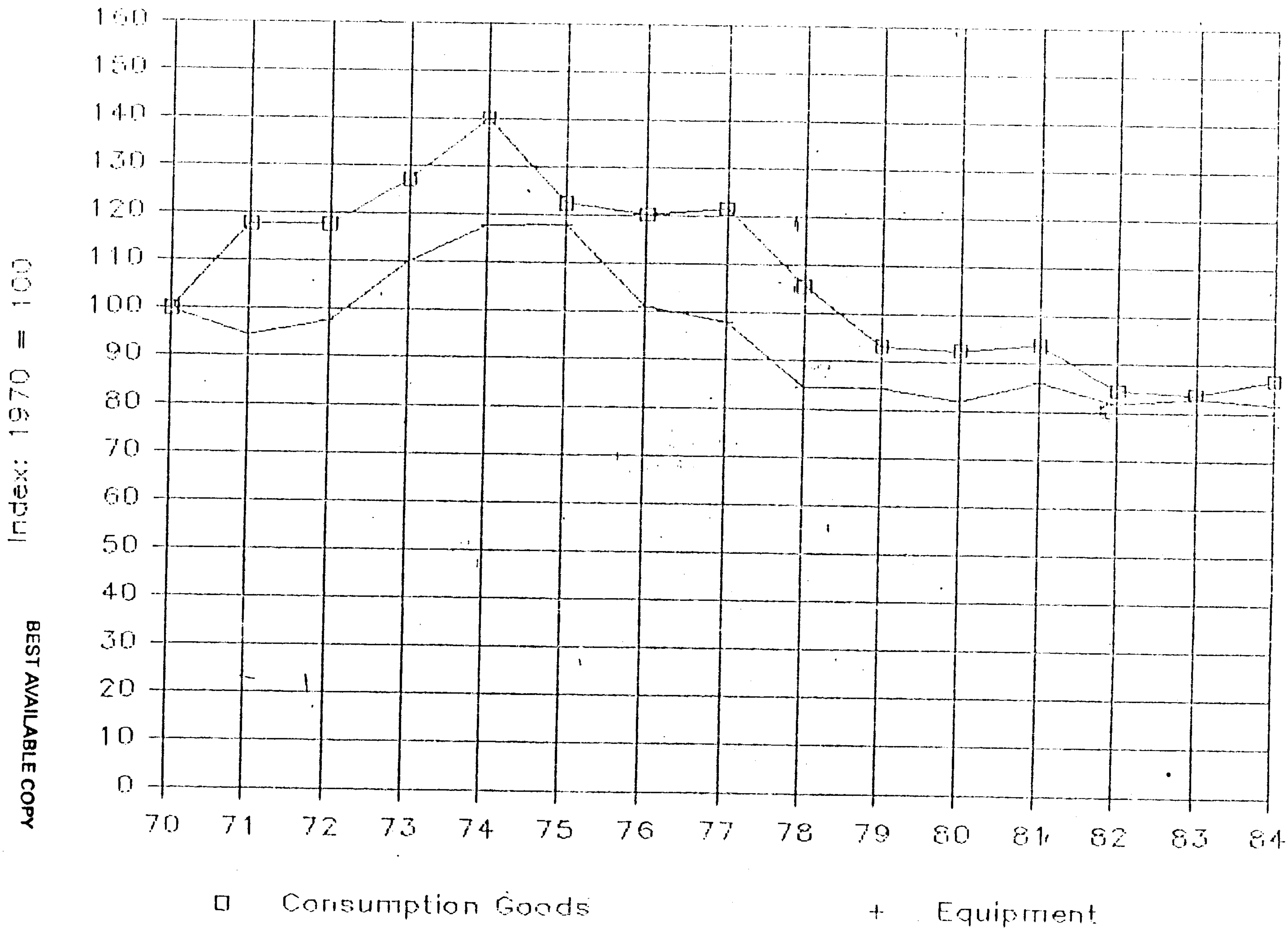
Figure 13

Industrial Output in Zaire



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This protected-industry strategy created an industrial structure with an accentuated demand for imported inputs. These imported inputs became much more scarce as a result of the declining terms of trade throughout the 1970s and early 1980s. Among of the worst industrial performers have therefore been the steel mill and the petroleum refinery, which are almost totally dependent on imported inputs.

Furthermore, producer prices were controlled by the GOZ, under the standard that set market prices at production costs (as reviewed and approved by the GOZ) plus 20 percent. In a period of rapid inflation, the GOZ's cost standards failed to provide adequately for revaluation of fixed investment. Thus, industry was unable to cover the costs of maintenance of capital at replacement prices.

The reforms since 1978, and especially those of 1983, have removed or mitigated many of the features of the old strategy. However, an administrative bias against exports remains, and is testified to by the total of 17 different steps required by the GOZ for official approval to export. Furthermore, the reformed tariff structure put in place at the time of the September, 1983 devaluation has created a regime of high and varied effective rates of protection for industry.[1] A study in the Ministry of Plan supported by the World Bank covering 26 industries in 1985 found effective rates of protection varying from -20 percent to 1,300 percent, with an average of 300 percent.

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[1]The "effective rate of protection" means the percentage change in domestic value added at local prices resulting from the whole system of currency valuation, tariffs, and quantitative restrictions (quotas) on imports. For example, an industry with 10 percent import tariff protection ("nominal" protection) may find that its effective protection is negative if imported inputs account for 50 percent of its costs (about the average in Zaire) and the average tariff on those imports is 25 percent. (Arithmetic: import tariffs raise total costs by 0.50 x 0.25 equals 12.5 percent, thus more than balancing the 10 percent nominal protection.) On the other hand, if 90 percent of the inputs were imported and free of tariff, then the 10 percent nominal protection would result in a doubling of domestic value added at local prices, or 100 percent effective protection. (Arithmetic: before the tariff, unit revenues equal, say, 100 zaires, and after the tariff they equal 110, with import costs constant at 90; local value added therefore increases by 100 percent from 10 to 20 zaires per unit.) Even with no tariffs, industries can have substantial effective protection (including negative effective "protection") depending on overvaluation of the currency and the system of import controls. (Arithmetic: complicated.)

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It is these aspects of industrial policy: high and varied effective rates of protection, price controls, obstacles to exports, and inefficient business taxes, that the World Bank's assistance strategy aims to reform.

In support of this policy-reform program, the World Bank is preparing an Industrial Sector Adjustment Credit of between US$ 75 - 100 million for the importation of industrial materials and parts needed to raise utilization of Zaire's existing industrial capacity. The Bank calculates that about US$ 300 million of such imports are used per year at present. On this basis, it is expected that if the Bank's credit disburses in a little more than one year it would raise capacity utilization rates to close to 70 percent from a base of 50 percent.

IV. PROGRAM DESCRIPTION

A. Rationale and the Major Problems to which the Program is Directed

Zaire is currently erecting an investment program for medium-term growth on the basis of the monetary and fiscal stabilization measures taken since 1983. Private investment has a major role in this investment program. The GOZ is therefore planning to erect a structure of incentives for private investment so that such investment will create an efficient economic structure that will be robust to foreign-exchange shortages through the medium term. The liberalization measures taken since 1978 make substantial progress toward such a structure of incentives. However, further steps are still necessary.

Therefore, the GOZ, primarily through the Ministry of Plan and with the assistance of the World Bank, has developed a program of further reform of tariff rates, export controls, price controls, and business taxes. The effect of these reforms will be to reduce the average level and the variability of effective rates of protection, to facilitate development of nontraditional exports, to promote efficient allocation of domestic resources by reactivating the price system, and to promote investment in fixed capital by providing for appropriate tax treatment of such assets.

The Structural Adjustment Support Grant will support selected elements of this policy reform program. Commodities imported through the grant will increase agro-industrial capacity utilization, which is currently depressed by tight credit under the GOZ's program of monetary stabilization. Local currency generated by importers will be used to support AID development projects.

The majority of the local currency will be used to assist projects involved in developing the production and marketing systems for local inputs to Zairian agro-industry.

On the basis of the World Bank's estimates of the probable impact of its own credit on capacity-utilization rates, USAID would estimate that the proposed grant would raise overall capacity utilization in Zairian industry by 2 to 3 percentage points. Maintenance of increased capacity-utilization rates will depend on the impacts of investments and policy reforms on overall needs for and availability of both locally produced and imported inputs. USAID will attempt to monitor the impact of both the import program and the policy reforms on investment and performance in the industrial sector.

B. Purpose

The purpose of the Structural Adjustment Support Grant is to support the adoption and implementation of a series of policy reforms designed to promote efficient private industrial investment and to re-initiate the growth of per capita income. These reforms are (1) tariff-rate simplification to lower the average level and the variation in effective rates of protection, (2) reduction of export taxes and simplification of export procedures, and (3) maintenance of liberal exchange-rate, pricing, and import policies.

C. Conditionality

Funds under this grant will be disbursed in two tranches. The first tranche will include $200,000 for administration and monitoring of the import financing and the policy reforms[1] and $7,400,000 for imports. The second tranche will include $7,400,000 for imports.

The first tranche will be released as soon after obligation as the GOZ demonstrates to A.I.D. that it has met certain conditions precedent and upheld the covenants in the grant agreement. The GOZ is already studying the measures to be negotiated and should be able to take action on them virtually as soon as an agreement is reached. Certain of the reforms may be undertaken while this grant is under consideration and negotiation, so that conditions precedent could be certified immediately upon signature of the grant agreement.

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[1] Annex E contains the budget for this $200,000.

The second tranche will be released approximately 270 days after the signing of the agreement (the exact timing to be determined during negotiations and in consultation with the World Bank), providing that the conditions precedent for the second tranche have been met and that performance on the covenants and the conditions of the first tranche is still satisfactory.

While the conditions of the Structural Adjustment Support Grant will be determined in consultation with the World Bank, among others, the terms of A.I.D.'s conditions will depend only on specific policy reforms by the GOZ and not on the disposition of any agreements with the World Bank or the IMF.

1. Covenants

(1) The GOZ, through the central bank (the Bank of Zaire), will continue to use a free, interbank market system to establish official floating exchange rates.

(2) The GOZ will maintain the existing liberal system of imports. This means that the GOZ will not, except as A.I.D. may agree in writing, impose any new licensing requirements or quantitative restrictions on imports.

(3) The GOZ will maintain the existing liberal policy concerning pricing of agricultural and industrial products. This means that the GOZ will not, except as A.I.D. may agree in writing, impose new price controls, ex ante or ex post.

(4) The GOZ will maintain a system of importation for refined petroleum products permitting direct private importation and a system of pricing of individual fuels within Zaire that recovers full costs for each fuel from its customers.

(5) The GOZ will place in a special account and budget the equivalent of $14.8 million in counterpart funds generated by imports under this agreement for purposes as agreed upon between AID and the GOZ.

2. Conditions Precedent

a. First Tranche

Prior to disbursement of the first tranche, the GOZ will provide to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

(i) The GOZ has revised the schedule of import tariffs, such that, except as A.I.D. may agree in writing, no tariff will exceed 60 percent (ad valorem) and no tariff will be less than 10 percent.

(ii) The GOZ has eliminated all taxes on exports, except as A.I.D. may agree in writing.

(iii) The GOZ has established a simplified and streamlined control procedure for exports, acceptable to A.I.D.

(iv) The GOZ has adopted revenue and expenditure measures acceptable to AID that are sufficient to offset recently announced civil service salary increases.

b. Second Tranche

Prior to disbursement of the second tranche, the GOZ will provide to A.I.D., in form and substance satisfactory to A.I.D., evidence that: (i) The GOZ has presented a four year program of tariff reform acceptable to AID which will aim at establishing uniform rates of protection of about 30 percent.

D. Detailed Discussion of the Conditions

1. Covenants

The three covenants regarding maintenance of liberal policy measures adopted since 1983 are largely self-explanatory. The exchange rate charged by Zairian commercial banks is not controlled by any agency of the GOZ. The only sense in which there is an "official" exchange rate is that the central bank, the Bank of Zaire, must determine its buying and selling rates for foreign exchange. This is done through the Bank of Zaire's participation in a weekly foreign-exchange market with the commercial banks, and no longer by the arbitrary choice of the GOZ. As a result, exporters whose proceeds go to the Bank of Zaire are credited with realistic levels of deposits in zaires, and the GOZ's import taxes, for example, are charged on a realistic valuation of the zaire-value of imports. Thus, this market-determined pricing tends to maintain incentives for exports while charging importers the true costs of merchandise and services.

Abrogation of this liberalization would tend to lead to overvaluation of the zaire and thus artificial foreign-exchange shortages due to reduced incentives to export and exaggeration of the demand for imports. The GOZ's response would be expected to include imposition of quotas on imports, which would be determined administratively and distributed by licenses, thus biassing industrial capacity utilization in unpredictable and probably inefficient ways.

Zairian agricultural and industrial products are now priced without any intervention by the GOZ, with certain exceptions (most notably for fuels).[1] In the past, price controls depressed the relative prices of certain products such as raw cotton, thus reducing incentives to produce and contributing to the present shortage of inputs for the Zairian textile industry. Price controls on industry essentially deactivated the price mechanism as an indicator of market demand for various products, eliminated the incentive to shift resources toward production of commodities in relatively short supply, and thus led to domestic shortages and increased imports of commodities like refined sugar. Furthermore,

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provisions for depreciation and profits after taxes were not adequate to maintain productive capacity, even in industries with enough demand to warrant expansion. Continual harassment to enforce price controls was also a persistent deterrent to entrepreneurship.

In sum, the effects of the controls imposed before liberalization were debilitating in a number of respects. They accentuated shortages, exaggerated demand for imports and thus the shortage of foreign exchange, and involved the government directly in allocation of resources and thus in distribution of profit-making opportunities. Liberalization has created a more flexible and efficient environment for private enterprise. Continuation of the liberalization policy is vital to the Zaire's economy, especially in view of the shortage of resources and the need for efficiency.

2. Conditions Precedent

a. Tariff Reform

The GOZ is presently considering a plan to immediately impose a basic minimum 10 percent tariff rate and to reduce the highest tariff rates to 60 percent. A number of exceptions to these limits are being considered, mostly on the basis of concessions to consumer necessities and of luxury items. Even in these cases, however, lesser increases or decreases of tariff rates are under consideration. This would be the first step in a multi-year, gradual process of tariff adjustment which would push tariff rates toward 30 percent. The exact schedule of further narrowing of the range of tariff rates is still under study. Adoption of an appropriate program would be a condition precedent to disbursement of the second tranche of the Structural Adjustment Support Grant.

The present tariff structure is based on measures taken at the time of the 78 percent devaluation of September, 1983. Devaluation greatly increased the valuation of imports in zaires for tax purposes and therefore required an adjustment of ad valorem tariff rates at that time. The revised schedule was therefore published without adequate opportunity to reflect on its economic implications.

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[1]Fuel prices are now set quarterly on the basis of a mathematical formula, which is designed to ensure that revenues from sales of each individual type of fuel cover costs.

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In fact, the result has been a system with a very wide range of tariff rates. Imported raw materials and intermediate inputs pay almost no duty, while consumer goods and especially luxury goods pay at much higher rates. Textiles, for example, are protected at the equivalent of a 240 percent tariff rate. Other rates range up to 170 percent.

The principal result of this structure of tariffs is greatly to exaggerate the profitability of minor transformation of imported parts or raw materials for production of consumer goods, and especially of luxury consumer goods. In the extreme case, an enterprise could produce negative value added and even be a net consumer of foreign-exchange, all while substituting for imports and making a profit, simply on the basis of the high taxes its imported competition must pay.[1] In general, the level of domestic value added can be greatly increased when imported competition is taxed but imported inputs are not. The net effect is called the "effective rate of protection." It has been measured in Zaire as high as 1,500 percent for synthetic fabrics, and at 170 percent for cement, 400 percent for batteries, and so forth. The average for 26 representative products was 300 percent. Basically, rates of effective protection like this take an enterprise which barely covers imported and local costs with no return to capital and make it highly profitable; that is, the portion of local value added that is most affected is profits. It is thus that entrepreneurs and resources are oriented to specific product lines.

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[1]Arithmetic: Suppose window air conditioners pay a tariff of 150 percent. The cif cost of an import might be 11,000 zaires (US$ 200); it would therefore pay 16,500 zaires duty and have a cost-price of 27,500 zaires. A Zairian enterprise could very well use (1) imported parts, materials, fuels, and expatriate personnel costing US$ 272 (15,000 zaires) net of duty and pay for (2) (minimal) duty on imported parts and materials, local inputs, and Zairian labor costing 5,000 zaires per unit, and in sum have a cost price of 20,000 zaires, about 25 percent less than that of the import. This would leave ample room for profit from local assembly. At the same time, the local value added would be <u>negative</u> 9,000 zaires (11,000-20,000) and the foreign-exchange saving a <u>negative</u> US$ 72 per unit (200-272). This shows the potential for mischief when some tariff rates (e.g., those on luxury imports) greatly exceed others (e.g., those on parts and raw materials).

Industry developed under this regime tends to be based on imported inputs rather than on local inputs and to produce for a restricted local market for imported luxuries rather than for either the broad local market for common goods or for the export market. The result is to reduce real national income and to exacerbate the shortage of foreign exchange.

In order to change this set of incentives, it is necessary to move toward unification of nominal tariff rates. When imported inputs are taxed at rates equal to those imposed on imported final products, effective rates of protection are less exaggerated and tend to coincide with the nominal tariff rates. Furthermore, tariff unification would tend to equalize effective rates of protection for different import-substitution industries, with the result that their inherent economic advantages and disadvantages would play a larger role in attracting or discouraging investment.[1]

The tariff-rate reform under consideration by the GOZ would move in the direction of unification. The initial step to a range of 10 - 60 percent would eliminate the grossest examples of effective protection. Certain commodities are expected to be partially excepted from this regime. Large automobiles, textiles, and cigarettes would still pay tariffs in the 80 - 100 percent range. Mass-consumption foodstuffs and pharmaceuticals would rise to only 5 percent. Even these figures, however, represent progress toward unified tariff rates and reduced rates of effective protection.

Therefore, USAID believes that the program under consideration is worthy of support. The Structural Adjustment Support Grant's condition precedent would require USAID's direct review of the measures taken by the GOZ to ensure that they adequately correspond in fact to the criteria of efficiency (particularly the exceptions to the 10 - 60 percent range). Similarly, USAID would review the multi-year reform program for disbursement of the second tranche.

b. <u>Export Tax Reform</u>

Most exports currently pay an export duty (4 percent), a statistical tax (1 percent), and a sales tax (6.75 percent). The measure under consideration to remove all export taxes on nontraditional exports would complement the reduction in effective

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[1]However, positive effective protection privileges import-substitution industries as a group vis a vis industries producing nontradables.

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rates of protection by further encouraging entrepreneurs to consider investments in nontraditional exports rather than in sheltered import substitutes. Major established exports (copper, coffee, crude oil, and timber) would continue paying taxes currently applicable.

c. Reform of Export Procedures

Along with the export taxes, there are a a fairly large number of administrative formalities that an exporter has to complete, tending to discourage exports compared to other activities. To keep track of foreign exchange earnings (ownership of foreign exchange by Zairian persons and companies is controlled), an export license must be obtained from a commercial bank. Then this license must be "validated" by the Bank of Zaire. The Ministry of National Economy and Industry must authorize all exports. The purpose of this is unknown. (For certain commodities, there is a separate requirement that this ministry certify that local demand is satisfied before exports are authorized. However, the requirement for authorization is not restricted to those commodities.) The Zairian Office of Control (OZAC) must also authorize each export in order to "verify quality." It is believed that the number of routine steps for official authorization to export is at least seventeen. It is evident that these steps constitute obstacles to exports and were adopted for various purposes without adequate consideration of the possible long-term impact on exports and the availability of foreign exchange. At the current juncture, the importance of encouraging exports consistently with the scarcity of foreign exchange has become clear to policymakers. Therefore, these administrative requirements are being reviewed by the GOZ with a view to eliminate all but the minimum necessary and to unify the overall procedure so as to minimize administrative obstacles for exporters.

E. Negotiating Status and Strategy

The GOZ and the World Bank have been collaborating in studies of policy reforms in the industrial sector for two years. In recent months, the two parties have been negotiating specific reforms in this area in the context of the World Bank's Industrial Sector Adjustment Credit. The World Bank has actively solicited U.S. support for these measures.

A.I.D. and the U.S. State Department have told the GOZ in Paris and informally in Washington and Kinshasa that the U.S. is considering allocating a supplemental grant to Zaire in FY 1986, depending on the outcome of these negotiations. While the GOZ is aware that no funds have yet been made available for this purpose, it has been encouraged by the expressions of U.S. interest to continue in its course with the World Bank. The World Bank and the GOZ both consistently emphasize the need for donors to support Zaire financially when it reforms economic policies in the context of discussions with donors.

The policy conditions listed in the sections above are consistent with terms expected to result from the negotiations on the Industrial Sector Adjustment Credit. The conditions are also flexible in areas that are marginal to the essential direction of the reforms but possibly difficult or sensitive for the GOZ and local industry. The GOZ has already determined to take important steps in this area. Therefore, USAID foresees no difficulty in negotiating agreement to the Structural Adjustment Support Grant if it is authorized.

F. Program Implementation

1. USAID Experience with Previous Commodity Import Programs

A number of commodity import programs have been implemented in Zaire during the last fifteen years. At the present time USAID has two active programs: Agricultural Inputs Support I and II (660-0100 and 660-0103).

Agricultural Inputs Support I began in August, 1984. Of the $10,000,000 obligation, approximately $8,000,000 are now committed (covered by Letters of Credit). The remaining $2,000,000 will be programmed and disbursed prior to the program's terminal disbursement date of February 1, 1987.

Agricultural Inputs Support II began in August, 1985. Also funded at $10,000,000, approximately $8,500,000 of total program funds have been provisionally reserved for various importers.

The experience gained by USAID through the implementation of these two programs has served to inform the design of the Structural Adjustment Support Grant. In particular, lessons learned during the implementation of Agricultural Inputs Support I, and incorporated into Agricultural Inputs Support II, are also reflected in the present program.

The two problems encountered under Agricultural Inputs Support I concerned the positive list and the repayment terms utilized at the beginning of that program. As program implementation proceeded, USAID had to amend program documentation on a number of occasions

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to add items to the list of commodities eligible for importation (positive list). This was a time-consuming process and resulted in significant delays in implementation. This problem was resolved under Agricultural Inputs Support II through the inclusion in all project documentation (Commodity Procurement Instructions, Letters of Commitment) of the entire A.I.D. Commodity Eligibility List as eligible items. At the same time, it was required that USAID and GOZ approval be granted in writing for each transaction and commodity to be imported. This system ensures that only those commodities which contribute to the target sectors are financed by the program, but also does away with the need to amend program documentation to add items which were inadvertently omitted. This system has worked well under Agricultural Inputs Support II and will be maintained for the Structural Adjustment Support Grant.

The other problem encountered under Agricultural Inputs Support I concerned the payment terms offered to participating importers. Initially, importer interest in the program was limited because the payment terms were not attractive enough to overcome what importers saw as the disadvantages to importing from the U.S. (higher prices and longer delivery time when compared to Europe). The time allowed for the last payment was subsequently extended from 90 to 180 days and importer interest increased as a result. It is anticipated that the payment terms currently offered under Agricultural Inputs Support I and II will be maintained under the Structural Adjustment Support Grant. However, these terms will be reviewed in light of prevailing economic conditions at the time of program start-up.

An August, 1985, evaluation of Agricultural Inputs Support I, conducted by an A.I.D. Regional Commodity Management Officer out of REDSO/WCA in Abidjan, concluded that the program was "well designed, well managed, and well implemented". The evaluation included four specific recommendations, all of which have been implemented. A copy of the evaluation facesheet and a description of the steps taken to implement recommendations are included as Annex D. All of these recommendations will also be implemented under the present program.

2. Dollars

a. General

Implementation of the Structural Adjustment Support Program will follow closely the tried and proven implementation procedures already in place under USAID's Agricultural Inputs Support I and II. The program will respond to the foreign exchange needs of private sector importers in Zaire. Program funds will be used to finance the foreign exchange costs of commodities that support the agro-industrial sector in Zaire.

The importation of commodities under this program will be carried out in accordance with the guidelines set forth in subsection 801.(a) of Title VIII of the International Security and Development Cooperation Act of 1985. A copy of the relevant section of this Act is included as Annex F.

The Structural Adjustment Support Grant Agreement will be signed with the Ministry of Plan. USAID/Kinshasa, in cooperation with the Ministry of Plan, will have primary responsibility for the monitoring and implementation of the program. The Ministry of Plan will issue Financing Requests to USAID and will share in the responsibility for monitoring local currency deposits.

b. Applicable A.I.D. Regulations and Procedures

AID's standard financing procedures, as set forth in A.I.D. Regulation I, shall be applicable.

c. Authorized Source/Origin of Procurement

In accordance with the Source/Origin waiver included as Annex B, the authorized source/origin for commodities and services will be A.I.D. Geographic Code 941, Selected Free World.

d. Value of Transactions

The minimum value of individual transactions under the Grant will be set at $10,000, except when otherwise authorized by A.I.D. in writing.

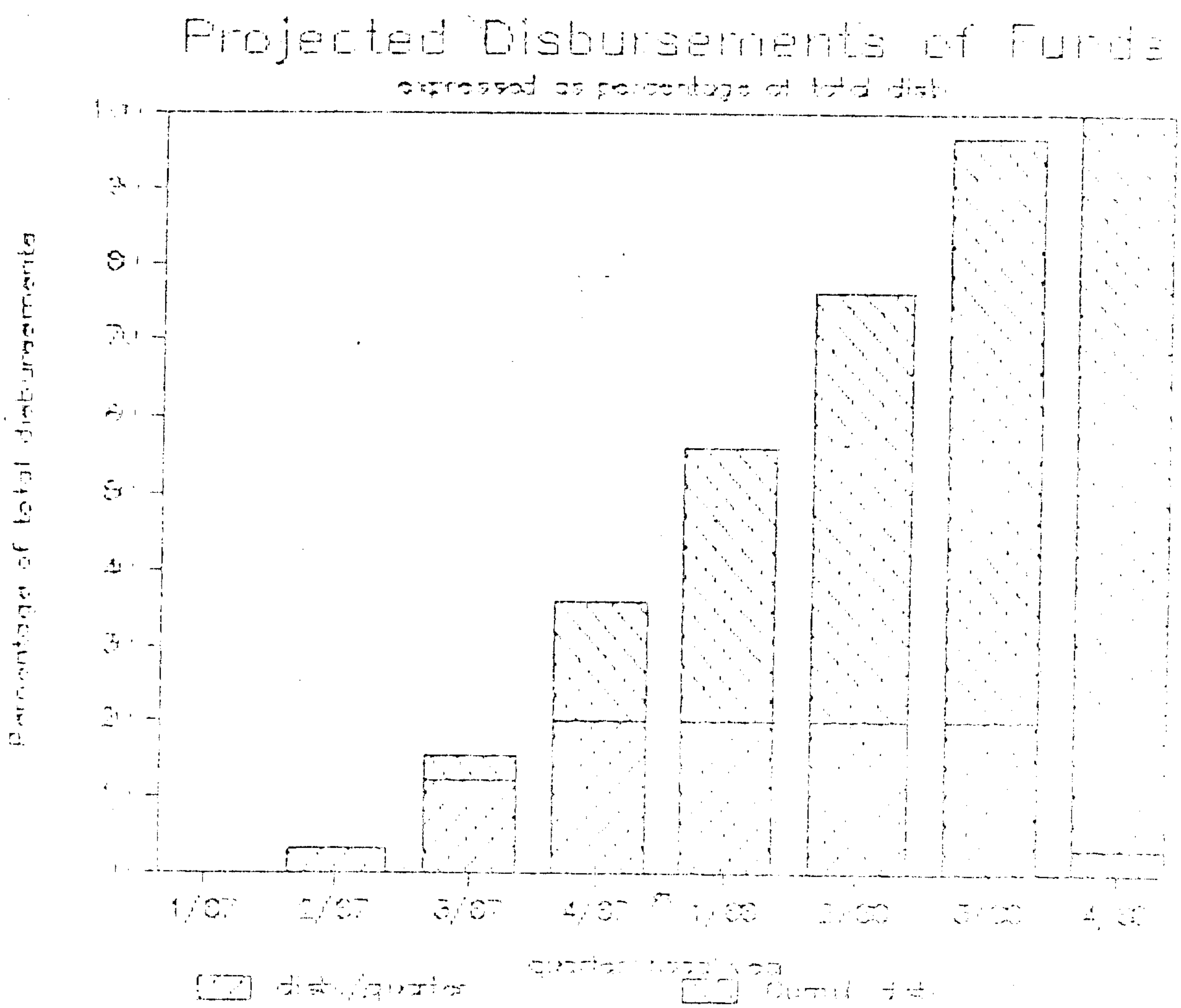
e. Method of Financing

Following procedures implemented under previous import programs, commodities will be financed using either the Bank Letter of Commitment/Letter of Credit or the Direct Letter of Commitment method of financing.

f. Disbursement Period

Grant funds are expected to be disbursed within 24 months following the signing of the Commodity Import Agreement (see Figure 14, Projected Disbursements of Funds). The terminal date for requesting disbursement authorizations will be 21 months from the signing of the Agreement.

FIGURE 14:


Projected Disbursements of Funds
expressed as percentage of total disb.
Percentage of total disbursements
1/87
2/87
3/87
4/87

g. Eligible Commodities

Only those commodities identified as contributing to the agro-industrial sector in Zaire will be eligible for financing under the Program. The eligibility of specific commodities proposed for importation under the Program will be determined jointly by USAID and the GOZ's Ministry of Plan prior to the approval of import licenses or letters of credit. Letters of Commitment will identify the entire A.I.D. eligibility list as eligible, subject to prior USAID/GOZ approval.

Commodity-related services as defined in A.I.D. Regulation I are eligible for financing under this Grant. These related services include transportation costs, insurance, and banking charges on letters of credit. Other services shall become eligible for financing only with the prior written approval of A.I.D. A.I.D. may decline to finance any specific commodity or commodity-related service when in A.I.D.'s judgment such financing would be inconsistent with the purposes of the Grant.

h. Eligible Importers

Only licensed importers from Zaire's private sector will be eligible to participate in the Program.

i. Uses of Dollar Funds

A number of different commodities have been or are being imported under USAID's two ongoing import financing programs. Examples include spare parts and raw materials used in the manufacture of truck tires, heavy equipment (for road construction and rehabilitation), marine engines, spare parts for trucks, electric generating sets, and cold storage equipment. It is expected that some of these commodities will continue to be imported under the present program (particularly raw materials for tire manufacture and spare parts for trucks and equipment). It is also anticipated that a much wider range of raw materials will be imported under the Structural Adjustment Support Program, for example jute and plastic materials for making agricultural sacks.

3. Local Currency

a. Generation and use of Local Currency (Counterpart Funds)

In accordance with procedures to be established under the grant, the local commercial banks participating in the program will collect from the importers local currency following a schedule and

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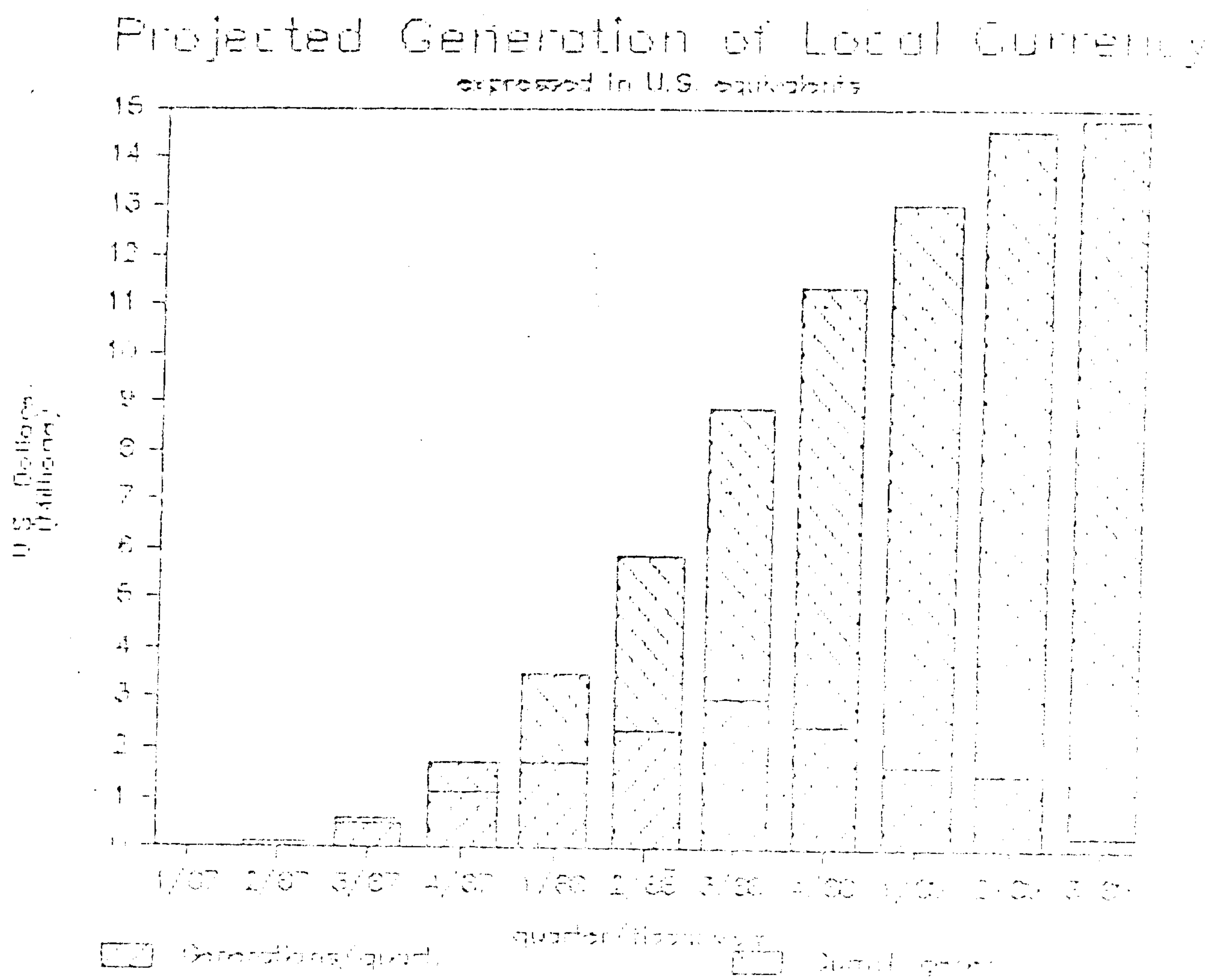
FIGURE 15:


Projected Generation of Local Curren
expressed in U.S. equivalents
U.S. Dollars (Millions)
15
14
13
12
11
9
8
7
6
5
4
3
2
1
1/87
2/87
3/87
4/87
1/88
2/88
3/88

an exchange rate formula agreed to by USAID and the Ministry of Plan. At the present time it is anticipated that the system currently in use under Agricultural Inputs Support I and II will be maintained. However, the schedule of payments will be evaluated at the time of program obligation in light of prevailing economic conditions and foreign exchange availability. (See Figure 15, Projected Generation of Local Currency)

At the present time, importers participating in USAID's financed import programs are required to pay a minimum of 20 percent of the CIF value of goods in local currency (calculated at the prevailing exchange rate) at the time a letter of credit is opened. Importers are then required to pay a minimum of 30 percent of the CIF value of the goods (calculated at the prevailing exchange rate) at the time the shipping documents are endorsed over to the importer by the bank. Also prior to receiving the shipping documents, the importer is required to sign a promissory note (in local currency) for whatever percentage of the CIF value remains (up to 50 percent), payable after 180 days. The promissory note must be guaranteed by a commercial bank. The exchange rate used in calculating the final payment is the same as that used for the calculation of the second (30 percent) payment.

As with Agricultural Inputs Support I and II, all local currency generated under this grant will be deposited in a special account maintained for that purpose by the Ministry of Plan. The Counterpart Fund Division of the Ministry of Plan, in coordination with USAID, will monitor and report on the status of funds in this account.

b. Programming and Management of Local Currency

Local currency generated by imports under A.I.D.'s program is owned by the GOZ and jointly programmed by USAID and the GOZ. Under the Structural Adjustment Support Grant, the local equivalent of approximately $14.8 million will be allocated to AID development projects. Primarily, the funds will be allocated to development projects that expand the output and improve marketing channels of Zairian agro-industrial inputs.

Both USAID and the GOZ have long experience in the management of local currency generated by A.I.D. programs. This experience has come from the implementation of past and present PL 480 Title I and Commodity Import Programs. Responsibility for the management of counterpart funds within the GOZ lies in the Counterpart Fund Division of the Ministry of Plan. The USAID Controller's and Program offices work in close cooperation with this Division.

c. Disbursement of Local Currency

After being programmed as described above, counterpart funds generated under the Structural Adjustment Support Grant will be disbursed in monthly releases. Each project requiring counterpart funds prepares a yearly request. This request is then updated quarterly. Based on these requests and on fund availability the Program and Controller's offices program monthly releases. These releases, after being approved by the Ministries of Plan and Finance, are transferred from the Counterpart fund account at the Central Bank into the projects' accounts in local commercial banks. The Controller's office and the individual project officers monitor counterpart fund releases, transfers, and expenditures.

4. Implementation Procedures and Plan

Upon approval of the PAAD by AID/W, USAID will execute a Commodity Import Agreement (Grant Agreement) with the GOZ's Ministry of Plan. At the same time, USAID will begin preparation of Implementation Letters and Commodity Procurement Instructions. Upon the issuance of these documents by USAID, and the issuance by the GOZ of Financing Requests (prepared by USAID), USAID will request that AID/W issue one or more Letters of Commitment. At the same time, USAID will be in contact with importers interested in participating in the Program. Upon the issuance of one or more Letters of Commitment by AID/W, USAID will begin approving transactions and funds may be disbursed.

Because participation in the Program is strictly limited to private sector firms, it is anticipated that all procurement of commodities under the Program will take place in accordance with the guidelines set forth in A.I.D. Regulation I, Section 201.23, Negotiated Procurement Procedures. Where appropriate, and when requested to do so by the importer, USAID will publish importers' needs in the A.I.D. Export Opportunity Bulletin.

The following outline presents the general implementation procedures that will be used in this program and provides an approximate schedule for the accomplishment of the various steps.

Month		Action
0	-	PAAD approved by AID/W
1	-	Grant Agreement signed by USAID and Ministry of Plan.
2	-	PIL No. 1 and Commodity Procurement

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		Instructions issued by USAID.
	-	Financing request(s) issued by GOZ.
	-	Discussions with the Bank of Zaire (Central Bank) concerning the form and content of the Bank Circular.[1]
3	-	USAID requests issuance of one or more Letters of Commitment by AID/W.
	-	Discussions with importers wishing to participate.
4	-	USAID requests publication of Export Opportunity Announcements.
	-	Bank Circular issued.
8	-	First commodities begin arriving.
	-	USAID begins conducting port/arrival checks.
21	-	Terminal date for requesting disbursement authorizations.
23	-	Terminal shipping date
	-	all commodities shipped.
24	-	Terminal disbursement date
	-	all dollars disbursed.
26	-	All commodities have arrived in Zaire.
32	-	Final local currency deposits made.

5. Description of a Sample Import Transaction

Presented below is the sequence of events that will take place in a typical transaction under the Structural Adjustment Support Program.

a. A private sector importer, having learned of the USAID program from his bank, approaches USAID to express his interest in obtaining USAID financing for the importation of certain commodities (either for his own use or for resale). The importer provides USAID with information on the type of commodities required, and USAID forwards the information to AID/W

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[1] The Bank Circular provides instructions from the Central Bank to participating local commercial banks.

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(M/SER/AAM/OS/AFR) for review and publication in the A.I.D. Export Opportunity Bulletin. The importer meanwhile is free to contact suppliers in authorized source/origin countries on his own. USAID requires that the importer allow at least 45 days to elapse prior to selecting a supplier so as to ensure that various potential suppliers have the opportunity to submit offers.

b. After the 45 day minimum period has elapsed, the importer submits to USAID for joint USAID/GOZ approval a pro-forma invoice for the required commodities. The importer is also required to submit to USAID copies of other pro-formas received but not selected. USAID examines the pro-forma invoice to ensure that (a) the commodities are identified by their U.S. Department of Commerce Schedule B codes, (b) the commodities are eligible for A.I.D. financing (according to the A.I.D. Commodity Eligibility Listing) and what if any special provisions may apply, and (c) the commodities contribute to the industrial and/or manufacturing sectors in Zaire. If the invoice meets all of the above criteria, USAID approves the pro-forma invoice and submits it to the Ministry of Plan (Counterpart Fund Division) for its approval.

c. Pro-forma approval is in the form of a letter to a commercial bank chosen by the importer (assuming his choice is among the banks authorized to participate in the program), co-signed by USAID and Plan, authorizing the bank to open an import license and letter of credit covering the proposed transaction. The letter states that the letter of credit will draw on funds reserved under one of the Bank Letters of Commitment issued by AID/W to a participating U.S. bank.

d. The importer goes to the local commercial bank and opens the required import license. Prior to validating the license, the bank is required to obtain USAID approval. After USAID approval of the license is granted, the importer pays the first tranche of local currency (presently equal to 20 percent of the CIF value of the goods) and the bank issues an irrevocable letter of credit in favor of the supplier (USAID also requires that the Letter of Credit be submitted for USAID approval prior to issuance). The letter of credit is confirmed by the U.S. bank and forwarded to the supplier, who then prepares and ships the commodities (1 to 3 months).

e. After shipping the commodities, the supplier submits the shipping documents and any other documents or certifications required by A.I.D. to the U.S. bank holding the Letter of Commitment. The bank verifies that all of the documents required by A.I.D. for payment are present and, if they are, pays the supplier. The bank then requests reimbursement from A.I.D. under the terms of the Letter of Commitment.

f. Upon shipping the goods, the supplier forwards the original shipping documents to the Zairian bank handling the

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transaction. The documents are made out to this bank, as it is the bank that is responsible for ensuring that all of the local currency payments are made. When the commodities arrive in Zaire, the bank endorses the documents to the importer who then clears the goods through customs (after paying any required duty). However, before the bank will endorse the documents, the importer is required to (a) make a second local currency payment (currently 30 percent of the CIF value of the goods based on the prevailing exchange rate) and (b) take out a bank-guaranteed promissory note for the remaining amount of local currency due (currently 50 percent of the CIF value, based on the same exchange rate used for the calculation of the 30 percent payment, payable after 180 days).

g. USAID monitors the arrival of goods through visits to the port at Matadi and/or to importers' warehouses, factories, etc., checking that goods arrive in good condition and that suppliers have conformed with the A.I.D. marking requirements. USAID also monitors the various local currency deposits, keeping a log of when the final (50 percent) payments are due, and conducts periodic end-user checks to ensure that program-financed goods are in fact being used for purposes consistent with program objectives.

6. Implementing Institutions

As with past and present A.I.D.-financed import programs in Zaire, the Structural Adjustment Support Program will be implemented by USAID in conjunction with the GOZ's Ministry of Plan. The Ministry of Plan's Counterpart Fund Division will have primary GOZ responsibility for program monitoring and will issue Financing Requests and approve transactions on behalf of the GOZ. This Division has filled this role for the two ongoing programs (660-0100 and 660-0103) and a good and efficient working relationship exists between this Division and USAID.

The other participants in program implementation will be the participating private sector importers and the participating banks. It is anticipated that a number of local firms will participate. Participating firms may come from all elements of the agro-industrial sector.

The role of the participating local banks is of particular importance, as they are responsible for ensuring that the local currency deposits are made (this requirement is specified in the circular issued by the central bank). Most, if not all, of the local commercial banks will be eligible to participate in the program. This will ensure that importers are able to take advantage of special relationships or credit arrangements which they may have with a particular bank. Most of the local banks have participated to some extent in previous USAID import programs and are thus already familiar with the procedures to be followed. In the event that any new banks participate in this program, USAID staff will work with the staff of the bank to ensure that all of the required procedures are clearly understood.

G. Mission Management

1. Policy Reforms

USAID's Program Office will assign the Program Economist to coordinate evaluation of the GOZ's measures to meet conditions precedent, monitoring of policy reforms, and the economic impact of the policy reforms. Technical assistance provided for under this grant will be contracted for as necessary to help evaluate the policy structure and its impact on the private sector and on overall economic development.

2. Commodity Import Program

USAID is experienced in the implementation of import financing programs and has adequate personnel to ensure the timely and efficient implementation of the Structural Adjustment Support Grant.

Primary responsibility for the management of the Structural Adjustment Support Grant within USAID will lie in the Capital Projects Office. This office is presently responsible for the management of the Agricultural Inputs Support I and II Programs, and is experienced in the operation of commodity import programs. Within the Capital Projects Office, the day-to-day running of the program will be handled by an American Personal Services Contractor with experience in import programs in Zaire. He will be assisted by a Foreign National Direct Hire employee with both previous A.I.D. experience and long experience with Zairian import and banking procedures and regulations. A USDH employee will supervise the overall implementation of the program. The Capital Projects Office staff will be supplemented as required through the short-term contracting of a retired A.I.D. Supply Management Officer. This has been done on a regular basis under the two existing import programs and will be continued as needed.

The USAID Controller's office will work with the Capital Projects Office to monitor dollar disbursements (based on Mission records of allocations and on W-214 reports received from AID/W) and Counterpart Fund generations and deposits. The Program and Controller's offices will have primary responsibility within the Mission for the allocation and release, respectively, of counterpart funds to projects.

The Program Office will assign a reviewing officer to the Structural Adjustment Support Program who will review all program documentation to ensure that implementation of the program conforms to A.I.D. guidelines and is consistent with program objectives. In particular, the Program office will have responsibility for monitoring the policy reforms included as conditions precedent to disbursement. The Program office will also serve, to the extent required, as the liaison between the program and the World Bank and other donors.

The Mission staff will be supplemented by support from the REDSO/WCA in Abidjan. REDSO has on its staff two USDH Commodity Management Officers with experience in commodity imports who will periodically review progress in program implementation and assist or advise as required.

3. Local Currency Program

Counterpart fund programming is the responsibility of the Program Office in collaboration with the Ministry of Plan, Counterpart Fund Division. The Program Office currently programs upwards of $20 million equivalent of local currency annually and has adequate experience and manpower in this area.

H. Evaluation Plan

An independent evaluation will be performed annually. Evaluations will concentrate on three areas:

--- (1) Status of policy reforms,

--- (2) Impact of the policy reforms, the CIP, and the local-currency program, and

--- (3) Disbursement and conformance with A.I.D. regulations.

Status of Policy Reforms

Evaluations will review the state of policy in the areas of conditionality under the grant to determine whether policy commitments will have continued to be implemented.

Impact

Impact will be evaluated in three areas: impact of the system of incentives put in place by policy reforms, impact of the availability of additional foreign exchange for imports of agro-industrial inputs, and impact of local-currency allocations to financial institutions and development projects.

A key aspect of evaluations of impact will be follow-up with importers under the CIP, who will furnish quantitative information on their input use and capacity utilization as well as qualitative information about the private business community's views concerning the balance of incentives for and against nontraditional exports and agro-industry based on local inputs.

The evaluation will include an assessment of the grant's impact on

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the following three areas:

-- employment and worker standards of living in the industrial sector;

-- availability of assisted imports to the various geographic areas and to small farmers generally;

-- actual, as opposed to formal and official, price liberalization in farming areas.

Disbursement and Conformance with Regulations

A projection of dollar disbursements under the Program is included as Figure 14. During the initial stages of program implementation a revised disbursement schedule will be prepared. This will then be compared to actual disbursements as a measure of program progress. Disbursement schedules may be updated as indicated by evaluations.

Evaluations will examine project records and conduct arrival and/or end-use checks to determine if A.I.D. regulations are being adhered to. In particular, conformance with A.I.D. regulations concerning marking of commodities, transportation of commodities, source/origin of commodities, ineligible suppliers, and eligibility of commodities will be verified. Evaluations will examine reporting procedures to ensure that these are adequate. Evaluations will also look at reporting procedures for local currency generated by the program. Finally, evaluations will assess the extent to which the criteria set forth in subsection 801.(a) of Title VIII of the International Security and Development Cooperation Act of 1985 have been met.

V. SPECIAL FEASIBILITY ANALYSES

A. Industrial Policymaking

The GOZ has been studying reform of its overall industrial policy since 1984. Although the Ministry of Plan has been the focal point of this activity, this effort has also involved several other economic ministries (e.g., Finance and Budget, Foreign Commerce, National Economy and Industry, and the Bank of Zaire). The level of interministerial collaboration in this area has been a gratifying development. It has been proposed, furthermore, that a high-level interministerial committee be formed to oversee the implementation of the industrial policy and to consult on further measures that may be necessary.

In its external relations, the GOZ has also made considerable preparations for implementation of reforms. The World Bank has been the GOZ's active partner in supporting the basic studies that helped frame the present reform plans. The GOZ has also issued an "Industrial Policy Declaration" to publicize its intentions.

Furthermore, the whole range of issues was presented to donors at the Consultative Group meeting in Paris in April, 1984.

Thus, the mechanism for implementation and monitoring of the policy changes supported by this grant will be adequately provided for in the GOZ and among donors. On A.I.D.'s side, this grant provides funds for technical assistance to monitor policy adoption, implementation, and impact. This assistance will also be used to study the impact of the commodities imported under the program.

B. Market Analysis

There exists in Zaire an adequate market to ensure the timely disbursement of funds provided under the Structural Adjustment Support Grant. USAID's experience with two ongoing programs, both of which require that all goods financed be of U.S. source and origin, provides some evidence of this. At the same time, in light of the proposed authorization of A.I.D. Geographic Code 941 (Selected Free World) as procurement source for the present program, it is anticipated that importer interest will be significantly higher than under previous import programs.

Informal discussions held with importers in Kinshasa indicate that countries eligible under Code 941 (e.g. Brazil, Bangladesh, etc.) will be likely sources for importers participating in this program. It is also expected that some of the importers currently participating in the Agricultural Inputs Support Programs (I and II) will continue to call on A.I.D. financing under the present grant. Goodyear, presently using approximately $6.8 million of financing under the two ongoing programs, can be expected to continue to import raw materials used in the manufacture of truck tires under a new program. Overall, USAID is confident that the programming of funds provided under this program will not pose a significant problem.

C. The Impact of the Policy Reforms

The purpose of the policy reforms is to encourage increased private investment in Zaire and to let the market rather than arbitrary tax advantages determine the patterns of investment and production. In the present situation, this will probably imply that domestic inputs will become relatively more economical and that nontraditional exports will be relatively more profitable than in the past.

This will tend to change the internal terms of trade between Zairian industry and agriculture. By increasing demand for local industrial inputs, which are primarily agricultural, relative prices should swing to favor agriculture. This should encourage increased agricultural output, investment in agriculture, adoption of improved techniques, and increased use of labor power on the farm.

Increases in exports will tend to accelerate the reduction of Zaire's debt burden and thus tend to clear the way for renewed inflows of private capital into the Zairian economy. If increased exports come in nontraditional lines, the diversification of the export base will tend to make the Zairian economy more robust to changes in relative prices in world markets.

Since some tariff rates are being raised and some lowered in this reform, the net effect on total tax revenue will be small. In the cases of raised tariffs, there is the potential problem to consider of raising local prices of imported goods that have become urban necessities (e.g., wheat bread). It will be possible under A.I.D.'s conditions to consider making exceptions for certain commodities under such circumstances.

In the cases of lowered tariffs, there is concern for the fate of existing industries that are still dependent on protection from imported competition. While it is ultimately necessary that new investment be made on the basis of a more efficient set of incentives, the optimal treatment of existing fixed investment should include due regard for transition costs for both capital and labor. Serious adverse effects on particular industries could also have negative psychological results for private investment.

It should be noted, however, that tariff and quota administration has been somewhat lax in situations where there are large gains from avoiding import controls. Thus, some industries are already in fact competing with substantially more, and less expensive, imports than they should be, according to existing import controls. Furthermore, in their consideration of tariff reductions, the GOZ and the World Bank have already considered representations by concerned industries and have adjusted planned reductions and extended the length of time over which they will be introduced. A.I.D.'s conditions will permit acceptance of such arrangements.

ANNEX A

PAIP APPROVAL CABLE

PAGE 01 OF 02 STATE 046537 6562 001071 AID7719
ORIGIN AID-00

ORIGIN OFFICE AFPD-04
INFO AFCO-02 AFCW-03 AFDP-06 FPA-02 AFTR-05 AMAD-01 SC-01
GCAF-01 GCFL-01 AFDA-02 RELO-01 AFMG-03 /032 A0

INFO LOG-00 AF-06 /000 R

DRAFTED BY: AID/AFR/PD/CCWAP:HBHELMAN:2099K
APPROVED BY: AID/DAA/AFR:LRICHARDS
AID/AFR/PD:LHAUSMAN AID/AFR/DP:AMRUIZDEGAMBOA (DRAFT)
AID/AFR/CCWA:JCOLES (DRAFT) AID/GC/AFR:AVANCE (DRAFT)
AID/AFR/CCWA:DPOOOL (DRAFT)
------------------055107 140145Z /38
P 140141Z FEB 86
FM SECSTATE WASHDC
TO AMEMBASSY KINSHASA PRIORITY

UNCLAS STATE 046537

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: ZAIRE AEPRP

1. ZAIRE HAS BEEN SELECTED AS ONE OF THE FINAL CANDIDATES FOR AEPRP FUNDING IN FY86 AT A PROPOSED LEVEL OF DOLS. 15 MILLION. THE PURPOSE OF THIS CABLE IS TO PROVIDE AID/W GUIDANCE TO THE MISSION AND TO REQUEST THAT A PAIP BE SUBMITTED TO AID/W BY MARCH 10 AND A PAAD BY JULY 30, 1986. REGRET DELAY IN NOTIFICATION, BUT FINAL DECISIONS COULD NOT BE MADE UNTIL FY86 ESF LEVELS WERE ESTABLISHED.

2. USAID'S PAIP ENTITLED RURAL ROADS REHABILITATION AND MAINTENANCE POLICY REFORM PROJECT WAS REVIEWED BY THE AEPRP WORKING GROUP AND EXECUTIVE REVIEW COMMITTEE IN OCTOBER, 1985 AND WAS NOT APPROVED. IN GENERAL, THIS PROJECT WAS CONSIDERED TO BE A RELATIVELY WEAK PROPOSAL BASED ON ITS FOCUS ON THE IMPORT OF EQUIPMENT FOR THE PUBLIC SECTOR, LACK OF POLICY REFORM SPECIFICITY AND AID/W RESERVATIONS ABOUT CAPABILITIES OF THE OFFICE DES ROUTES (OR) TO CARRY OUT THE ADDITIONAL RESPONSIBILITIES

3. AID/W'S DECISION TO PROCEED WITH AEPRP IN ZAIRE IS PREDICATED ON WORKING WITH THE WORLD BANK IN CRITICAL

OLICY AREAS. THE BANK IS PRESENTLY PREPARING TWO SIZEABLE SECTOR REFORM PROJECTS, ONE IN THE INDUSTRIAL SECTOR, NOW NEARING COMPLETION, THE OTHER, AS PART OF A STRUCTURAL ADJUSTMENT LOAN, WHICH WILL NOT BE READY UNTIL NEXT YEAR IN THE AGRICULTURAL SECTOR. PROPOSED PROJECT OF INTEREST TO AID IS WORLD BANK INDUSTRIAL SECTOR ADJUSTMENT CREDIT OF DOLS. 75 MILLION (DOLS 15 MILLION FROM IDA AND DOLS. 60 MILLION FROM THE SPECIAL FACILITY FOR SUB-SAHARA AFRICA). UNDER THIS PROJECT, FUNDS WOULD BE MADE AVAILABLE TO THE GOVERNMENT IN TWO TRANCHES. FOREIGN EXCHANGE WOULD BE CHANNELED TO THE FINAL BENEFICIARIES THROUGH THE COMMERCIAL BANKING NETWORK. THE BENEFICIARIES WILL BE MANUFACTURING AND AGRO-INDUSTRIAL ENTERPRISES. THE PROPOSED CREDIT WOULD FINANCE IMPORTS OF SPARE PARTS AND INTERMEDIATE INPUTS, INCLUDING TRUCKS AND CONSTRUCTION EQUIPMENT. CONCOMITANT POLICY REFORMS ARE IN THE AREAS OF TARIFF POLICIES, PRICE CONTROLS, EXPORT REGULATIONS AND PROMOTION, TAX REFORM AND THE INDUSTRIAL PUBLIC INVESTMENT PROGRAM. THIS PROJECT IS SCHEDULED FOR APPRAISAL IN MARCH AND FOR BOARD APPROVAL BY JUNE. FURTHER INFORMATION ON THIS PROJECT HAS BEEN

STATE 046537 6562 001071 AI
HAND-CARRIED BY RUDY GRIEGO.

4. AN INFORMAL REVIEW OF PROJECT CONCEPT AND DESIGN ISSUES WAS CHAIRED BY DAA/AFR, LOIS RICHARDS ON FEB. 6 WITH MISSION DIRECTOR POOOL PARTICIPATING. WHILE IT WAS AGREED THAT THE CENTERPIECE OF THE PROJECT WAS THE SPECIFICATION OF AND THE TRACKING OF PROGRESS ON POLICY REFORMS, THE CONSENSUS IN THE MEETING WAS THAT THESE WERE WELL ARTICULATED BY THE WORLD BANK AND THAT AID WOULD NOT BE SEEKING ADDITIONALITY IN THE REFORM MEASURES BEING PROPOSED BY THE WORLD BANK. THE DISCUSSION FOCUSED PRIMARILY ON CONCERNS REGARDING DISBURSEMENT OF DOLLAR FUNDING AND UTILIZATION OF LOCAL CURRENCY RESOURCES.

5. IT WILL BE NECESSARY TO BE ABLE TO TRACE ALL FOREIGN EXCHANGE FUNDS TO THEIR ULTIMATE PURPOSE. THREE OPTIONS WERE DISCUSSED FOR DISBURSEMENT OF DOLLAR FUNDS: (A) THROUGH OR IN PARALLEL WITH IBRD FINANCING; LETTING IBRD ADMINISTER THE COMPETITIVE PROCUREMENT; (B) THROUGH A STANDARD AID-ADMINISTERED C.I.P.; AND (C) THROUGH A LINE OF CREDIT WITH A COMMERCIAL BANK(S) IN ZAIRE FOR MAKING MEDIUM TERM CREDIT AVAILABLE FOR PRIVATE INDUSTRIAL SECTOR IMPORTS (INDUSTRY BEING UNDERSTOOD BROADLY, TO INCLUDE MANUFACTURING, CONSTRUCTION AND TRANSPORT INDUSTRIES). THE FIRST OPTION IS ADMINISTRATIVELY THE SIMPLEST, BUT CONCERNS WERE EXPRESSED ABOUT RELEASING

CONTROL OF AID RESOURCES TO THE BANK AND ABOUT THE ACCEPTABILITY TO THE BANK OF CERTAIN REQUIRED AID PROVISIONS (SHIPPING, MARKING, ETC.) IF THEY ARE TO ADMINISTER PROCUREMENT USING PARALLEL FINANCING. THE SECOND, CIP, COULD BE COSTLY AND MIGHT NOT BE QUICK DISBURSING ESPECIALLY GIVEN THE EXISTING PIPELINES UNDER THE AG INPUTS PROJECTS. THE THIRD, PROVISION OF MEDIUM TERM CREDIT WAS FELT TO OFFER THE BEST OPTION OF DRAWING DOWN THE FINANCIAL RESOURCES BEING MADE AVAILABLE. THIS WOULD BE ACCOMPLISHED THROUGH OPENING L/COMMS WITH ONE OR SEVERAL COMMERCIAL BANKS IN ZAIRE. A CENTRAL ELEMENT OF THE DISCUSSION WAS WHETHER SUB-BORROWERS WILL BE REQUIRED TO ADHERE TO ALL THE AID REQUIRED PROVISIONS. THIS QUESTION IS UNDER REVIEW AND WILL BE THE SUBJECT OF A SEPTEL. THE PROPOSED AEPRP PROJECT DESIGN WILL NEED TO LOOK AT (A) THE RELATION BETWEEN ELIGIBLE USES OF THE FOREIGN EXCHANGE RESOURCES AND PRIORITY NEEDS OF THE INDUSTRIAL SECTOR AND (B) PROPOSED PERFORMANCE CRITERIA FOR TRANCHING.

6. LOCAL CURRENCY GENERATED THROUGH REPAYMENT OF THE CREDIT MAY BE: (A) BE USED TO EXPAND THE MEDIUM TERM CREDIT AVAILABILITIES OF THE COMMERCIAL BANKING SYSTEM, (B) BECOME PART OF THE GOZ DEVELOPMENT BUDGET TO SUPPORT AID PROJECTS; AND/OR (C) BE USED BY THE GOZ DEVELOPMENT BUDGET FOR OTHER PROJECTS IN THE INDUSTRIAL SECTOR. THE SENSE OF THE MEETING WAS THAT ALL THREE AVENUES SHOULD BE EXPLORED, BUT THAT, AT LEAST INITIALLY, PRIORITY ATTENTION SHOULD BE GIVEN TO AID PROJECT NEEDS, SINCE SHORT FUNDING ON OTHER PROJECTS WILL PROBABLY MEAN AN INCREASED NEED FOR COUNTERPART FUNDS. THE DISCUSSION REVEALED A LESSER CONCERN ABOUT LINKING THE LOCAL CURRENCY USE WITH THE SPECIFIC OBJECTIVES OF THE PROJECT THAN WAS THE CASE REGARDING DOLLAR DISBURSEMENTS.

7. USAID SHOULD EXPLORE THESE OPTIONS AND SHOULD BE READY TO DISCUSS THEIR RESPECTIVE PROS AND CONS WITH WOLGIN AND PEASLEY, WHOSE ETA IS INDICATED SEPTEL. USAID'S PREFERRED COURSE OF ACTION OR PRESENTATION OF OPTIONS AND YOUR REASONING SHOULD BE CABLED TO AID/W IN PAIP FORM NO LATER THAN MARCH 10. PLEASE ALSO CABLE AN INTERIM REPLY BY FEBRUARY 28 ADVISING AID/W OF MISSION'S

Department of State

OUTGOING TELEGRAM

SITUATION TO THE GUIDANCE, CURRENT STATUS OF PROGRAM DESIGN, PROPOSED SCHEDULE FOR DESIGN AND OBLIGATION OF PROJECT AND WHAT MANPOWER RESOURCES WILL BE NEEDED OTHER THAN THOSE ALREADY AVAILABLE TO USAID TO COMPLETE PPAD BY NO LATER THAN THE JULY 30 DEADLINE FOR SUBMISSION TO AID/W. WHITEHEAD

ANNEX B

SOURCE/ORIGIN WAIVER

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

SEP 19 [illegible]

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM : AA/AFR, Mark L. Edelman

Problem: Request for Blanket Source and Origin Waiver for commodities from Geographic Code 000 (U.S. only) to Geographic Code 941 (selected Free World).

A) COOPERATING COUNTRY : Zaire

B) AUTHORIZING DOCUMENT: 660-K-0603 (Grant)

C) PROGRAM : FY '86 AEPRP -- Zaire Structural Adjustment Support Program (660-0121)

D) NATURE OF FUNDING : ESF Grant (Commodity Import Program)

E) DESCRIPTION OF GOODS: Raw materials (including crude oil), spare parts and equipment for use in the agricultural and agro-industrial sectors in Zaire

F) APPROXIMATE VALUE : $14.8 million

G) PROBABLE SOURCE : The United States and Code 941 Countries

Discussion: In conjunction with an overall structural adjustment program in Zaire, which includes a World Bank Industrial Sector Credit of $75.0 million, this grant of $15.0 million further contributes to opening opportunities for the private sector, through a series of policy reforms which improve the climate for investment and services. Specifically, the GOZ, through the reform sought by this project will:

- enact tariff and tax reforms;
- prepare a medium-term plan for making import duties more uniform and widely applicable and adhere to the plan.

The primary elements of this project are the accomplishment of policy reforms and the making available of foreign exchange to increase the flow of commodities to the private agro-industrial sector. A secondary benefit will be the generation of local currency which will be used to support AID development projects.

Grant resources will finance the importation of raw materials, spare parts, and equipment exclusively by and for the Zairian

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private agro-industrial sector. This will increase working capital and raise capacity utilization, production and sales. The AID and World Bank funds will also enable private industry to expand. The local currency generated will support key local currency costs of AID projects related to agricultural and industrial development.

Justification for Waiver: The inclusion of Code 941 countries, as the authorized source and origin for commodities funded under this program, will facilitate timely disbursement of program funds by increasing the interest of importers in the CIP. This interest is essential if the CIP funds are to be viewed as valuable by the GOZ and thereby provide it with an incentive to make the policy reforms required for the release of each of the two tranches of funds under the program. The Mission has indicated that importer interest in U.S. commodities alone, though present, is not strong enough to draw down the CIP, except over an extended period. The reason for this is that the standard procurement sources for Zairian importers are not in the U.S. in most cases. Importers have long-established trade links with traditional suppliers in limited free world countries (Code 941) such as Bangladesh, Brazil and Nigeria for raw materials (including crude oil) spare parts and equipment.

The GOZ permits the official price of foreign exchange to float freely. Under such conditions, there is ordinarily no incentive for private importers to utilize CIP funds instead of completely untied dollars that are otherwise available. To provide an incentive for importers to utilize CIP funds, the Mission anticipates providing credit terms that are more attractive than standard bank financing which requires substantial deposits when letters of credit are opened.

Under the CIP, the terms for U.S. procurement will be more attractive than those for non-U.S. procurement.

PPC has indicated that the goal mandated by the Zorinsky Amendment has been met and that this CIP is not large enough to adversely impact on the Agency's achievement of that goal requiring the use of not less than 18 percent of CIP funds from the ESF account for the purchase of agricultural commodities of United States origin.

Pursuant to Handbook 1B Chapter 5B4c(1), the Administrator has the authority to issue a blanket waiver having a cumulative value in excess of $5,000,000 from Code 000 to Code 941 for an entire grant.

The criterion for the waiver per the above justification is provided in Handbook 1B Chapter 5B4a(7) which permits a change in the authorized list of eligible countries because of "such other circumstances as are determined to be critical to the success of project objectives."

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<u>Recommendation</u>: That you authorize a blanket waiver for procurement of commodities from Code 941 (limited Free World) countries in the amount of $14.8 million in order to attain U.S. foreign policy objectives and the objectives of the Foreign Assistance program in Zaire.

APPROVE: ______________________

DISAPPROVE: ______________________

DATE: ______________________

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Clearances:

GC:HFry	[illegible]	Date:	[illegible]
AFR/DP:JPatterson	draft	Date:	9/09/86
AFR/CONT:TRattan	draft	Date:	9/09/86
AFR/CCWA:DBernius	draft	Date:	9/10/86
PPC/PD:RMaushammer	draft	Date:	9/10/86
PPC/PB/C:JSilver	draft	Date:	9/11/86
AFR/PD:CPeasley	draft	Date:	9/18/86
AFR/PD/CCWAP:HHelman	draft	Date:	9/12/86
DAA/AFR:LRichards		Date:	
M/SER/OP:SDean	draft	Date:	9/11/86

Drafter:AFR/PD/CCWAP:NRifkin:sb:9/17/86:2580K

ANNEX C

ACTIONS TAKEN IN RESPONSE TO EVALUATION OF THE AGRICULTURAL INPUTS SUPPORT I PROGRAM

ANNEX C

Implementation of Evaluation Recommendations

Grant 660-K-0601

Attached as page 2 of this Annex is a copy of the facesheet and the Execu Summary of the August, 1985, evaluation of the Agricultural Inputs Suppor Program. This program, which began in August of 1984, is a Commodity Imp Program with participation limited to the private sector in Zaire. Prese below are the four recommendations which resulted from this evaluation, a with a brief description of the actions taken to implement these recommendations.

Recommendation No. 1

Reports should be prepared (preferably on a monthly basis) which pro information on the progress and status of this program.

Action taken:

Beginning with September, 1985, a computer-generated monthly report was prepared reporting on monthly and overall progress towards achieving prog disbursement goals. This report shows program funds reserved and committ both for the month in question and cumulatively for each of the program's disbursing authorizations (two Bank Letters of Commitment, one Direct Let of Commitment, and one Direct Reimbursement Approval).

Recommendation No. 2

Procedures should be finalized and implemented, in coordination with Controller, for monitoring and reporting on end-use and arrival accounting.

Action taken:

USAID is implementing procedures for end-use monitoring and arrival repor which were prepared for the Mission by a retired A.I.D. Commodity Managem Officer under a short-term contract.

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Recommendation No. 3

Future programs of this type should include a more all-inclusive eligible items list in order to avoid issuing a large number of implementation letters and commodity procurement instruction revisi adding additional commodities to initial eligibility list.

Action taken:

This recommendation was implemented in the design of the follow-on Agricultural Inputs Support II Program (Grant 660-K-0602) by including th entire A.I.D. eligibility list as eligible items for purposes of Implementation Letters, Commodity Procurement Instructions, and Letters o Commitment. Individual transactions must be approved in writing by USAID the GOZ's Ministry of Plan prior to the issuance of import licenses, lett of credit, etc. This ensures that only commodities that contribute to th target sectors are financed with program funds.

Recommendation No. 4

A procedure should be established for determining, at an early date those funds which have been allocated to importers, but, for whatev reason, will not be used by the terminal date of the program. Once amount of funds remaining is determined an active process should be undertaken to re-allocate these remaining funds to importers capable quickly using the funds.

Action taken:

USAID issued letters, co-signed by the Ministry of Plan, to all importers holding unused allocations informing them that these allocations would be rescinded if letters of credit were not opened within a stated period. Fo those importers that did not use their allocations within the time specif the funds were made available to any interested importer on a first-come, first-served basis and are currently being re-programmed.

All of the actions and mechanisms described above will be applied to the Structural Adjustment Support Program.

ANNEX D

ENVIRONMENTAL STATEMENT AND INITIAL ENVIRONMENTAL EXAMINATION

ANNEX D

Initial Environmental Examination

Description of Project

The Zaire Structural Adjustment Support Grant will be implemented as a Commodity Import Program, with participation limited to Zaire's private Sector. The value of the Grant will be $15,000,000. Only those commodit identified as contributing to the industrial and manufacturing sectors in Zaire will be eligible for financing under the Program. The eligibility specific commodities proposed for importation under the Program will be determined jointly by USAID and the GOZ's Ministry of Plan prior to the approval of import licenses or letters of credit. Examples of commoditie likely to be financed with the proceeds of this grant are: jute and othe materials for use in the manufacture of sacks for agricultural produce; s parts for trucks; raw materials for use in the manufacture of truck tires spare parts and raw materials for use in various industries established i Zaire. All commodities imported will be subject to the conditions and sp provisions provided in the A.I.D. Commodity Eligibility List.

All of the commodities listed above have been and continue to be imported Zaire, in many cases as part of previous A.I.D. Commodity Import Programs None of the commodities financed under the Zaire Structural Adjustment Su Grant are expected to have any adverse effect on the environment.

Recommended Environmental Action

It is recommended that a negative determination be made for the Zaire Structural Adjustment Support Grant.

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INITIAL ENVIRONMENTAL EXAMINATION

Program Country: Zaire

Program Title: Zaire Structural Adjustment Support Grant

Program Number: 660-0121

Funding: FY 1986: $15,000,000 ESF Grant

Environmental Action Recommended: Negative Determination

Action Requested by: ______________________ Date: ________
Richard L. Podol
Director

Concurrence: B Boyd
Bureau Environmental Officer
Bessie L. Boyd, AFR/TR/PRO

APPROVED: X
DISAPPROVED: ___
Date: SEP 17 1986

Clearance: GC/AFR Anthony Vance
Anthony Vance

Date: [illegible]

ANNEX E

Budget for Administrative and Policy-Monitoring Services

ANNEX E

Budget for Administrative and Policy-Monitoring Services

1.	Personal Services Contractor for grant administration: 2-year contract	$ 100,000
2.	Short-term Supply Management contractor: 4 months @ $ 15,000 each	60,000
3.	Short-term technical assistance for assessement of policy-reform impact: 2 months @ $ 20,000 each	40,000
	Total	$ 200,000

ANNEX F

Subsection 801.(a) of Title VIII of the International Security and Development Cooperation Act of 1985 Security Act

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ANNEX G

STATUTORY CHECKLISTS

THIS includes 1986 CR

5C(1) - COUNTRY CHECKLIST

ZAIRE AEPRE 1986

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

NO

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

NO

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3. FAA Sec. 620(c). If assistance is to a 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) the debt is not denied or contested by such government?

NO

4. 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 beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

NO

5. FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?

NO

6. 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

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? NO

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? NO

(b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A

9. FAA Sec. 620(q); FY 1986 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? NO (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? NO

10. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant

YES

It was taken into consideration in the "Taken Into Considerat Memo" signed by the Administrator 31 Janua 1986

11. 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

12. 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 AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

YES

Zaire is in arrears in its obligations to the U. N. however as of 30 Sept. 1985 it was not delinquent for th purposed of article 19 of th U. N. charter. These facts were taken into consideratic in the general "Taken Into Consideration Memo" signed by the Administration 31 January, 1986.

13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?

NO

14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

NO

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

NO

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

NO

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device?

NO

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18.	ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Yes Zaire entered a written reserva tokthe vote and this was taken consideration in the "Taken Int Consideration Memo" signed by t Administrator 31 January, 1986.
19.	FY 1986 Continuing Resolution Sec. 541.	
	Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	NO
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	NO
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	NO

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20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion on involuntary sterilization? — NO

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? — N/A

21. FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — NO

22. FY 1986 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? — NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — NO

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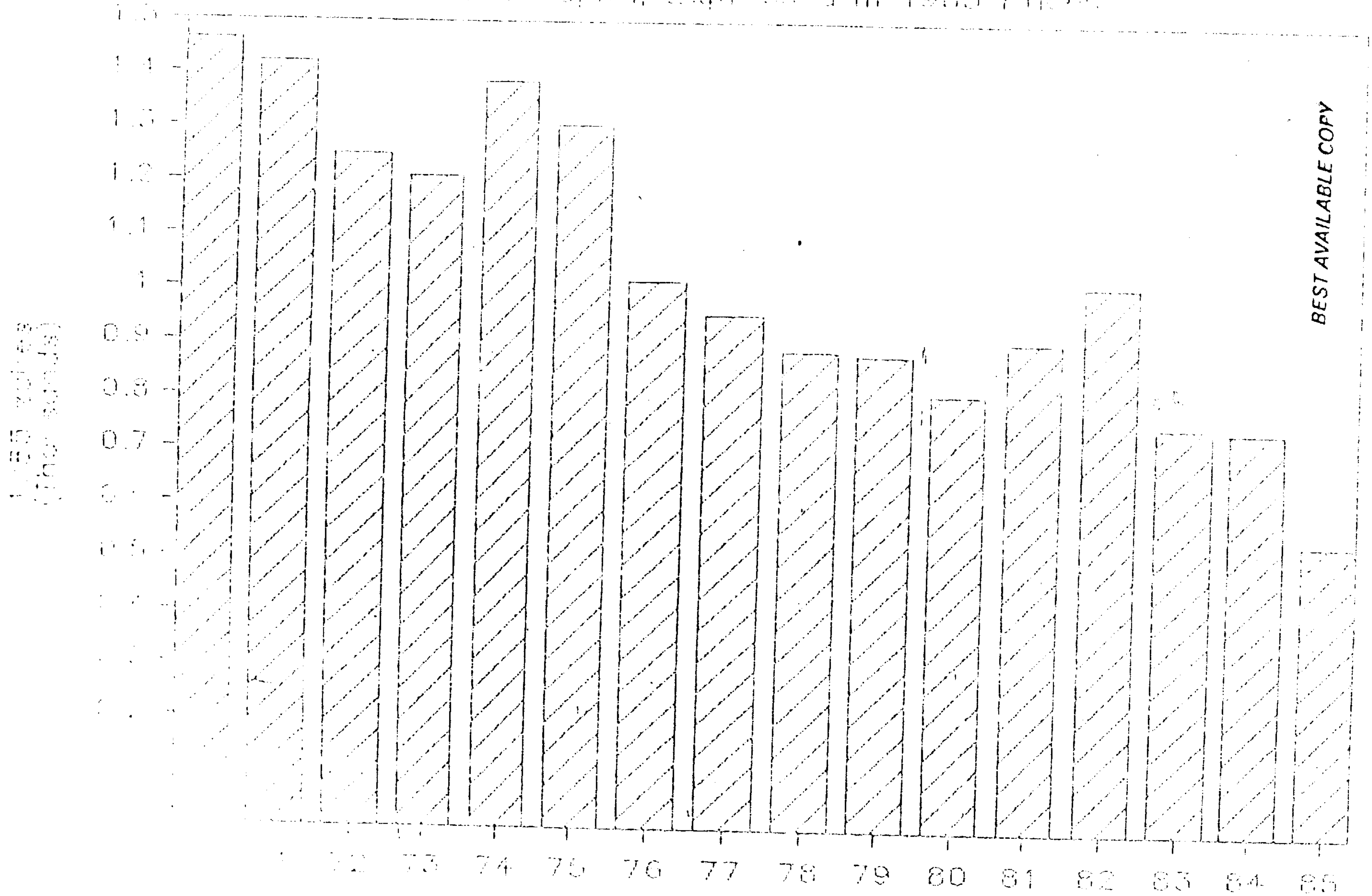
Figure 5

GOZ Expenditures on Goods and Services

Per Capita, Expressed in 1986 Prices



2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

NO

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3(A)2 NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A Congressional Notification was submitted to Congress in August 1986.

2. 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?

The Conditions Precedent and Covenants require the GOI to establish a domestic credit as well as maintain commercial and investment codes prior to disbursement of funds.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why

No. The assistance is being provided directly to the GOI because of the U.S.'s desire to support certain policy reforms undertaken by the

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is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

GOZ. The U.S. believes these reforms are necessary to the improvement of the Zairian economy.

4. FAA Sec. 601(a). Information and conclusions whether assistance 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.

The Zairian AEPRP is designed to support policy reforms that will encourage private sector development in the industrial sector. As a condition precedent to receipt of assistance, the GOZ must revise the schedule of import tariffs and eliminate all taxes on exports. The GOZ has also agreed to adopt a simplified and streamlined control procedure for exports.

5. FAA Sec. 601(b). Information and conclusions on how assistance 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).

The strengthening of the Zairian private sector will encourage U.S. investment in what was previously regarded as too risky and ill-defined an economic environment.

6. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. 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 in lieu of dollars.

Not applicable under this assistance.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of

No.

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the country and if so, what arrangements have been made for its release?

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Not applicable.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of AID funds?	Not applicable.
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?	Yes. It will promote economic stability by providing the foreign exchange required for Zaire's development and stability.
b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	No.
c. FAA Sec. 531(d). Will ESF funds made available for	Yes, local currencies will be used to support AID

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commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

development projects which will be consistent with FAA Sections 103 through 106.

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

Not applicable.

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

(i) spare parts and other imports shall be allocated on the basis of evaluations, by AID, of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting

Not applicable.

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economic development. AID shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall also be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special

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(iv)

account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in

No.

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Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues non-proliferation policies consistent with those of the United States?

g. <u>FAA Sec. 609.</u> If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Yes.

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA Sec. 102(a); 111; 113; 281(a).</u> Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the

Not applicable (ESF funds used.

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participation of women in the national economies of developing countries and the improvement of women's status; and, (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (including only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

Not applicable

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater

nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and

(c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular

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attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal 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; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems, if so, extent activity is:

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(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and
(b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

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(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.

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c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

Yes, pursuant to AID Reg. 16, the Zaire AEPRP Program is categorically excluded from the necessity of further environmental review. The determination granting the categorical exclusion is attached as an Annex to the PAAD.

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

The activity supports the economic reform and public administration decentralization program of the GOZ which aims to encourage increased participation of individuals in the development of the country.

institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. The activity supports an economic reform program focused on the liberalization of the economy and the development of the country's resources.

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