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660-0100

ZAIRE

P.A.A.D.

ECONOMIC SUPPORT FUND

MR. RICHARD L. PODOL, DIR

ARTHUR S. LEZIN, D/D

: 8,000,000

X X 18 months

Raw materials and chemicals used in manufacture of rubber tires for trucks, marine diesel engines and spare parts generator sets and spare parts, road construction/earth moving equipment and spare parts, locomotives and spare parts, agricultural machinery and spare parts related to transport.

Code 000 ($8,000,000)

$8,000,000

This grant is designed to assist in the recovery of the Agricultural Transport Sector in Zaire by financing the foreign exchange costs of imports necessary for the marketing and distribution of foodstuffs. The items eligible for financing will be limited to those found in the commodities enumerated on page 31 of this PAAD (the "Positive List"). This list of Eligible items will be forwarded to the Grantee in the Commodity Procurement Instructions (C.P.I.). The objectives of this funding are four-fold: first, the program will permit the importation of commodities needed in the operation and/or rehabilitation of the agricultural transport sector. These commodities will provide for equipment essential to the upgrading and operation of the agricultural marketing system as well as replacement parts for this equipment. The commodities will be channeled through the private sector, thereby stimulating the local business in American commodities. The second objective is to support joint USAID-GOZ initiatives and policy dialogue efforts by using the local currency generated from the commercial sector to finance the local currency expenditures of priority USAID and GOZ projects and activities.

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Agricultural Inputs Support Program Grant

660-0100

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I. SUMMARY AND RECOMMENDATIONS

The principal features of this Agricultural Inputs Support Program are as follows:

A. Nature: Agricultural Inputs Support Grant (ESF) 660-K-0100

B. Amount: US $8,000,000

C. Authorized Source: AID Geographic Code 000 (U.S.)

D. Program Justification: This program will provide foreign exchange to the GOZ to assist it with its balance of payment problems. Financing for needed agricultural transport equipment will be provided to private importers. Local currency reflows are to be deposited in a special account for use in development activities jointly agreed upon by USAID and the GOZ. The program fund was set at $8 million because of budget limitations and the desire to demonstrate that an import support activity can be quickly and efficiently implemented in Zaire.

E. Program Description: The objectives of this funding are four-fold: first, the program will permit the importation of commodities needed in the operation and/or rehabilitation of the agricultural transport sector. These commodities will provide for equipment essential to the upgrading and operation of the agricultural marketing system as well as replacement parts for this equipment. The commodities will be channeled through the private sector and will stimulate imports of U.S. commodities. The second objective is to support joint USAID-GOZ initiatives and policy dialogue efforts by using the local currency generated from the commercial sales to finance the local currency expenditures of priority USAID and GOZ projects and activities. In as much as local currency requirements far exceed the generations made available under this program plus PL 480 fund generation, AID and GOZ will jointly determine the optional allocations of the reflows. Third, this program will provide limited balance of payments support. Fourth, this program will increase the familiarity with and appreciation of U.S. Goods and equipment.

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F. Program Implementation: In order to ensure the efficient and rapid disbursement of funds available under the Grant, USAID/Kinshasa forsees a relatively small number of importers participating in this program. These importers will procure selected U.S. commodities which have been identified as eligible items. Commodities are identified as eligible based on their ability to make a quick and significant impact on the maintenance and upgrading of farm-to-market operations and improvement of transportation services in support of the agricultural sector. For the most part, importers will be manufacturers/distributors who will offer the final product for resale to end-users. The end-users may be from either the private or the public sectors. Priority for the use of these grant funds will be given to manufacturers/distributors who have in-country maintenance and service capability. Importers approved to use funds from the Grant will be exclusively from the private sector. To the extent that USAID/Kinshasa has been able to identify potential participants in the program, all have extensive experience in the importation of commodities into Zaire and possess a thorough understanding of local commercial practices, i.e. import licensing, commercial banking and port/customs clearance procedures. Some of the importers have participated in previous USAID financed import programs in Zaire and hence will have no difficulty adjusting to AID requirements and procedures.

Similarly, existing procedures of the principal local commercial banks and at the port of entry at Matadi are adequate for the implementation of this program. Therefore, the design team concludes that the private sector importers will be able to procure A.I.D. financed commodities under this Grant using essentially the same methods they would use for other international commercial transactions. Further, it is not expected that the additional AID procedures will place an undue burden on the system.

G. Status of previous USAID Commodity Import Programs: Since 1965, the GOZ has benefited from thirteen separate Commodity Financing Program Loans totaling $ 123 million. The last CIP 660-K-0025 was initially obligated in FY 1978 and the final disbursement will be made in April 1984. USAID has conducted an evaluation of this CIP and has integrated all lessons learned into this proposed Agricultural Inputs Support Program.

H. Negotiating Status and Conditions

The PAAD design team has held numerous discussions with potential importers under this Program as well as with Bank of Zaire officials and the Grantee and has reviewed with them the proposed terms, conditions and the implementation plan. Consensus has been reached between all parties on program objectives and mechanism.

Given the familiarity of importers and the GOZ with previous similar A.I.D. Programs, we are confident that the implementation of the Agricultural Inputs Support Program will proceed smoothly.

The design team foresees no difficulty in negotiating and signing the $8 million grant agreement as soon as the funds are made available.

I. Disbursement Period: The proceeds of this Grant are expected to be disbursed within an 18 month period from the date the Grant Agreement is executed. The terminal date for requesting disbursement authorizations will be 12 months from the day the Grant Agreement is signed. Local currency will be disbursed within 24 months of the Grant Agreement date.

J. Statuatory Checklist: Satisfied (see Annex C).

K. Waivers: None

L. Issues: See page 25 and 26

M. Recommendation: It is recommended that an Agricultural Inputs Support Program Grant in the amount of $8,000,000 be authorized for Zaire.

N. PAAD Committee:

Thomas Stephens, Supply Management Officer, REDSO/WCA
Douglas A. Barnett, Agricultural Economist, REDSO/WCA
H.L. Braddock, Design Officer, USAID/DEO
Anne Williams, Assistant Design Officer, USAID/DEO
Ross Wherry, Project Officer, AID/Kinshasa
Ray King, Controller, AID/Kinshasa

II. Background

A. Political Background

The objectives of the U.S. in Zaire are to contribute to economic development and economic and political stability in a key African country, to foster trade and facilitate U.S. investment, and to encourage the cooperation of a Government which plays a leading role in the African and Third World Councils. These objectives are strong reasons for maintaining our economic development program.

The thrust of AID strategy is to support Zairian development efforts and priorities while at the same time assisting in maintaining the economic and political stability necessary for development. AID strategy is based on a collaborative, flexible style of assistance which is responsive to the economic problems in Zaire and the Congressional Mandate. As a relatively small donor, the AID program is focused on those sectors and sub-sectors where AID has relatively high response capabilities and to those areas which are attractive to other donors for follow-on with large scale funding. In addition, the AID program attempts to assist the GOZ in the formulation and development of its own development strategy and seek solutions to policy issues identified as impediments in the performance of specific GOZ/AID endeavors. A key limitation of the AID program is the capacity of Zaire to complement development assistance with necessary planning, organization, management and financing.

B. GOZ DEVELOPMENT STRATEGY

According to the recently published Programme Intérimaire de Réhabilitation Economique 1983-85 (temporary version) by the GOZ Ministry of Plan, the economic policy that Zaire proposes to follow in the years ahead focuses on two areas: a rehabilitation program for the short term and medium term to provide Zaire's economy with the sound and stable foundation that has been lacking up to now. This will serve as a basis, in the longer run, for the preparation and execution of a five year social and economic development

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plan. The activities to be undertaken in the short and medium run under the Interim Economic Recovery Program extend over three years. A number of measures have been proposed by the IMF and World Bank to enable the implementation of efficient and coherent macroeconomic and sectoral policies necessary for stabilization and therefore for the later recovery of the economy. These measures are discussed in greater detail on page 19 through 24.

The current 1983-1985 Plan is a revised effort of the one for 1981-1983. Agriculture, mining, transportation, and energy accounted for 85% of the 1981-1983 Planned Investment Program (PIP). Actual expenditures revealed that a shift in sector priorities had occurred such that investment in agriculture and mining dropped from 68% of planned expenditures to 48%, while energy rose from 16% to 42%. Several investments also exceeded levels planned by 40%. Even so, the Z19.6 billion actually spent in the Agricultural Sector is only a small fraction of total GOZ budget.

Future plans include the re-development of agriculture to regain its share of the export earnings so that Zaire becomes less dependent on primary metals for foreign exchange. Other objectives specific to the agriculture sector include:

- the increase of food production to obtain nutritional self-sufficiency
- increased production of agricultural outputs to local industry

The success of attaining these objectives depends on the stimulation of private sector involvement in agriculture; the improvement of the rural road infrastructure/marketing system; and the improvement of agricultural education, research, and extension.

The GOZ has recently undertaken major economic reforms in the agricultural sector including the lifting of price controls and the abolishment of ineffective marketing boards.

C. U.S. Assistance strategy

The USAID approach to development in Zaire is to seek to involve the private sector in profitable agricultural development initiatives and to upgrade the abilities of key ministries and autonomous organizations to perform those key functions which remain with the GOZ - policy, planning, priority setting, regulation, public investment and public administration. This approach arises both from a realistic assessment of Zaire's economic situation and its attendant institutional and manpower weaknesses on the one hand and, on the other, from the sustainability and relative dependability of the non-governmental sector. This approach is in line with the Government of Zaire's own decentralization initiatives. Secondly, USAID limits its activities to a few sectors where it can make a significant contribution (agricultural, agricultural marketing, health, nutrition and population).

The proposed Agricultural Inputs Support Program is consistent with both GOZ and USAID development strategies. It will provide financing for equipment and spare parts necessary to GOZ's priority sectors, the agricultural and transportation sectors. The proceeds of the Grant will be channeled through the private sector. Sales of the goods will generate counterpart funds to be used for further development activities in the priority sectors of Agriculture, Transport, and Health.

D. Policy Reform Impact of the Grant

Although the agricultural sector accounts for only about 30% of Zaire's estimated GDP, it is the single most important economic activity for a variety of reasons. Seventy percent of the population lives in the rural areas and thus, directly or indirectly, derives its livelihood from agriculture. Zaire's potential for agricultural production is substantial. Less than 4% of the total land area is cultivated. Greater amounts of food and fiber, not to mention export crops, could be produced through improved agricultural methods and through marketing incentives provided by repaired road, river and rail infrastructure.

For a number of years, Zaire's development was cramped by economic policies that acted as disincentives to agriculture . USAID has engaged the GOZ in policy dialogues for some time, promoting policy changes through USAID-assisted projects. In the case of the Agricultural Marketing Support Loan(660-K-025), the envisaged policy changes were not effected because they entailed major reforms and the program was too small to command sufficient leverage to induce the suggested reforms. However, Zaire recently agreed to an IMF stabilization program that has induced major policy reforms. The stand-by agreement is for $350 million (see page 13). While Zaire has made a commendable start in implementing these reforms, the country still finds itself in economic difficulty, and maintenance of the reform momentum will require fortitude and perseverance. USAID is strongly encouraging Zairian adherence to the IMF rehabilitation program through the provision of this grant, which will help meet Zaire's continuing need for foreign exchange. Through this grant, it is also increasing its leverage in the policy dialogue to encourage the GOZ to examine and act on additional constraints to development.

USAID's strategy objectives, concretized through its project portfolio, address primarily the agricultural and health sectors. Regarding the former, the Mission is supporting the GOZ's stated goal of achieving increased food production to obtain nutritional self sufficiency and improve its balance of payments posture. A number of important policy and institutional constraints could be addressed more effectively. These include:

1) More financial resources and field managerial expertise are required to satisfactorily upgrade the deteriorated rural transportation system.

2) Credit must be made available to economically viable marketing agents to replace their aging and deteriorated trucking and river fleet and to enable them to purchase crops during the marketing season.

3) Additional incentives must be created to stimulate increased private investment in agriculture.

4) Donor coordination must be increased to bring about a strengthened development effort in the sectors of agriculture and transport.

USAID, through its Agricultural Research Project 660-0091, its Agricultural Economic Development and Sector Studies Projects 660-0052 and 660-0070, its Agricultural Marketing Development Projects 660-0026 and 660-0028, its PVO Economic Support Grant 660-0097 and its new Agricultural Marketing Development Project 660-0098, is making headway in addressing some of these policy and institutional constraints.

The Agricultural Inputs Support Program provides an opportunity for USAID to further encourage the GOZ to examine and act on these same constraints. USAID will obtain added leverage in policy dialogue with the GOZ insofar as the counterpart funds generated from the program will be used to finance a number of joint AID/GOZ development activities. The pursuit of these specific policy ar institutional issues are consonant with the AID Administrator's statement on the role of resource transfers in U.S. economic assistance (State 189715) since measures taken in any of the above mentioned areas support broad based economic growth of the rural sector, encourage private enterprise and local community initiative, and stimulate the development and/or adoption of more productive technology.

III. ZAIRE ECONOMIC SETTING AND PROGRAM JUSTIFICATION

A. Summary

The purpose of Section III is to sketch out a brief history of Zaire's economic performance and the reasons for the decline of per capita GNP. It is complemented by the presentation of the history of GOZ compliance o IMF demands. In particular, the economy is examined in terms of the agricultural sector; overall national economic performance; the mining, government, and export/donor assistance sectors; and the present Balance of Payments (BoP) status. A discussion of program rationale and issues concludes the section.

The main elements of the analysis include (a) the problems with Zaire's economy over the past decade; (b) the progress Zaire has made in adhering to IMF recovery measures even though donor assistance is critically needed at this time; and (c) the deteriorated agricultural marketing transport network.

The Agricultural Input Support Program seeks to provide needed materials - spare parts, engines, possible road repair equipment - to provide support to this sector, and at the same time, to help ease the GOZ's BoP problems.

B. Zaire's Economic Setting and Recent Trends

1. The Agricultural and Agricultural Marketing Sectors

a. Agricultural Marketing

Seventy percent of Zaire's population is estimated to derive its livelihood directly or indirectly from agriculture. It is estimated that they cultivate only 4% of Zaire's 2.3 total million km^2 land area. The agricultural producers are heavily dependent on the rural infrastructure for moving their crops to market. However, marketing has declined over the years because of the deteriorated infrastructure.

"Marketing of most agricultural crops is dominated by the private sector. Domestic market prices are affected by the high margins of a long chain of intermediaries, by inadequate high-cost transportation, by packing and storage problems and by high losses, especially of perishable products. All of this results in either permanent shortages or in an intermittent supply which often does not meet demand (World Bank Zaire Kwilu-Ngongo Sugar Project Document, pages 1-2). Zaire's management of the agricultural sector is not unlike that of many other African countries. Despite the deteriorating road, river and rail infrastructure which added to the cost of basic foodstuffs prices were controlled by the GOZ until April 1984. The minimum prices became the maximum official which was generally too low."

Most agricultural goods are transported either by road, rail, or river. All three modes of transport have deteriorated since independence, making marketing more difficult and expensive. Of the estimated 150,000 km of roads existing at the time of independence, only 35,000 km of national and priority regional roads are still maintained by Office des Routes, the GOZ agency responsible for roads. At the same time, standards of river and equipment maintenance dropped dramatically and losses due to damage or theft are as high as 50%. Current irregular fuel supplies place further constraints on waterway useage. Likewise, maintenance problems have plagued the railroads and delays in shipments are frequent, resulting in losses for perishable commodities, such as bananas, which can spoil if left in unventilated box cars for more than 24 hours. The high cost of truck and spare parts replacement has led to a shrinking fleet of private operators who transport crops from Bandundu and Bas-Zaire to the Kinshasa market. The deteriorated roads - some impassable during the wet season - are rutted and are often traversed with gullies. Several private companies (palm oil and timber companies for example) maintain public roads at their own expense because of the importance of the route to their commerce.

Substantial efforts are required at the present and in the future if progress is to be made in recovering the infrastructure that existed at the time of independence. Of primary importance is the dredging and maintenance of river channels and ports, upgrading of roads and replacement/repair of vehicles, and refurbishing some of the major rail lines.

b. Agriculture

"There are two main types of production units in the agricultura sector. Some 3-4 million traditional small family farms occupy about 4 million ha and account for about 60% of total agricultural production; subsistence food crops such as cassava, maize, plantain, rice and groundnuts are grown as are some cash crops such as cotton and coffee. About 900 large scale agro-industrial plantations covering about 400,000 ha produce coffee, tea, rubber and cocoa for export or sugar, palm oil, and cattle for the domestic market. Processing of agricultural products is mostly carried out by agro-industrial enterprises which handle the output of their own plantations as well as additional crops purchased from smallholders. Many processing

plants are old, badly maintained and lack replacements and spare parts for their equipment.

Agricultural production has been severely hampered by the political turmoil of the 1960's with the disruption of transportation and commerce, the deterioration of Government services, unfavorable farm prices, nationalization policies and the general deterioration of Zaire's economy. The results have been a reduction in the volume of crop exports, and an increase in imports of foodstuffs to meet the needs of the fast-growing urban population. Production of some commodities which the country used to export has decreased to the extent that in a number of cases, such as palm oil, cotton, and fiber, there is a need to import to meet local demand. Food imports account for about 20% of merchandise imports and the effects on the balance of payments has been serious. Even so, food imports are not sufficient to meet demand and serious shortages occur leading to rapid increases in the price of food. Agricultural exports, principally of coffee, accounted for 14-21% of all exports prior to 1978, depending on price fluctuations for coffee. Foreign exchange allocation to importing agricultural inputs, however, has fallen, these now constitute less than one percent of total imports." (World Bank Zaire Kwilu-Ngongo Sugar Project Document. The GOZ has published, from time to time, plans and targets for revitalizing the agricultural sector. However, the programs lacked an effective implementation plan, and when annual budgets were finalized, agriculture received its usual back-seat allotment.

Tables 1 and 2 shown in Appendix B reflect the decline in agricultural production and relative change in prices between the commercial and agricultural sectors.

Several donors are involved in agricultural development activities in Zaire, including road repair and construction, seed testing, agricultural extension and crop production. Efforts have also begun to increase co-ordination of activities among the various participants which should result in a stronger development effort.

2. Past Performance and GDP - 1960-1981

Zaire's economic history since its 1960 independence has been divided into 3 periods: "(i) The years 1960-1967, which were marked by political strife and economic turmoil; (ii) The years 1967-74, when GDP expanded at a rate of about 7% per annum in an environment of relative political stability; and (iii) The period since 1975, which can be labeled "the crises years", as it witnessed serious economic and financial imbalances, a decline in per capita income, a deterioration of productive capacity and infrastructure, a weakening of institutions, and an erosion of internal and external confidence." (World Bank Report No. 4077-ZR, Zaire Economic Memorandum, Dec. 30, 1982, page V).

The nationalization program in 1974 brought about a stagnation in production due to mismanagement. To finance an ambitious investment program between 1972-75, large foreign borrowing was incurred, resulting in heavy future debt repayments resulting in heavy future debt repayments. Zairian public external debt grew from $573 million in 1972 to $2.3 billion in 1976. It is currently over $5 billion, or twice the 1981 GDP. Few new loans were made after the mid-seventies. The growth in debt can be attributed to interest payments on debt arrears and reschedulings.

The IMF intervened to help implement stabilisation and recovery programs. Two of the programs were not implemented because of a lack of GOZ budgetary control, among other reasons. Since the mid-seventies, GOZ has rescheduled its debt four times.

Due to the political troubles of the '60's, the neglect of agriculture began and continued on through the seventies resulting in an uneven, imbalanced growth of the economy. While the manufacturing sector made some gains agriculture declined (see page 10). Receiving little budgetary support from the government, coupled with a deteriorated road network, the country became a net importer of agricultural products.

Government spending was also a cause of domestic economic problems. Deficits were incurred because GOZ budgets were exceeded. The addition of central bank borrowed money to the money supply fueled inflation. Average money supply growth over the last 8 years is estimated to be about 40% per annum (see page 17).

The mining sector was looked upon as the source of foreign exchange, but the drop 'n world copper prices in 1976-77 and post-1981, in addition to the political upheavals in the country's mining regions in 1978, led to a drop in anticipated earnings for those periods and exacerbated the growing debt problem. Price rises in oil worsened Zaire's terms of trade, making the balance of payments situation precarious from then up to the present time. As a result, GDP grew very little in real terms. During the years 1972-1982, (Table 3 of Appendix B), GDP actually remained constant. Table 3 also shows the relative contributions to the economy by the different sectors.

3. IMF Assistance - Stand by Agreement Status

a. Most Recent Action and Impact

Beginning in the early to mid-seventies, IMF helped design and finance economic recovery programs for Zaire. The latest of five IMF actions occurred in September 1983 when a standby loan agreement of $350 million (SDR 343) was arranged in exchange for the adoption of an economic stablisation program for Zaire.

GOZ's performance in complying to the most recent IMF demands has been good compared to its previous attempts discussed below. IMF monitoring of the situation has helped to ensure sustained GOZ commitment to the program as well. Recent reports indicate that GOZ has been meeting IMF expenditure targets.

The stabilization program included, inter alia, a devaluation of the zaire currency to the parallel market rate; abolishment of certain controls over the foreign exchange accounts of the non-Zairian banks; a tightening of non-essential commodity import licensing; a reduction of import taxes for essential items and food stuffs; lifting of price controls on all services and commodities, notably agricultural products (with the exception of petroleum products, electricity, water, and domestic transportation); and revenue, tax and expenditure controls. As a result, GOZ budget deficits and central bank government borrowing are now decreasing.

Short-term adjustments to the devaluation and other stabilization measures have been felt by the urban and other retail consumer populations through increased duties added to imported goods. The declared values (in zaires) of the imports increased at devaluation. The increase in the cost of domestic transportation (brought about by increased fuel costs) significantly adds to the cost of food crops imported from the Bandundu and Bas-Zaire regions and sold in Kinshasa.

b. Past Actions

The IMF has had an important donor role. It has attempted to assist Zaire to obtain economic recovery as far back as 1976;[1] Copper prices dropped by more than 50% in 1975 from their 1974 high, and at the same time, the rise in oil prices increased the import bill, reducing the terms of trade to almost one-third of the previous year's value. The BoP deficit grew to $535 million that year To finance the deficit, Zaire exhausted its exchange reserves and borrowed from foreign sources. Debt service payments rose from 9% to 25% of export earnings. With payments due in 1976, GOZ arranged an IMF standby agreement of SDR 41 million, compensatory financing facility of SDR 56 million and an oil facility of SDR 33 million.

[1] This section draws from PAAD document 0025 - Agricultural Market Support Loan, September 1978.

Although some recovery measures were taken, including 42% currency devaluation and wage and credit ceilings, the overall economic situation continued to deteriorate. Inflation continued, the government deficit increased to 39% of expenditures, and although the current account deficit decreased, and arreages accumulated to SDR 77 million.

A second IMF program was adopted in 1977, including SDR 45 million standby and SDR 28 million compensatory financing, but little of the standby loan was used because of Zairian authorities failure to implement policy stabilization measures. The overall balance of payments deficit grew to Z300 million, and the GOZ deficit increased to 50% of expenditures. The program was cancelled.

The thir stand-by arrangement starting in July 1979 and lasting 18 months, allowed for a SDR of 118 million. Corrective economic measures were implemented, (including a 25% devaluation), as a part of the loan conditionality and the economy grew in 1980 by 2.4%, the first real growth in several years. Debts were also rescheduled at that time.

A fourth program was launched in 1980 with a total of SDR 912 million. A 40% devaluation took place. In addition, certain price controls were lifted and certain revenue and expenditure measures were agreed on. The onset of the world recession at that time, however, prevented the anticipated export earnings increase from being realized. Government spending at the same time did not adhere to the IMF measures, and imports were higher than planned for. The overall deficit, incurred as a result of this, could not be entirely financed, and GOZ could not make payments on loans that had already been rescheduled. The fourth program was cancelled in June 1982. The country continued to have deficit spending, inflation, and debt payment problems. In 1983, the IMF began negotiating for the fifth agreement, as discussed

4. The Mining Sector

This are of the economy, though not pertinent to the analysis of agricultural input support needs, is important because of its role in earning foreign exchange. The highlights will be pointed out here.

The World Bank Zaire Economic Memorandum of December 1982 (page 41) reports that "Mining is almost entirely in the public sector. The Government is the sole owner of the Gecamines, Sozacom, and Kilo-Moto (gold); it has a majority participation in Miba (diamonds) and a minority participation in Sodimiza (copper). The sector continues to be the dominant force in the economy. It contributes about 16 percent of GDP, more than 85 percent of the country's foreign exchange earnings and more than 25 percent of government revenue. Zaire is the leading producer of industrial diamonds and cobalt and the world's sixth largest producer of copper. Other minerals exported include gold, silver, cadmium, zinc, tin, and manganese ore. Since the mid-Seventies, shortages of foreign exchange, skilled labor and fuel, transport bottlenecks and unstable economic conditions have led to a decline in output and productivity as well as a growing decapitalization of the main mining firms."

However the report goes on to say that (page 50)....."The disappointing performance of the mining sector is due not only to unpredictable events beyond the control of Zaire -- such as depressed world prices for copper and cobalt and transport route closings due to political developments in neighboring countries -- but also to inappropriate sector policies regarding taxation, allocation of foreign exchange and marketing. The Government's long-term objective is to reduce the country's overdependence on mining and particularly copper; but, in the short and medium term, it expects the impetus to recovery to come from the mining sector. The most important issue facing the Government is therefore, to put in place a framework for an orderly rehabilitation of the mining sector."

Included in the rehabilitation are measures that will provide for

-Greater managerial autonomy for the mining firms: the government owned company has had a 18% increase in staff and 9% increase in the labor force between 1974 and 1980, although mine production has dropped.

-An appropriate taxing structure: the current system has been a burden on the companies financial viability in years of low world mineral prices.

-foreign exchange allocation and private participation: past allocations have occasionally been inadequate to the mining sector.

Table 4 of Appendix B presents some statistics concerning the mining sector.

5. Government

GOZ's share of services to the GDP is about 10%. However, its influence is far greater than that because of its ownership of the mines, the public transportation, and other companies, not to mention, of course, its role in the formulation of economic policies. It also has a particular influence in Kinshasa since a large number of its employees are found there. Two areas of the government's role and its effect on the economy are discussed here: the operating budget and its labor force.

First, government budget deficits have contributed to Zaire's economic deterioration. Table 5 of Appendix B shows the growth in revenue and expenditures over the last few years. The table shows that increasingly smaller amounts of the annual budgets were devoted to capital expenditures; that wages are a large component of the budget, and that, overall, the deficit has grown. The 1984 projected figures assumes adherence to the IMF program.

Agriculture, as mentioned in section B. 1, was neglected. Between 1973 and 1980, agriculture received an average 2% of the budget expenditures, transportation (with communications) received only 1.2% of the budget. By contrast, finance (including debt payments) and education each received 17% and 21% in 1973, and 27% amd 24% in 1980, respectively. (See table 14 of Annex B.)

Second, GOZ's influence in the modern sector labor market is important. GOZ employment rose from 300,000 people in 1976 to over 430,000 in 1981. The wage bill also increased, but not in proportion to inflation. In fact, public administration's real wages' in 1980 excluding fringe benefits were only 25% of the 1975 value.

6. Exports and Imports and Donor Assistance

Table 7 of Appendix B shows the composition and value of Zaire's external trade over the past few years. Zaire now exports close to one billion dollars of raw materials and commodities per year.

Although the table shows that both copper and cobalt's export values were higher in 1981 than the previous years, the 1981 and 1982 values were approximately 20% below the 1980 earnings. This created an added strain to the shortage of foreign currency being used, in part, to pay off the foreign debts at that time.

A breakdown of the imports for the period of 1978-1981 is shown in table 11 of Appendix B. Table 13 shows the direction of trade (trade by country) over a similar period. The total nominal value of imports increased only by 13% over the four year period shown, and remained slightly less than the value of exports, showing a positive trade balance. However, the external foreign debt payment needs used up any trade surplus generated at this time.

Table 8 shows the commitments of AID and ODA flows to Zaire for the years 1979-1985. Table 12 of Appendix B shows the AID and ODA flows for the years 1976-1980 but in a slightly different format. Between 1976 and 1980, net project pipeline disbursements increased from slightly under $200 million to $450 million, with the bulk of the funds coming from bilateral sources. However, the total seems to have dropped off after 1980, which may have been due to donor difficulty in obligating the commitments. IBRD had difficulty in obligating more than half of the $100 million per year program back in 1978, the EEC had a similar problem for a $130 million commitment.

More recently, the World Bank and FED has dealt in crop specific production programs and road building; FAO has contributed to the areas of quality and quantity seed control, education, and policy analysis. Belgium and France work in agricultural production or education, and Germany is providing some local training. In addition, the religious mission system, a long standing source of development resources , plays an important role in the education, health, and agricultural sectors. The IMF contribution, through

7. Balance of Payments

The outlook for Zaire's balance of payments for the next few years shows a negative but declining balance of payments deficit. Table 10 of Appendix B shows projected trends. Although Zaire will generate a positive trade balance, the debt payment requirement will absorb all of the surplus. External debt service is expected to consume 35% of the export earnings in 1984 and drop down to 24% in 1986, excluding IMF payments. Including IMF payments, the ratios become 43% for 1984, and 31% for 1986. Thus, GOZ will need balance of payments support to help minimize the decrease in foreign exchange brought about by debt service requirements. This reduction in debt also assumes an annual compound growth rate of 11% for 1983 world copper prices ($.73/lb. to $1.00/lb.). The current deficit, after unrequited transfers, will exceed $275 million in 1984 alone.

Table 8 of Appendix B shows the amount of aid given by donor countries. This is to be compared with the IMF estimates of unrequited transfers shown in Table 9. The transfers help to offset, but not eliminate, the deficits. The GOZ will struggle to make payments and future debt payment reschedulings will no doubt be considered. The Agricultural Inputs Support Program will help provide foreign exchange to import needed commodities that otherwise would not be considered. The use of these funds will permit the GOZ to have an extra $8 million of foreign exchange for continued debt payment. This Program, however, given the value of other donors' portfolios, is not large. Under other Donor Programs, as much as $200 million or more worth of commodities are imported into a country.

C. Program Justification

1. Program Rationale

There are four rationales which justify the proposed project: (1) the need to provide essential equipment and inputs for the agricultural sector, particularly for the rural road, river and rail infrastructure; (2) the need to help the private sector in acquiring inputs; (3) assistance to the GOZ for balance of payment support; and (4) provision for local currency expenditures of USAID development activities.

2. Current Market Analysis of Agricultural Sector Inputs

Table 11 of Appendix B shows imports by value and commodity grouping. The largest group of commodities imported, besides the "other goods" (28%), were the intermediate goods, which were 23% of total imports in 1981. Between 1978 and 1981, the consumer goods commodity group declined from 22% to 15% while energy changed from 9 to 19%.

Table 14 shows the distribution of trade. North America had 15% of the market share of imports and 16% of exports.

The most recent IMF stablization program resulted in changing import and foreign exchange regulations which will have an impact on the composition of future purchases. It is anticipated that the revised tariff structure which favors raw and unprocessed goods (3% tax) and heavily taxes finished goods (30-40% tax or higher) and puts restrictions on luxury goods will encourage the importing of intermediate goods and promote local industry.

The demand for agricultural transport-related commodities from the U.S., is dependent on: competition with European products, the exchange rate, the finance terms, and the delivery time faced by the importer.

The Agricultural Marketing Support Loan (660-K-025) had difficulty disbursing its funds until tax exoneration and the overvalued offical exchange rate became part of the terms. European and Japanese goods are generally more attractive to importers than U.S. products because of shorter delivery times (6-12 weeks versus 12-36 weeks minimum for U.S. commodities) and in some cases lower costs. However, American products remain in the Zairian market because of their durability and familiarity. Zaire is a vast country with large needs for basic capital imports. The U. S. is also maintaining a disadvantage in trade terms due to the present strength of the dollar.

During a recent informal market survey, the program design team approached four principal machinery/chemical dealers using American products in the agricultural sector. Two of the firms are in competition with each other, while the other two make or import different but complementary products. Estimates of needed foreign exchange given by the firms varied from $100,000 to $3 million depending on the terms of financing. One company with a projected need of less than $1 million for agricultural equipment had a minimum annual foreign exchange need of $15 million for all of its products. Another firm deals in sales with import requirements exceeding $30 million.

The list of commodities drawn up by the importers include chemicals needed for the manufacturing of tires. The firm requires $400,000-600,000 worth of chemicals per month at the current rate of operation. The other firms have identified a replacement market for marine engines and spare parts, as well as sales of generators and certain pieces of earth moving equipment for road work. The equipment is generally the basic model type: easy to repair and durable. Additionally, if SNCZ (the railroad company) has the required local currency to purchase locomotives, one of the local dealers could arrange for the importation of locomotives.

The beneficiaries of the program will include the participants in the projects programmed to use the counterpart funds generated by the program. Benefits in the form of health care and agricultural extension, training in the use of agricultural techniques, and improvement in market access will be received.

Other beneficiaries include the end users that will purchase the various commodities from the importers. The importers will benefit from the source of foreign exchange that will be provided to them at terms more attractive than current bank terms. The third set of beneficiaries includes the U.S. suppliers of the goods financed under this program.

The anticipated impact of this program will be seen through the maintenance and/or upgrading of the agricultural and rural transport sectors. Tires sold for trucks will provide essential support to move foodstuffs between the farm and transit points or urban consumption centers. Generators will enhance all operations at river port facilities, farms and agricultural processing enterprises. Refrigerator units will help in the preservation of food. Ma ine engines will facilitate river transportation.

To the extent that the progam serves the replacement market for engines, tires, and generators, the impact of these products will not be highly visible. Zaire is a large country with an extensive but deteriorated transportation system. The need for replacing the deteriorated capital easily exceeds $100 million.

The Grant funds are best used to finance commodities for the agricultural transportation sector. Zaire needs to get its roads, water ways, and rail lines back in full operation. This $8 million grant cannot represent the balanced, optimal combination of all needed materials. However, AID has a large concentration of rural projects in the area of transportation rehabilitation and agricultural marketing. This Support Program is directly in line with these efforts.

End users have been identified as private and parastatal barge owners and operators, Office des Routes, industrial and private construction firms responsible for road rehabilitation as well as industrial and trucking companies engaged in agricultural marketing.

Potential clients for receiving the products are located in Bandundu (trucking, farming), Bas-Zaire (agricultural marketing), and Shaba where a local firm estimated a demand for U.S. equipment of up to $500,000 for that area alone.

The possible inflationary effects of the counterpart fund money flow generated by this program are estimated to be insignificant. The $8 million program is very small compared to total annual imports that exceed $1 billion. Disbursed over a year, its inflationary effect will be negligible. Second, counterpart funds are planned to be used in support of more than 20 USAID projects. The funds will be disbursed in geographically separate areas according to different project timetables. Any inflation effect caused by the release of this money into the economy thus will be minimized. Therefore, the program will aid in the provision of needed agricultural equipment, will have minimal effect on inflation, and will be relatively easy to implement because of the few number of importers who are expected to participate in the program.

3. The Private Sector

The recent economic reforms have resulted in a reduction in liquidity. As the economy recovers, this problem will diminish. Recently, the GOZ took some steps to further control the flow of money. First, all importers are now required to advance 65% down payment in local currency to obtain their import licenses. In effect, this ties up company capital from 6 weeks to 6 months until the goods arrive. Smaller firms are often required by the commercial banks to deposit 100% of the foreign exchange value in local currency. Second, the GOZ recently sold high interest short term treasury bonds totaling about 70 million zaires. The purpose behind these measures is to prevent too rapid a recovery leading to higher inflation and rapid foreign exchange outflows. Consequently, firms still need capital to finance imports but are short on local currency. Banks charge 30%-40% interest on loans. AID plans to offer the firms foreign exchange at more favorable terms (through the banking arrangements) requiring a 20% down payment, 30% upon removal of goods from customs, and 50% within 90 days from the date the commodities arrive at port. These are the terms that have been and are used in the financing of PL 480 commercial imports. Should these terms in any event prove insufficiently attractive for potential importers, USAID may consider extending the final period or otherwise adjusting the terms as necessary to promote timely program implementation. The firms will have greater confidence that the foreign exchange is available (from the U.S. government) as opposed to a local bank which may have periodic shortages. Third, AID financing will help the importing firms cut down on their interest costs. These credit terms will facilitate the provision of capital equipment and inputs at a time critical to the recovery of the economy.

4. Balance of Payments (BoP) Support

Table 10 of Appendix B shows the recent past and the future projections of Zaire's BoP situation. By 1986, Zaire is expected to show an overall negative balance of SDR $165 million. According to IMF projections, Zaire will not likely show a positive balance until 1988. The principal reason is the size of the debt service payments. Average interest payments alone on the public debt for 1984-86 will be 60% per annum of average 1984-86 export earnings. Thus, the GOZ will continue to need balance of payments support to help minimize the shortage in foreign exchange brought about by debt service requirements.

5. Counterpart Fund (CPF) Utilization

Another justification for the program is the need for counterpart funding. USAID/Zaire currently has a portfolio of projects concentrated in the areas of agriculture, agricultural marketing and health/nutrition. Counterpart funds are currently low, and USAID is reliant on the arrival of PL 480 Title I shipments to meet immediate budget needs through local currency generations.

Adjusted CPF budget expenses for CY 1984 and for the 1st quarter of CY 1985 are in the process of being negotiated between USAID and GOZ. Total preliminary requests for joint program activities and GOZ needs exceed Z 130 million ($15 million) while anticipated counterpart fund receipts, without this program, are equal to Z 387 million ($11 million). If one-fourth of this $8 million Program could be recovered in 4th quarter CY 1984, an extra 70 million zaires of the budget needs could be covered. In other words, this program will play an important role in supporting joint USAID and GOZ project activity expenses.

D. Issues

USAID will bear in mind four concerns while implementing the program:

1. U. S. Source Equipment

The current strength of the U. S. dollar vis-a-vis other currencies puts U. S. source/origin equipment at a disadvantage. American equipment, while enjoying a reputation as durable and of top quality, is relatively more expensive to importers at the current exchange rates than had been the case in previous years. Some suppliers maintain a competitive edge by ordering European-manufactured American products, where the shipping time from factory to port can be one-third or less of the time it takes to receive equivalent material from the U. S.

Also, a substantial difference between some previous programs and that in other programs the U. S. goods have been imported duty free and at an overvalued rate of exchange. Not only will duties add to the consumer price of the merchandise, but the U. S. dollar strength makes the product more expensive. The solution to this problem is found in offering finance terms that are attractive to importers. At the time of import transactions, USAID should consider the alternatives among the range of options acceptable to the GOZ. These might include establishment of a fixed rate of exchange between the dollar and the zaire (to ensure importers against unpredictable fluctuations in the rate), and extension of the time allowed for counterpart fund deposits (to permit sufficient time for importers to market the program-financed imports). Also, the commodity list may be augmented to include other sorts of commodities. The tradeoffs are that, with fixed exchange rates, some purchasing power in local currency may be lost, while an expanded positive list may diffuse the thrust of the desired impact.

2. Liquidity

A second issue to consider is how the current short supply of local currency will affect the importers' ability to secure their purchases with USAID financing. The proposed 20% down payment under this program- as opposed to the newly required 65% - helps to alleviate this problem and is one reason

why some importers would prefer to use AID financing. However, it is anticipated that the problem will become less severe in several months - at about the same time when the project should begin its full implementation. In fact, some companies, if they have large zaire reserves, may prefer to deposit a larger proportion of the local currency as a means to speculate against possible exchange rate increases.

Coupled with the longer wait and higher prices of U. S. source and origin goods, the importers may find themselves with a market less willing to purchase American produced products. The solution rests in the flexibility of establishing finance terms as discussed in the previous section.

3. Final User Accountability

One of the lessons learned from a previous commodity program (660-K-025) was the difficulty in keeping in track of the commodity distribution to the end-user level. The program described herein, has simplified the monitoring. Monitoring will be limited to examining dealer sales. Several of the products designated for purchase can, however, be used in other sectors or for multiple uses - barge motors will propel both agricultural and non-agricultural products, for example.

4. IMF Measures, the Economy, and Wages

Beyond specific program issues, another area of concern in regard to overall economic recovery falls in the area of continued GOZ adherance to IMF stabilization measures and recovery of Zairian living standards. Unless Zaire continues along this path of recovery, AID's efforts will not be complementary. Zaire has been experiencing a growing urban population due, in part, to unattractive rural conditions. With the influx of the people to the cities, the deterioration of public and private wages, and the rise in food prices due to the rise in petroleum (hence, transport) prices, many people, particularly in Kinshasa, are suffering from the declining real value of their earnings. Though IMF prescription is not a panacea for all problems, it is at least a starting point for recovery, in spite of the austere conditions imposed upon the population. Because the GOZ has adhered to the most recent IMF conditions, the need for foreign exchange has become important, and AID is providing limited help, at critical time, in this area through this program.

IV. PROGRAM IMPLEMENTATION

A. General

In much the same manner as former USAID import financing programs in Zaire, this effort will respond principally to the foreign exchange requirements of Zaire's private sector and specifically to private firms engaged in activities that directly support the agricultural transport sector (refer to page 29 for the list of eligible commodities). The Grant Agreement will be signed with the Counterpart office of the Ministry of Plan. However, USAID/Kinshasa, in close cooperation with the Ministry of Plan, will have primary responsibility for program monitoring and administration of the Agricultural Inputs Support Grant. The Ministry of Plan's responsibility will be to monitor and account for local currency deposits and to issue Financial Requests to USAID.

In order to ensure the efficient and rapid disbursement of funds available under the Grant, USAID/Kinshasa forsees a relatively small number of importers participating in this program. These importers will procure selected U.S. commodities which have been identified as eligible items. Commodities are identified as eligible based on their ability to make a quick and significant impact on the maintenance and upgrading of farm-to-market operations and improvement of transportation services in support of the agricultural sector. For the most part, importers will be manufacturers/distributors who will offer the final product for resale to end-users. Priority for the use of these Grant funds will be given to manufacturer/distributors who have in-country maintenance and service capability. Importers approved to use funds from the Grant will be exclusively from the private sector. To the extent that USAID/Kinshasa has been able to identify potential participants in the program, all have extensive experience in the importation of commodities into Zaire and possess a thorough understanding of local commercial practises, i.e. import licensing, commercial banking and port/customs clearance procedures. Some of the importers have participated in previous USAID financed import programs in Zaire and hence will have no difficulty adjusting to AID requirements and procedures.

Similarly, existing procedures of the principal local commercial banks and at the port of entry at Matadi are adequate for the implementation of this program. Therefore, the design team concludes that the private sector importers will be able to procure A.I.D. financed commodities under this Grant using essentially the same methods they would use for other international commercial transactions. It is not expected that the additional A.I.D. procedures will place an undue burden on the system.

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

A.I.D's standard commodity financing procedures, as set forth in A.I.D. Regulation 1 shall be applicable.

C. Authorized Sources/Origin of Procurement

In accordance with the policy set forth in A.I.D. Handbook 1, Supplement B, for Economic Support Fund Grants, the authorized source of procurement for commodities and services will be A.I.D. Geographic Code 000 (U.S. only).

D. Value of Transactions

The minimum value of transactions under the Grant will be set at $20,000. However, priority will be given to importers with eligible transactions of more than $100,000.

E. Method of Financing

Following procedures developed under previous commodity import programs, the bank letter of commitment/letter of credit method of financing, or such other financing procedures as may be approved by A.I.D., will be used.

F. Disbursement Period

The proceeds of this Grant are expected to be disbursed within an 18-month period from the date the Grant Agreement is executed. The terminal date for requesting disbursement authorizations will be 12 months from the Grant Agreement date.

G. Eligible Commodities

The commodities eligible for financing under this Grant will be destined for and capable of being used effectively in support of agricultural transport activities. Commodities will be identified by specific Schedule B numbers conveyed in the Commodity Procurement Instructions issued with Implementation letter number one. Eligible items are limited to the following unless otherwise agreed to in writing by USAID in the Commodity Procurement Instructions (CPI):

1. Raw Materials and Chemicals used in the manufacture of rubber tires for trucks (see special provision number 29, AID Commodity Eligibility list, Handbook 15, Appendix B.) Eligible only with the specific authorization of the A.I.D. Mission Director.

2. Marine diesel engines and spare parts

3. Generator sets and spare parts

4. Road rehabilitation and earth moving equipment and spare parts

5. Locomotives and spare parts

6. Agricultural transport machinery and spare parts (for example: bel elevators, forklifts, cranes, trailers, tractors, trucks, refrigerator units)

7. Water pumps

Commodity related services as defined in A.I.D. Regulation No. 1 are eligible for financing under this Grant. These related services include transportation costs, marine insurance and banking charges on letters of credit. Other items shall become eligible for financing only with the prior written agreement of A.I.D. A.I.D. may decline to finance any specific commodity or commodity-related service when in its judgement such financing would be inconsistent with the purpose of the Grant.

H. Zairian Import Procedures

As part of the IMF recovery measures in September 1983, the Zairian import control system was relaxed. Prior to September 1983, GOZ required that the Bank of Zaire approve each import license request submitted by the commercial banks on behalf of the importers. The current procedure has been simplified. GOZ has established a list of commodities that can be imported without prior Bank of Zaire and commercial banks can allocate their own foreign exchange. Commodities that are not on the priority list, particularly luxury items, still need Bank of Zaire authorization. Banks that do not adhere to these procedures are subject to fines. In the case of this program, the Bank of Zaire will issue a bank circular listing the commodities that can be imported under this program, terms of payments, and other conditions. This circular is also a part of the normal allocation and licensing procedures. Once approved, this program will not require any special handling outside of what is already established as GOZ standard operating procedures for import approval.

I. Implementation Procedures and Schedule

USAID/Kinshasa has designed the implementation procedures for this program to be as simple as possible while at the same time satisfying AID policy objectives and the program's own purposes. Upon execution of the Grant Agreement, issuance of necessary Implementation Letters including the Commodity Procurement Instructions, and meeting the Conditions Precedent, funds will be available for disbursement. The following outline describes the general procedures and the time frame which will be utilized in the implementation of this program.

1. a. Grant Agreement signed by Dept. of Plan — Month 1

b. PIL No. 1 and CPI issued

c. Discussions with Bank of Zaire on format and content of Bank Circular

2. a. Conditions Precedent satisfied — Month 2

b. ınk Circular issued to approved commercial Zairian Banks setting forth rules and instructions regarding the use of the funds provided under the grant

c. Importers submit to USAID for review and approval pro-forma invoices and a certification stating that the commodities proposed for importation will be used for resale within the agricultural-transport sector of Zaire

3. a. Upon receipt of USAID's written approval, importers will apply for import licenses for commodities to be financed with foreign exchange provided by the Grant. — Month 3
A copy of USAID's written approval of the importer's transaction must be presented to the commercial bank before the bank can proceed to process the import license application.
The negotiated procurement procedures set forth in AID Regulation No. 1, Section 201.23, will be applicable to all private sector procurements.
When procurement is under a special supplier-importer relationship, USAID/Kinshasa may require the importer to furnish documentary evidence of the relationship

b. USAID submits to the Dept. of Plan copies of the importers' pro-forma invoices and USAID's approval

c. The Ministry of Plan will submit, for each importer or group of importers, a financing request for the opening of a bank letter of commitment for the full amount of the importer's allocation.

d. USAID reviews and approves the financing request and forwards it to AID/W for issuance of the bank letter of commitment. Copies of the bank letter of commitment will be provided to the Bank of Zaire and the local commercial bank

4. a. Upon receipt of confirmation from AID/W that the Bank L/Com is opened, the approved Zairian commercial bank will open an irrevocable letter of credit. However, prior to issuance, the letter of credit, accompanied by approved import licenses and any other pertinent documentation, will be forwarded to USAID/Kinshasa for review. USAID/Kinshasa will issue its approval in writing. All documentation, including letters of credit, will state the Department of Commerce Schedule B number for each commodity being procured — Month 4

b. The Zairian commercial bank issues the letter of credit through the U.S. correspondent bank to the U.S. suplier. The U.S. supplier proceeds to deliver the commodities, CIF Matadi, according to the terms of the letter or credit

5. First shipments from U.S..Upon shipment of the commodities, the U.S. supplier will request payment from the U.S. correspondent bank. Documentation required for payment is specified in AID Regulation No. 1, Section 201.50 and includes the Suppliers Certificate (AID 282), the approved AID Form 11, and a certificate signed by the supplier stating that he has complied with the A.I.D. marking requirements set forth in AID Regulation No. 1. One copy of all shipment and payment documentation will be forwarded to the Controller, USAID/Kinshasa. A second copy of this documentation will be forwarded to the Project Officer, USAID, Kinshasa — Month 7

6.	Imports commence arriving	Month 9
7.	Terminal Date for Requesting Disbursement Authorizations	Month 12
8.	Final Shipments from U.S.	Month 16
9.	Grant fully disbursed	Month 18
10.	Local Currency generations fully disbursed	Month 24

J. Commodity Arrival and Disposition

The Government of Zaire has an established system for monitoring the arrival of goods in country for which import licenses have been issued. However, the monitoring of the transactions related to this program will be the responsibility of USAID/Kinshasa. In order to perform this responsibility, USAID/Kinshasa will receive from the importers copies of shipping documents, arrival reports, survey reports and other statements issued by the Port Authority's agents, and copies of the customs clearance documents issued upon clearance of goods from customs. AID will conduct periodic end-use checks to insure that A.I.D. financed commodities are being properly received and utilized within time periods specified in the Grant Agreement. End-use checks will also be made to insure compliance with the marking requirements of A.I.D. Regulation No. 1.

It is expected that the importers of the AID-financed goods will promptly clear the items from customs, satisfying AID's standard requirements, and sell or utilize the goods within one year after they arrive in Zaire.

K. Local Currency Generation and Use

Under procedures to be established as part of the Grant, the local commercial banks will collect from the importer local currency using the following exchange rate formula, except as the parties may otherwise agree in writing. The first deposit of 20% will be based upon the exchange rate in effect on the day the letter of credit is opened. The second deposit of 30% and the third deposit of 50% will be based upon the exchange rate in effect on the day the commodities leave customs. The

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schedule for payment by the importer of the local currency funds will be, except if the parties agree otherwise in writing, a minimum of 20 percent at the time the letter of credit is opened, a minimum of 30 percent on the date the commodities leave customs and the final 50 percent, or whatever smaller percentage might remain, paid to the local bank 90 days from the date the commodities arrive at port. The decision to pay more than the minimum 20 or 30 percent rests solely with the importer. Local currency generated under this grant will be deposited in a special account established and maintained by the Ministry of Plan. The Ministry in coordination with the Controller, USAID/Kinshasa, will monitor and report on the status of the funds in the special account.

There is an established need for local currency financing under several joint GOZ/A.I.D. projects. At this time it is expected that a major portion of the local currency generated by the Agricultural Inputs Support Program will be destined for development projects in the agricultural, transport and health sectors, a portion through Private Voluntary Organizations. In any event, the grant agreement will provide that counterpart funds generated under the proposed grant will be utilized by AID and the Government of Zaire for development activities to be mutually agreed upon between the Government and AID, and in coordination with the participating ministries. Similar procedures have been used in previous USAID programs.

L. Program Monitoring

AID will monitor procurement drawdowns on the grant and progress on the use of local currency generation, through financial reports containing the following information:

1. Procurement monitoring - monthly reports on:
   a. bank letters of commitment and letters of credit opened.
   b. disbursements.

2. Local Currency Generation Monitoring - reports on
   a. Monthly and cumulative disbursements from the special account.
   b. For each program or activity funded from the special account, the amount budgeted for the activity, disbursements made during the quarter and cumulative disbursement.

c. A general description of activities, goods, services, structures and/or facilities, etc. financed during each quarter.

The procurement moritoring reports will be prepared by the USAID Project Officer and the local currency generation monitoring reports will be prepared by the Grantee, the Counterpart Fund Direction of the Department of Plan. Instructions for the latter report will be more specifically described in an Implementation Letter to be forwarded to the Department of Plan. AID will retain the right to audit and inspect activities financed under the Agricultural Inputs Support Program.

The Grant Agreement will provide that some of the grant proceeds may be used to finance program related technical services.

V. OTHER CONSIDERATIONS

A. Management and Use of local currency generations

1. Management of Counterpart Funds

Presently, there is a US Financed Title I Program (PL 480) in Zaire. There have also been CIP programs in the past. Counterpart funds have been generated for many years. The present GOZ and USAID staff have had considerable experience in managing counterpart funds. USAID/Zaire has played and will continue to play an active role in programming and managing the counterpart funds.

Within the GOZ, the management of Counterpart funds is the responsibility of the Counterpart Funds (CPF) Division in the Ministry of Plan. The Division was created in 1970 to manage local currency generations of various donor import programs. The CPF Division, with 12 technicians, is divided into four sections.

On a yearly basis, USAID prepares a proposed Counterpart Fund Budget and submits it to the CPF Division for its review. The USAID Counterpart Fund Budget reflects the local currency needs of various joint AID/GOZ Projects. The amounts are determined in close cooperation between USAID and the appropriate GOZ technical departments involved in projects with USAID. The CPF Division submits to USAID a similar Budget reflecting its perceived needs. The next step is for USAID and the CPF Division to negotiate a mutually agreeable budget.

USAID Controller's Office has been active in the financial management aspects of US generated counterpart funds. During the last 18 months the following have been accomplished in regards to the management of counterpart funds.

a. A representative from the USAID Controller's office visited each recipient of counterpart funds and inspected the CPF accounting systems.

b. A list was prepared of projects with inadequate systems and project personnel were informed of the assessed inadequacies. To date, six systems have been upgraded. There are still three projects for which the systems need to be improved. These systems are scheduled for redesign and modifications within the next year.

c. A system of quarterly financial reports was instituted. The reports compare budgeted versus actual expenditures and provide information on current cash balances and estimated cash needs for the following six months. Reports have been received from all recipients of counterpart funds for the most recent quarter (January to March 1984).

d. A system of releasing funds quarterly based on the reports received was implemented. Releases of funds are now made every three months, based on historical and current up to date reports received from the projects.

e. A half-day seminar was conducted jointly by USAID and the Ministry of Plan. All Zairian Project Managers and Accountants as well as other managers were invited to attend the seminar. The agenda included the following topics:

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(1) Organization of and relationship between USAID and the Ministry of Plan
(2) Counterpart Fund (CPF) Budgeting
(3) CPF Accounting and Report Requirements
(4) Procedures for Releasing CPF
(5) Audits of CPF. A representative of the local office of Coopers and Lybrand discussed audit procedures and techniques as well as deficiencies found on previous audits of US CPF by Coopers and Lybrand.

f. Three audits of counterpart funds were performed in 1983. Two of the audits were performed by the local office of Coopers and Lybrand. The third audit was done by the Government of Zaire audit staff in the Ministry of Finance. One audit has already been scheduled for 1984. It is planned that another two will be scheduled later in the year.

g. USAID wrote a detailed letter to the Ministry of Plan suggesting a number of changes in the financial management of counterpart funds. The letter proposed a work plan with specific actions and target dates. Subjects included in the letter were budgeting, actions on debts and receivables, accounting and reporting requirements for recipients of counterpart funds, internal accounting and reporting by the Ministry of Plan in regards to its management of US-generated CPF, procedures for more timely releases of CPF, and audit policy. The letter was delivered in March of 1984 and since then USAID staff have met with GOZ personnel in Plan on six occasions to discuss implementation of the changes. The GOZ has already revised its procedures for releases. USAID recognizes that implementation of all the changes is a long-term process that will take several years to fully implement.

It is estimated that collections of counterpart funds will be close to the equivalent of 20 million US dollars in 1985. USAID places a high priority on the prudent and proper management of these funds. Given the recent progress and experience of both the present USAID and GOZ staff in management of CPF, and the willingness of the GOZ to work with USAID personnel in a collaborative manner, USAID is confident that the counterpart funds generated from the imports proposed in this program will be soundly managed.

2. Use of Counterpart Funds.

A major portion of the local currency generated by the Agricultural Inputs Support Program Grant will be destined for development projects in the agricultural, transport and health sectors, some of it to be channeled through Private Voluntary Organizations. These funds will support on-going activities in rural road and river infrastructure development and in agricultural production support in specific geographical areas USAID has already targeted its limited resources. Funds will be channeled through both PVOs and private industrial firms, under the Food and Market Development Project 660-0102, to develop their capacities to extend and multiply improved varieties of manioc, corn and legumes. Consideration will be given to financing agricultural credit either through established PVOs with active credit programs or through the Agricultural Credit Bank recently established. Feasibility studies will be undertaken before any such credit financing begins. Funds generated through the ESF Grant will also be used to expand the activities under the Rural Health Project 660-0086. If proven to be technically and institutionally feasible, activities in rural water supply may be financed in coordination with GOZ, other donors, and private agencies involved in rural water supply. In addition, USAID envisages financing certain activities of the Ministry of Plan with the purpose of expanding and supporting its institutional capacity to plan, program and coordinate the GOZ's sectorial programs at both the regional and national levels. The use of the ESF Grant generated counterpart funds will be negotiated in close collaboration with the Ministry of Plan. This negotiation process as well as the use of CPFs will have a direct impact on various on-going policy discussions USAID is presently undertaking with the GOZ, viz: increasing the allocation of resources to rural road and river transport infrastructure development, increasing donor coordination in the areas of transport and agriculture, reorganizing agricultural research, and increasing the allocation of agricultural credit to small, viable economic operators.

B. Impact on U.S. Balance of Payments

The design team anticipates that the net impact of this program will be favorable. Ove the short-term the outflow of U.S. resources will be matched

by the procurement of commodities under the ESF grant, all of which will have their sources and origin in the U.S. Over the longer term, a favorable impact on the U.S. BoP is likely to continue. Repeat orders and procurement of spare parts will stimulate additional trade with the U.S. In addition, the availability of U.S. goods under this program will strengthen the market position of distributors and suppliers of U.S. goods vis a vis dealers handling commodities from other traditional sources of imports, i.e. Belgium, France, Germany, and more recently, Japan.

C. Use of U.S. Government Excess Property

Given the nature of the items importers will purchase under this grant it is unlikely that financing of U.S. government excess property would be appropriate. However, A.I.D. will review the possibilities for financing such items where appropriate.

D. Relation of OPIC Program

Although preliminary negotiations have taken place, there is currently no OPIC country agreement in force in Zaire. OPIC at one time had a more active presence in Zaire, but due to past political problems and the general economic trends in Zaire, has reduced its role to a minimum. Thus there will probably be little relation between OPIC and this program.

E. Environmental Statement

The assistance herein provided is in the form of an Agricultural Inputs Support Grant. The list of eligible commodities under this grant (see page 29) indicate that marine engines, road repair equipment, pumps, generator sets, locomotives, and truck tire chemicals will be imported. To the extent that the engines and equipment serve the replacement market, no net increase in air, water, or noise pollution should be observed. The road equipment may actually be environmentally beneficial by preventing further soil erosion and gully formation around already existing roads. The chemicals selected for importation are to be used in tire manufacturing. The chemicals that are to be imported are no different than those used in U.S. tire production. To the extent that synthetic tires are not now manufactured in Zaire (presently tires

of poor quality rubber are being made), the chemicals may alter, to a small degree, the composition of wastes discarded from the factory.

No fertilizers, pesticides, or insecticides will be imported under this Program.

A N N E X E S

REPUBLIQUE DU ZAIRE
Mouvement Populaire de la Révolution

ANNEX A

Kinshasa, le 17 Mai 1984

DEPARTEMENT DU PLAN

N° 307 /DP/SFC/MMP/ml/8

SECRETARIAT DES FONDS DE CONTREPARTIE

A Monsieur Richard PODOL
Directeur de l'USAID

K I N S H A S A.-

CONCERNE : Don pour intrants agricoles

Monsieur le Directeur,

Nous avons analysé le document de travail "Don destiné au Programme de Financement d'intrants agricoles" ainsi que le projet de l'accord y relatif.

Le Secrétariat des Fonds de Contrepartie n'a pas d'objections à formuler sur l'ensemble du document. Néanmoins, nous souhaitons qu'il soit prévu un certain pourcentage dans l'utilisation des fonds au profit de certains programmes prioritaires du Conseil Exécutif

Veuillez agréer, Monsieur le Directeur, l'assurance de notre considération distinguée.

Dr. MOKUBA MPAKEBUI
Chef de Division

DURU MOUSSA SAF
Directeur du Secrétariat des Fonds de Contrepartie

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APPENDIX B

Table 1: Marketed Production of Major Crops

(Thousand metric tons)

	1959	1972-74	1979-81	Production Index 1979-81 / 1972-74=100
Food				
Maize		148	130	88
Domestic Industrial Crops				
Cotton (Fiber)	63	18	9	50
Sugarcane	360	526	486	92
Timber (sawn)	212	143	72	50
Export Crops				
Coffee	62	76	73	96
Palm Oil	244	149	95	64
Palm Kernel Oil	61	35	21	60
Cocoa	5	5	4	80
Tea	4	8	3	40
Rubber	40	39	20	51

Source: WB Rpt. No. 4077-ZR, pg. 4
Bank of Zaire, Annual Reports.

Table 2: Profitability Indicators:
Agriculture Compared to Commercial Sector

	Annual Average 1972-74	Annual Average 1975-77	Annual Average 1978-80
Relative Price Index of Agriculture vis-à- vis Commerce			
Export Agriculture a/	122	85	61
Foodcrop Production b/	92	68	44
Percentage Share of Commerce in Commercialized GDP	14	19	23

a/ Ratio of value-added price index for export agriculture to that for commerce.

b/ Ratio of value-added price index for foodcrop production to that for commerce.

Source: World Bank Document 4077-ZR, pg. 16
Bank of Zaire.

Table 3

Zaire: Gross Domestic Product by Sectors in Current Prices, Selected Years

GDP	1972	1977	1981
Primary Sector			
Agriculture	188.5	1077.4	7555.0
Secondary sector	365.4	900.0	5565.6
of which			
Mining and Proces.,	203.6	460.0	3745.6
Mfg 98.8	280.2	648.0	
Construction	53.4	148.6	1160.7
Tertiary Sector	535.8	1887.7	9573.2
of which			
Non-govt. Serv.	368.6	1426.4	7063.4
of which			
Commerce	148.6	731.3	4625.9
Govt. Services	167.3	401.3	2509.8
TOTAL	1157.3	3956.2	23603.8
TOTAL (1970 prices)	995.3	1006.4	1001.9
Deflation (1970=100)	116.3	357.6	2355.9

	1972-76	1976-81	1981
GNP Growth Rates	- 4.6%	- 2%	1.0%

Source: US Embassy estimates, WB Rpt. No. 4077-ZR

Table 4

Zaire Mineral Production, Selected Years
(Thous. MT)

	1973	1977	1981	1982	1983
Copper	488.6	479.7	504.8	542.6	489
Zinc concentr.	156.4	131.5	121.3	-	-
Cobalt	15.1	10.2	11.2	-	-
Manganese Ore [1]	334.0	41.0	18.3	-	-
Diamonds (Ths carats	12.9	11.2	6.2	6.7	8.1
World Prices					
Copper c/lb.	67.2	59.2	79.0	66.0	73.0
Cobalt $/lb.	2.35	5.58	19.38	9.96	6.00

[1] The decline in production reflects the closure of the Benguela Railway 1975-79

[2] Preliminary

Source: IMF EBS/83/257,. pg. 66
WB Rpt. No. 4077-ZR, appendix tables

Table 5

Government Revenues and Expenses,
Selected Years
(Million Zaires

	1973	1977	1980	1982	(Program) 1984
Revenues	385	669	3777	6259	20400
Current Expenditures					
Wages & Salaries	150.2	407.1	1527.2	2779.7	4586.
Interest					
Domestic	5.8	28.6	73.2	495.3	5250.0
Foreign	15.4	78.8	287.7	190.7	606.0
Transfers & Subsd.	37.7	70.1	293.9	987.5	1295
Other	124.5	253..9	1141.8	3499	7013
Capital	101.1	102.1	246.4	1084	1400
Total Expend.	434.7	940.6	3570.2	9037	20150
Deficit	-49.7	-271.6	-206.8	-2778	-250
GDP	1475	3956	17207	32058	81400
Deficit (%GDP)	3.4	6.9	1.2	8.7	.3

Source: IMF EMS/83/257 Zaire-Staff Report, Nov. 30, 1983
World Bank Report No. 4077-ZR, Economic Memorandum

Table 6

Other Selected Economic Indicators of Zaire

		Z Million				
		1980	1981	1982	1983	1984
Money Supply		3367	4645	8015	12054	16300
Rate of Growth(%)		62	38	73	51	35
Kinshasa consumer price index (1975=100)		1313	1813	2583	5296	7785
Wages						
Private	Nominal	378				
	Real	28				
Public	Nominal	372	450			
	Real	28	15			
(1975=100)						

Table 7

Zairian Exports ($ Millions)

Year	1972	1977	1981
Copper	407.2	476.2	806.3
Cobalt	53.6	104.9	168.7
Diamonds	42.8	64.5	66.8
Other Minerals	45.5	73.4	123.3
Agricult. Products	92.2	240.2	136.3
Other	57.0	267.2	373.6[1]
Total[1]	690.8	1228.1	1493.6

Volume

Copper (Th. MT)	448	481	472.5
Cobalt (Th. MT)	14.9	10.2	4.5
Diamonds (Mill carat)	12.0	11.5	6.7
Palm Oil (Ths. T)	124.2	36.5	25.1
Oil (MIL BLS)	0	8.3	7.3

1 Figures don't add because there were adjustments and marketing costs that are not shown here.

2 Includes 259.9 $ million from oil sales.

Table 8

Value of US, Bilateral and International

Agency Commitments and Assistance

($ Millions)

	1979	1980	1981	1982	1983	1984	1985
AID Assistance							
Economic Asst.	37.3	26.4	28.6	24.0	20.3	35.7[1]	43.4[2]
of which							
PL 480	21.4	16.3	13.5	10.0	10.9	10.4	16.1
Military Asst.	9.8	6.9	6.8	10.7	n.a.	n.a.	n.a.
Int'l Agencies	n.a.	n.a.	51.8	151.	90.2	n.a.	:(Commitments
Bilateral							
(excl. US)	n.a.	n.a.	261.6	232.	n.a.	n.a.	:(Gross Disbursements
OPEC			14.5	n.a.			

Source: USAID/Kinshasa ABS FY' 85

Table 9

Unrequited Flows - Public and Private Transfers

	1980	1981	1982	1983	1984
Private	-61	-3	-14	-10	-15
Public	205	210	170	185	200
Unrequited Transfers	144	207	156	175	185

Source: IMF EBS/83/257 Zaire Staff Report

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[1] Including ESF of $8 million (this project)

[2] Including ESF of $15 million

Table 10

Medium Term Outlook for Balance of Payments

Million SDR

	1981	1983[1]	1984[1]	1985[1]	1986[1]
Exports	1493	1375	1524	1675	1850
Imports	1358	1036	1105	1180	1275
Trade Surplus	135	339	419	495	575
Net Debt Services	-408	-754	-834	-875	-915
Transfers	33	175	185	200	220
Current Account Balance	-240	-240	-230	-180	-120
Public Capital		-212	-170	-130	-50
Private Capital		0	0	0	0
Overall Balance		-452	-400	-310	-165

Source: IMF EBS/83/257 Zaire Staff Report

Table 11: TOTAL AID [1] AND ODA FLOWS TO ZAIRE
(AS REPORTED BY DAC), 1976-80
(Million US$)

	1976	1977	1978	1979	1980
A. Commitments					
1. Total Flows[2]	315.4	287.0	421.4	430.5	544.9
Bilateral[3]	217.5	240.2	323.0	266.1	422.6
Multilateral	97.9	46.9	98.4	164.4	122.2
2. ODA Loans	92.8	84.5	88.9	96.5	n.a.
Bilateral	42.3	66.5	70.8	29.3	n.a.
Multilateral	50.5	18.0	18.1	67.2	n.a.
B. Disbursements					
1. Total Flows, net	489.2	512.3	707.1	732.5	775.8
Bilateral	404.3	397.2	571.7	602.9	623.2
Multilateral	63.8	115.1	135.4	124.9	129.1
OPEC, bilateral	21.1	-	-	4.8	23.5
2. ODA, net[4]	193.7	260.6	316.9	416.4	446.0
Bilateral [3]	148.7	170.9	204.0	293.5	446.0
Multilateral	44.9	89.7	112.9	122.9	105.7

1 Only flows which qualify as "official development assistance" as defined by DAC; figures are not consistent with other capital account estimates in this report because DAC treats debt rescheduling as new aid.

2 In addition to aid, includes grants from private agencies (private aid) and transactions at commercial terms: export credits, bilateral portfolio investment (including bank lending) by residents or institutions in DAC countries; direct investment (including reinvested earnings) and purchases of securities of international organisations active in development.

3 Includes OPEC Countries.

4 Less capital repayments on earlier loans.

Sources: Development Assistance Committee (DAC), Paris
World Bank Report 4077 - ZR - December, 1982.

Table 12
ZAIRE: DIRECTION OF TRADE, 1973-80
(PERCENTAGES)

ITEM		1973	1974	1975	1976	1977	1978	1979	1980
				* * EXPORTS * *					
EEC	110	82.3	85.7	79.7	70.3	77.0	76.6	73.2	74.8
Belgium & Luxembourg	111	48.7	47.4	40.9	43.2	39.7	42.1	45.1	50.3
France	112	6.7	7.6	6.9	7.2	10.3	8.1	8.4	7.2
Italy	113	13.5	14.4	14.6	8.0	10.0	7.3	6.0	6.3
Germany	114	6.3	6.8	6.9	5.4	7.5	6.9	5.4	4.7
Netherlands	115	2.7	4.0	4.2	1.6	2.4	1.5	1.0	1.0
United Kingdom	116	4.5	5.4	6.2	4.7	6.4	10.5	7.1	5.0
Ireland and Denmark	117	0.0	0.0	0.1	0.2	0.6	0.2	0.2	0.4
NORTH AMERICA	118	5.9	4.3	6.7	14.4	11.3	12.8	14.4	14.9
JAPAN	119	6.7	6.8	5.5	6.0	5.6	4.6	5.8	5.5
OTHER OECD	120	2.7	1.7	3.9	2.8	3.7	2.8	2.3	2.2
OTHERS	121	2.4	1.5	4.2	6.4	2.4	3.3	4.2	2.5
TOTAL EXPORTS	122	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 13
ZAIRE: DIRECTION OF TRADE, 1973-80
(PERCENTAGES)

* * IMPORTS * *

ECC	130	63.0	63.6	62.6	58.0	62.9	66.2	66.4	70.5
Belgium & Luxembourg	131	20.4	19.1	16.8	17.1	22.4	23.7	21.1	25.9
France	132	10.9	11.2	14.0	16.2	11.9	15.3	16.5	12.5
Italy	133	8.0	8.0	6.6	4.3	7.2	7.2	4.7	7.2
Germany	134	13.9	15.2	14.9	11.0	10.9	12.0	15.3	15.4
Netherlands	135	4.8	4.5	4.5	5.5	6.3	2.4	3.0	2.7
United Kingdom	136	4.1	5.0	5.6	3.7	4.0	5.3	5.4	6.3
Ireland and Denmark	137	0.8	0.7	0.2	0.2	0.2	0.3	0.4	0.2
NORTH AMERICA	138	16.6	15.2	19.9	12.4	14.1	10.9	12.8	15.6
JAPAN	139	7.4	7.0	4.0	3.8	4.6	3.2	3.0	4.6
OTHER OECD	140	6.9	6.5	7.6	13.4	11.8	12.6	8.4	8.1
OTHERS 1/	141	6.1	7.7	5.9	12.4	6.7	7.2	9.5	1.3
TOTAL IMPORTS	142	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: BANK OF ZAIRE

DATA DERIVED FROM: ZAI/3T World Bank Report 4077-ZR. December 1982.

1/ USAID/Kin believes that the "Other" category is currently underestimated because of the increased trade with South Africa.

TABLE

ZAIRE: BUDGETARY CURRENT EXPENDITURE FUNCTIONAL CLASSIFICATION, 1973-80 1/
(MILLIONS ZAIRES)

ITEM		1973	1974	1975	1976	1977	1978	1979	1980
GENERAL SERVICES	82	110.6	204.8	190.0	242.0	[illegible]	438.4	1,051.3	1,784.2
TERRITORIAL ADMINISTRATION	83	7.2	14.2	10.8	19.4	23.3	28.7	38.8	71.7
FOREIGN AFFAIRS	84	12.0	14.8	16.2	17.5	31.2	32.3	121.5	127.7
NATIONAL DEFENSE	85	24.1	54.0	51.9	61.8	90.9	173.7	378.3	419.0
VETERANS	86	0.2	0.3	2.0	3.4	3.9	5.7	7.9	[illegible]
JUSTICE	87	3.7	7.5	7.3	8.6	10.6	13.7	25.9	28.4
FINANCE 2/	88	59.7	109.0	91.3	110.6	104.2	138.5	467.5	1,041.[illegible]
NATIONAL ECONOMY	89	0.5	0.7	0.8	1.4	1.3	6.6	2.8	3.7
ORIENTATION (INFORMATION)	90	2.2	3.1	1.8	10.3	12.5	15.0	15.9	16.7
REFM COMM PUBLIC ADMIN	91	0.8	1.1	7.0	6.7	7.9	9.8	18.2	6.3
TERRITORIAL ORGANIZATION	92	-	-	0.7	1.3	1.7	1.9	3.3	4.0
COMMERCE	93	0.2	0.1	0.2	1.0	1.2	2.1	3.4	1.7
PLAN	94	-	-	-	-	-	4.1	6.8	11.4
PRIME MINISTER S OFFICE	95	-	-	-	-	-	6.3	11.0	47.[illegible]
SOCIAL SERVICES	96	88.6	102.0	119.8	179.0	242.1	343.9	667.4	1,081.[illegible]
EDUCATION	97	75.1	84.6	109.5	135.7	186.9	276.0	543.8	910.9
PUBLIC HEALTH	98	11.3	14.6	8.0	36.1	48.7	56.4	96.6	114.1
CULTURE AND ARTS	99	0.3	0.4	1.1	2.2	0.7	1.7	5.2	6.8
LABOR	100	0.6	0.7	0.7	0.8	0.7	1.1	1.5	1.8
SPORTS	101	0.8	1.7	0.5	1.7	2.3	3.6	8.4	11.9
ENVIRONMENT	102	-	-	-	2.5	2.8	5.1	11.9	23.9
SOCIAL AFFAIRS	103	0.5	-	-	-	-	-	-	9.9
ECONOMIC SERVICES	104	28.1	41.0	40.5	65.2	70.4	104.3	181.3	282.3
AGRICULTURE	105	5.6	9.8	4.3	20.6	24.0	33.5	40.8	55.2
RURAL DEVELOPMENT	106	-	-	-	-	-	4.2	13.0	21.0
PUBLIC WORKS	107	17.0	23.9	24.6	32.6	38.1	47.0	103.0	143.6
MINING	108	0.6	0.7	0.8	0.7	0.7	1.3	1.3	1.9
TRANSP & COMM	109	4.1	6.1	10.3	8.5	7.0	16.5	17.7	30.0
POST, TELECOMM	110	0.1	0.1	0.1	0.1	-	0.8	0.5	3.6
ENERGY	111	0.7	0.4	0.4	2.6	0.6	1.0	4.8	7.8
PORTFOLIO	112	-	-	-	0.2	-	-	0.2	19.2
TOTAL ALLOCATED EXPENDITURE	113	227.3	347.8	350.3	486.2	601.2	886.6	1,900.1	3,147.8

TABLE 14

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TABLE

ZAIRE: BUDGETARY CURRENT EXPENDITURE FUNCTIONAL CLASSIFICATION, 1973-8[illegible]
(MILLIONS ZAIRES)

ITEM		1973	1974	1975	1976	1977	1978	1979	[illegible]
UNCLASSIFIED EXPENDITURE	114	121.6	137.4	144.0	169.6	246.0	275.0	491.7	[illegible]
PRESIDENCY & REL SERVICES	[illegible]	37.1	43.6	47.4	82.9	27.8	33.7	171.0	[illegible]
[illegible] & REGIONS	[illegible]	18.3	19.4	20.7	18.1	21.0	39.3	53.0	[illegible]
OTHER	[illegible]	70.2	107.4	55.1	68.0	[illegible]	[illegible]	274.7	[illegible]
TOTAL CURRENT EXPENDITURE	116	348.9	537.3	494.5	633.8	847.2	[illegible]	2,391.7	[illegible]

SOURCE: BANK OF ZAIRE

1) 1980 FIGURES ARE PROVISIONAL.

2) INCLUDES PUBLIC DEBT PAYMENTS.

DATA SET: ZAIRE

TABLE 14 (page 2)

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ANNEX C

5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?	Yes.
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No
3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	No.
4. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the International Communist movement?	Yes
5. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	We are not aware of any such case.
6. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No, it has discharged its obligations.

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7. FAA Sec. 620(f); App. Sec. 104. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?

No

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

No
No

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

No

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

No, recent effort has been made by the U.S. to undertake an Investment Guaranty Agreement with Zaire. Consideration is evident in the approval process for the annual OYB.

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

N.A.

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

b. has complete denial of assistance been considered by AID Administrator?

12. FAA Sec. 620(q); App. Sec. 104. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?

12. On 5/24/76, the Administrator determined, in accordance with Sectio 620(q) of the FAA and delegation of authority issued thereunder, that it is in the national interest of the U. to provide assistance to Zaire.
(b) No

13. FAA Sec. 620(s). "If contemplated assistance is development loan (including Alliance loan) or security supporting assistance, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems?" (An affirmative answer may refer to the record of the taking into account, e.g.: "Yes as reported in annual report on implementation of Sec. 620(s)." This report is prepared at the time of approval by the Administrator of the Operational Year Budget.

Yes, In the Annual Report for FY 1984 on the implementation of this provision, the Administrator concluded that considerations under Section 620(s) do not rule out furnishing assistance.

* Revised

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* Upward changes in the Sec. 620(s) factors occuring in the course of the year, of sufficient significance to indicate that an affirmative answer might need review should still be reported, but the statutory checklist will not normally be the preferred vehicle to do so.) *

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — No

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

16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? — No

17. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? — No

18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? — No

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? — No

3. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria

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

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

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution. — N.A.

B1b

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process. — N.A.

(4) (a) Allocating available budgetary resources to development. — N.A.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms, such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise. — N.A.

(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures. — N.A.

c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made? — N.A.

d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs? — N.A.

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? — No

Is program in accordance with policy of this Section? — Yes

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? — Yes

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (Counterpart) arrangements been made? — Yes

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STANDARD ITEM CHECKLIST

A. Procurement

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

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

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

4. F A Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? — No agricultural commodities to be financed with this Grant

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

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

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, — Yes

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are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? — Yes

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest? — N.A.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N.A.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million? — N.A.

C. Other Restrictions

1. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N.A.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N.A.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.? — Yes

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction? — Yes

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3A(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 Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate 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. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	a) FY 84 Congressional Notificatio submitted
(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	b) Yes

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?

   No further legislation action is required to implement the Program.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). 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.

   All the Grant proceeds as well as a portion of the local currency generated will be channeled through the private sector. The eligible Commodities List is restricted to the Agricultural Transport Sector.

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5. FAA Sec. 601(b). Information and conclusion 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).

Commodities to be imported will be stricly of U.S.A.(Code 000) source

6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

It will provide an influx of $8,000,000 into the economy to finance needed equipment in the agricultural Transport Sector

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

Local currency generated by this Grant will help finance broadly-based development activities

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

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(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [i.e. A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

(3) [105] for education, public administration, or human resources development; if so, 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;

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

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

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

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

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

Grant proceeds will be used to finance the importation of agricultural transport commodities for use in the improvement of road and river infrastructure thereby increasing productive capacity

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained manpower in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

The Program will support the Agricultural Transport Sector. This will bring about a positive impact on all levels of the economy

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The local currency generated through this Program will help finance rural developme health and infrastructure activities that will be followed by a direct impact on th country's human resources and institution building

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). 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; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

Yes

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

The Grant proceeds will be used to buy U.S. source equipment. This will encourage U.S. exports and have a positive effect on the U.S. Balance of Payments position.

3. Nonproject Criteria for Development Assistance (Loans only).

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including

N.A.

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b. FAA Sec. [illegible]; 201(a). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) [illegible] and legality (under law of country and United States) of lending and relending terms of the loan. N.A.

c. FAA Sec. 201(e). If loan is not made [illegible] to a [illegible] plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner? N.A.

d. FAA Sec. 209(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? N.A.

4. Additional Criteria for Alliance for Progress N.A.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(6); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

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5. Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions? Yes

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? Yes

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? Yes

d. FAA Sec. 662. for CIA activities. Yes

e. App. Sec. 103. to pay pensions, etc., for military personnel? Yes

f. App. Sec. 106. to pay U.N. assessments? Yes

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes

h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes

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ANNEX D

INITIAL ENVIRONMENTAL EXAMINATION

Project Country:	Zaire	
Project Title:	Agricultural Inputs Support Program Grant	
Funding:	FY(s) 84	$8 million
Period of Project:	The terminal date for requesting disbursement authorization is 12 months from the date of the loan ageement. The terminal disbursement date is 18 months from the loan agreement date.	
IEE Prepared by:	Douglas Barnett	
Environmental Action Recommended:	Negative Determination	

Richard L. Podol, Director, USAID/Zaire

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(S) ACTION AID2 INFO AMB DCM ECON CHRON

ANNEX E

FILE COPY

LOC: 121
12 APR 84 2320
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DISP: AID

ACTION TAKEN
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INFO RUFHAB/AMEMBASSY ABIDJAN PRIORITY 5348
BT
UNCLAS STATE 106339

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: ZAIRE AGRICULTURE INPUTS SUPPORT PAIP, (660-0100)

REF: KINSHASA 05353

SUBJECT PAIP APPROVED AT ECPR HELD ON 10 APRIL 1984.
SPECIFIC GUIDANCE FOR PAAD WILL BE CABLED ASAP.
SHULTZ
BT
#6359

NNNN

UNCLASSIFIED STATE 106339

USAID/ZAIRE
ACTION INFO
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ANNEX F

AGRICULTURAL INPUTS SUPPORT PROGRAM GRANT

Grant Number

Dated 19__

Between

The Government of Zaire ("Grantee")

and

The United States of America, acting through the Agency for International Development ("A.I.D.")

Article 1: The Grant

To finance the foreign exchange costs of certain commodities and commodity-related services ("Eligible Items") necessary to promote the economic stability of Zaire, the United States, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Government of Zaire under the terms of this Agreement, not to exceed Eight Million United States dollars ($8,000,000) ("Grant").

Article 2: Conditions Precedent to Disbursement

Section 2.1. Conditions Precedent. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation (such as Letters of Commitment) pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 7.2, together with a specimen signature of each person certified as to its authenticity.

Section 2.2. Notification. When A.I.D. has determined that the conditions precedent specified in Section 2.1 have been met, it will promptly notify the Grantee.

Section 2.3. Terminal Date for Conditions Precedent. If all the conditions specified in Section 2.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may specify in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 3: Procurement, Eligibility, and Utilization of Commodities

Section 3.1. A.I.D. Regulation 1. This Grant and the procurement and utilization of commodities and commodity-related services financed under it are subject to the terms and conditions of A.I.D. Regulation 1 as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing. If any provision of A.I.D. Regulation 1 is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.

Section 3.2. Eligible Items. The commodities eligible for financing under this Grant shall be those mutually agreed upon by the Parties and specified in the Implementation Letters issued to Grantee in accordance with Section 7.1 of this Agreement. Commodity-related services as defined in A.I.D. Regulation 1 are eligible for financing under this Grant. Eligible Items will be subject to the requirements and Special Provisions of Parts I, II, and III of the A.I.D. Commodity Eligibility Listing which will be

transmitted with the first Implementation Letter. Other commodities or services shall become eligible for financing only with the written agreement of A.I.D.. A.I.D. may decline to finance any specific commodity or commodity-related service when in its judgement such financing would be inconsistent with the purposes of the Grant or the Foreign Assistance Act of 1961, as amended.

Section 3.3. Procurement Source. All Eligible Items shall have their source and origin in the United States of America (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such Eligible Items) except as A.I.D. may specify in Implementation Letters or as it may otherwise agree in writing.

Section 3.4. Eligibility Date. No commodities or commodity-related services may be financed under this Grant if they were procured pursuant to orders or to contracts firmly placed or entered into prior to the date of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 3.5. Eligible Importers. Importers approved to use funds from the Grant will be exclusively from the private sector. Procurement by private importers will be subject to the negotiated procurement procedure of Section 201.23 of A.I.D. Regulation 1 unless the implementing document requires, or the importer elects procurement through the formal competitive procedures of Section 201.22.

Section 3.6. Special Procurement Rules.

(a) None of the proceeds of this Grant may be used to finance the purchase, sale, long-term lease, exchange or guaranty of a sale of motor vehicles unless such motor vehicles are manufactured in the United States, except as A.I.D. may otherwise agree in writing.

(b) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(c) All international air shipments financed under this Grant will be on carriers holding U.S. certification to perform the service, unless shipment would, in the judgement of the Grantee, be delayed an unreasonable time awaiting a U.S.-flag carrier either at point of origin or transshipment. The Grantee must certify to the facts in the vouchers or other documents retained as part of the Grant records.

Section 3.7. Financing Physical Facilities. None of the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alteration of any physical facility or related physical facilities without prior A.I.D. approval, additional to the approvals required by A.I.D. Regulation 1, except as A.I.D. may otherwise agree in writing. "Related physical facilities" shall mean those facilities which, taking into account such factors as functional interdependence, geographic proximity, and ownership, constitute a single enterprise in the judgement of A.I.D.

Section 3.8. Utilization of Commodities.

(a) Grantee will assure that commodities financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports or entry; such commodities are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing; and

(ii) the commodities are consumed or used by the importer not later than one (1) year from the date the commodities are removed from customs, unless a longer period can be justified to the satisfaction of A.I.D. by reason of force majeure or special market conditions or other circumstances.

(b) Grantee will assure that commodities financed under this Grant will not be reexported in the same or substantially the same form, unless specifically authorized by A.I.D.

Section 3.9. Shipping.

(a) Commodities which are to be transported to the territory of the Grantee may not be financed under this Grant if transported either: (1) on an ocean vessel or aircraft under flag registry of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible, or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Unless otherwise authorized, A.I.D. will finance only those transportation costs incurred on aircraft or ocean vessels under flag registry of a country included in the Geographic Code authorized in Section 3.3 of the Agreement, except that when Code 941 is authorized, A.I.D. will finance only those transportation costs incurred on aircraft or ocean vessels under flag registry of the United States and the cooperating country. When Code 941 is authorized and there is a general unavailability of cooperating country flag aircraft or ocean vessels, A.I.D. will specifically authorize in Implementation Letters the financing of transportation costs incurred on aircraft or ocean vessels of any country included in Code 941.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight-revenue generated by all

shipments financed by A.I.D. and transported to Zaire on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both cargo transported from U.S. ports and cargo transported from non-U.S. ports, computed separately.

Section 3.10. Insurance. Marine insurance on commodities financed by A.I.D. under this Grant may also be financed under this Grant provided that such insurance is placed in a country, included in the Geographic Code authorized in Section 3.3 of this Agreement, or if Geographic Code 941 is authorized, also in the Grantee country, in accordance with the applicable provisions of A.I.D. Regulation 1, Subparts B and C.

Article 4: Disbursement

Section 4.1. Letters of Commitment to Banks. After satisfaction of the conditions precedent, the Grantee may obtain disbursements of funds under this Grant by submitting Financing Requests to A.I.D. for the issuance of letters of commitment for specified amounts to one or more banking institutions in the United States designated by Grantee and satisfactory to A.I.D.. Such letters will commit A.I.D. to reimburse the bank or banks on behalf of the Grantee for payments made by the banks to suppliers or contractors, under letters of credit or otherwise, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be for the account of Grantee and may be financed by this Grant.

Section 4.2. Other Forms of Disbursement Authorizations. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Section 4.3. Terminal Date for Requests for Disbursement Authorizations. No letter of commitment or other disbursement authorization will be issued in response to a request received after twelve (12) months from the date of signing of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 4.4. Terminal Date for Requests for Disbursement. No disbursement of Grant funds shall be made against documentation submitted after eighteen (18) months from the date of signing of this Agreement, except as A.I.D. may otherwise agree in writing.

Article 5: General Covenants

Section 5.1. Eligible services.

A.I.D. reserves the right to use some of the grant proceeds to finance program - related technical services.

Section 5.2. Use of Local Currency.

(a) Grantee will establish a Special Account in the Bank of Zaire and deposit therein currency of the Government of Zaire in amounts equal to proceeds resulting from the sale or importation of the Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee, in a separate agreement, provided that such portion of the funds in the Special Account as may be designated by A.I.D. shall be made available to A.I.D. to meet the requirements of the United States. It is anticipated that a major portion of the local currency generated by the Agricultural Inputs Support Program will be destined for AID development projects in the agricultural, transport and health sectors, some of it channeled through Private Voluntary Organizations.

(b) Except as A.I.D. may otherwise agree in writing, deposits to the Special Account shall be made on the day of receipt at the commercial bank. Importers are required to deposit in Zaires a minimum of twenty (20) percent of the dollar value of the Letter of Credit on the date the letter of credit is opened, a minimum of thirty (30) percent on the date the commodities leave customs at the Zairian port and the final fifty (50) percent or whatever smaller percentage might remain ninety days from the date the commodities arrive at port, except as the parties may otherwise agree in writing. The first deposit of 20% will be based upon the exchange rate in effect on the day the letter of credit is opened. The second deposit of 30% and the third deposit of 50% will be based upon the exchange rate in effect on the day the commodities leave customs, except as the parties may otherwise agree in writing.

Section 5.3. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in Zaire. To the extent that any commodity procurement transaction financed hereunder is not exempt from identifiable taxes, tariffs, duties and other levies imposed under laws in effect within Zaire, the same shall not be paid with funds provided or directly generated under this Grant.

Section 5.4. Reports and Records. In addition to the requirements in A.I.D. Regulation 1, the Grantee will:

(a) furnish A.I.D. such reports and information relating to the goods and services financed by this Grant and the performance of Grantee's obligations under this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to this Grant as may be prescribed in Implementation Letters. Such books and records may be inspected by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require, and shall be maintained for three years after the date of last disbursement by A.I.D. under this Grant.

(c) permit A.I.D. or any of its authorized representatives at all reasonable times during the three-year period to inspect the commodities financed under this Grant at any point, including the point of use.

Section 5.5 Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

Section 5.6 Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.7. Minimum Size of Transactions. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than Twenty Thousand Dollars ($20,000), except as A.I.D. may otherwise agree in writing.

Article 6. Termination; Remedies

Section 6.1. Termination. This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Section 6.2. Suspension. If at any time:

(a) Grantee shall fail to comply with any provision of this Agreement; or

(b) Any representation or warranty made by or on behalf of Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(c) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purposes of the Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

(d) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(e) A default shall have occurred under any other agreement between Grantee or any of its agencies and the Government of the United States or any of its agencies;

Then, in addition to remedies provided in A.I.D. Regulation 1, A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through irrevocable commitments to third parties or otherwise, or to the extent that A.I.D. has not made direct reimbursement to the Grantee thereunder, giving prompt notice to Grantee thereafter;

(2) decline the issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Grant be vested in A.I.D. if the goods are in a deliverable state and have not been offloaded in ports of entry of Zaire.

Section 6.3. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section 6.2, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Grant that is not then disbursed or irrevocably committed to third parties.

Section 6.4. Refunds.

(a) In addition to any refund otherwise required by A.I.D. Regulation 1, if A.I.D. determines that any disbursement is not supported by valid documentation in accordance with this Agreement, or is in violation of United States law, or is not made or used in accordance with the terms of this Agreement, A.I.D. may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of request therefor. Refunds paid by the Grantee to A.I.D. resulting from violations of the terms of this Agreement shall be considered as a reduction in the amount of A.I.D.'s obligation under the Agreement and shall be available for reuse under the Agreement if authorized by A.I.D. in writing.

(b) The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

Section 6.5. Nonwaiver of Remedies. No delay in exercising or omitting to exercise, any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers, or remedies.

Article 7: Miscellaneous

Section 7.1. Implementation Letters. From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters and Commodity Procurement Instructions will not be used to amend or modify the text of this Agreement.

Section 7.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Minister of the Ministry of Plan and A.I.D. will be represented by the individual holding or acting in the office of the Mission Director, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee: _____

_____

Mail Address:

Alternate address for cables:

To A.I.D.: Mr. Richard Podol
Commimmo Building (2nd floor)

Mail Address: Director
United States Agency for International Development
B. P. 8599
Kinshasa

Alternate address for cables: AmEmbassy Kinshasa

Section 7.4. Language of Agreement. This Agreement is prepared in both English and French. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Government of Zaire

BY: _____

TITLE: Minister
Department of Plan

UNITED STATES OF AMERICA

BY: _____

TITLE: USAID Director