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PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO 660-0103 2. COUNTRY ZAIRE 3. CATEGORY Commodity Financing - Standard Procedur 4. DATE

5. TO: Mr. Richard L. Podol, Mission Director

6. OYB CHANGE NO.

7. FROM USAID/DEO

8. OYB INCREASE

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF: $10,000,000

10. APPROPRIATION - Budget Plan Code

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 8/1/85 - 2/1/87

14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

Raw materials and chemicals used in the manufacture of truck tires; marine engines; generator sets; road construction/earth moving equipment; agricultural production and processing machinery and equipment; trucks; spare parts for all eligible items.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	$10,000,000	U.S.:	$10,000,000
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

This program will provide foreign exchange to finance the importation of commodities which will assist in the operation and/or rehabilitation of the agricultural and agricultural transport sectors in Zaire. Program financing will be available only to importers from the private sector. Local currency generated by the commercial sales of imported goods will be deposited in an account for that purpose and maintained by the Counterpart Fund Division of the Ministry of Plan. Allocation of the local currency will be jointly determined by USAID and the Ministry of Plan. Financing of commodities under this program will use the Letter of Commitment/Letter of Credit method. The Direct Letter of Commitment method of financing may also be used in special cases.

19. CLEARANCES	DATE
DEO: HLBRADDOCK	7/18/85
MGT: MTROTT	7/19/85
PRM: JBABYLON	7/23/85
CTR: RKING	7/23/85
D/DIR: ASLEZIN	7/23/85

20. ACTION

☒ APPROVED ☐ DISAPPROVED

[signature] 23 JUL 85

AUTHORIZED SIGNATURE DATE

Mr. Richard L. Podol, Mission Director

TITLE

CLASSIFICATION:

Agricultural Inputs Support II Program Grant
660-0103

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I. SUMMARY AND RECOMMENDATION

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

A. Nature: Agricultural Inputs Support II Grant (ESF) 660-K-0103

B. Amount: US $10,000,000

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

D. Program Justification: The justification for this program is four-fold. First, the program will facilitate the importation of commodities needed for the operation and/or rehabilitation of the agricultural and agricultural transport sectors. Second, this program will support joint USAID-Government of Zaire (GOZ) initiatives as well as USAID's policy dialogue efforts through the generation of local currency which will be used to finance the local currency expenditures of priority USAID and GOZ activities. Third, the program will provide limited balance of payments support to Zaire. Fourth, familiarity with and appreciation of U.S. commodities will increase as a result of program-financed imports.

E. Program Description: This program will provide foreign exchange to finance the importation of commodities which will assist in the operation and/or rehabilitation of the agricultural and agricultural transport sectors. Program financing will be available only to importers from the private sector. Local currency generated by the commercial sales of imported goods will be deposited in an account reserved for that purpose and maintained by the counterpart fund division of the Ministry of Plan. Allocation of the local currency generated will be jointly determined by USAID and the GOZ's Ministry of Plan.

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 and farm-to-market operations and on the 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 financing provided under this grant 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. It is anticipated that most of the importers participating in the program will have extensive experience in the importation of commodities into Zaire and will possess a thorough understanding of local commercial practices, i.e. import licensing, commercial banking and port/customs clearance procedures. It is probable that a large number of the importers will have participated in previous USAID-financed import programs in Zaire and hence will have no difficulty adjusting to AID requirements and procedures. In particular, USAID anticipates that a number of the importers participating in USAID's ongoing Commodity Import Program (Agricultural Inputs Support I, 660-0100) will continue to participate in this proposed follow-on activity.

USAID's experience with past CIPs as well as with the Ag Inputs Support I program has shown that existing procedures both of the principal local commercial banks as well as at the port of entry at Matadi are adequate for the implementation of this program. The design team concludes therefore 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 fourteen separate Commodity Financing Program Loans totaling $ 133 million. The last CIP, a Grant (660-0100), was initially obligated in FY 1984 and the final disbursement will be before August 1986. Lessons learned during the ongoing implementation of this program, as well as those resulting from the 1984 evaluation of a previous CIP (660-K-0025), have been incorporated into the design of the present program.

H. Negotiating Status and Conditions

The PAAD design team has been deeply involved with the implementation of the ongoing Ag Inputs Support I program. That program has shown that a CIP can operate succesfully in Zaire, and has identified the terms and conditions necessary to insure this success in light of current economic conditions in Zaire, the U.S., and the rest of the world. It is expected that these same terms and conditions will be maintained under the proposed program. These terms and conditions will, however, be reassessed as to their continuing validity during the early stages of program implementation.

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 II Program will proceed smoothly.

The design team foresees no difficulty in negotiating and signing the $10 million grant agreement as soon as the funds are made available.

I. Disbursement Period: This Grant is 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 15 months from the day the Grant Agreement is signed. Local currency will be disbursed within 24 months of the Grant Agreement date.

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

K. Waivers: None

S

L. Issues: See pages 25 - 27

M. Recommendation: It is recommended that an Agricultural Inputs Support Program II Grant in the amount of $10,000,000 be authorized for Zaire.

N. PAAD Committee:

H.L. Braddock, Design Officer, USAID/DEO
Bob Harrelson, Assistant Design Officer, USAID/DEO
Emmet Thomason, Supply Management Consultant, USAID/Kinshasa
Ray King, Controller, USAID/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 offer 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 as well as to AID's congressional mandate. As a relatively small donor, AID has focused its program 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 to identify and seek solutions to policy issues. 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 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 in a later section of this document.

The current 1983-1985 Plan is a revision of the 1981-1983 Plan. 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 former share of 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 inputs to local industry

Success in 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 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 relative dependability of the non-governmental sector. This approach is in line with the Government of Zaire's own decentralization initiatives. 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 II Support Program is consistent with both GOZ and USAID development strategies. It will provide financing for equipment and spare parts necessary to two of the GOZ's priority sectors; agriculture and transportation. Financing provided under 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. Furthermore, of the 30% percent of the population living in urban areas, a significant percentage participates in agriculture to at least a limited extent. 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.

Important policy reforms have taken place in Zaire over the last several years, largely as the result of negotiations with the IMF. Under the guidance of the IMF, Zaire has set the pace for macro-economic reform in sub-Saharan Africa. For example, Zaire is the only country in this region with a floating exchange rate. Zaire agreed to an IMF stabilization program in 1983 that has induced major policy reforms. The stand-by agreement is for $350 million. Since entering into this agreement, Zaire has missed only one target (December 1984). A new agreement with the IMF was negotiated during March 1985, and is expected to be approved during May or June of this year. Nevertheless, the country still finds itself in economic difficulty, and maintenance of the reform momentum will require fortitude and perseverance. USAID is 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.

U.S. policy specifically excludes addressing macro economic policy directly with the GOZ. Sectoral policies are addressed through USAID assistance to projects in support of the continuing policy dialogue. USAID has had considerable success in effecting sectoral reforms in this manner. The policy role of the ESF financing in this FY 1985 program, as in FY 1984, is to give recognition to the GOZ's sacrifices in undertaking major economic reforms. This program will signal U.S. approbation of those reforms and encourage continued adherence to them in the face of domestic pressures to relax or abandon the reform measures.

USAID has attempted to link major reforms to past Commodity Import Programs without success. 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. As a result of that and other Mission experiences, the ongoing Ag Inputs Support I program has not been linked directly to policy reforms.

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:

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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 truck and river fleets 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 the Agricultural Research Project 660-0091, the Agricultural Economic Development and Sector Studies Projects 660-0052 and 660-0070, the Agricultural Marketing Development Projects 660-0026, 660-0028, and 660-0098, the PVO Economic Support Grant 660-0097, and the new Area Food and Market Development Project (660-0102), is making headway in addressing some of these policy and institutional constraints.

The Agricultural Inputs Support II 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 and institutional issues is consonant with the AID Administrator's policy on the role of resource transfers in U.S. economic assistance 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. Zaire's Economic Setting and Recent Trends

1. Balance of Payments

The outlook for Zaire's balance of payments for the next few years depends on the projected rate of growth of the economy used. Table 1 (below) shows projected trends for Zaire's foreign resource gap based on two possible growth rates for the gross domestic product. Although Zaire may experience a positive trade balance, the debt payment requirement will absorb all of the surplus. Thus, the GOZ will need balance of payments support to help minimize the decrease in foreign exchange brought about by debt service requirements.

Table 2 (following page) shows the amount of aid given by donor countries. This aid helps to offset, but does not eliminate, the deficits. Future debt payment reschedulings will no doubt be necessary. The Agricultural Inputs Support II Program will help provide foreign exchange to import needed commodities. The use of these funds will permit the GOZ to have an extra $10 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 in commodities are imported into the country.

TABLE 1

PROJECTED EXTERNAL GAPS
(millions of US $)

	1985	1986	1987	1988	1989
GDP growth = 3%					
imports	1832	1936	2046	2162	2283
exports	1908	2079	2266	2470	2693
Net	(76)	(143)	(220)	(308)	(410)
Debt service	905	941	979	1018	1059
GAP	829	798	759	710	649
GDP growth = 5%					
imports	1951	2132	2330	2545	2779
exports	1908	2079	2266	2470	2693
Net	43	53	64	75	86
Debt service	905	941	979	1018	1059
GAP	948	994	1043	1093	1145

source: AFR/DP/PAR projections

TABLE 2

External Assistance to Zaire
(disbursements in thousands of U.S. dollars)

COUNTRY OR ORGANIZATION	1981	1982	1983
Belgium	118,527	84,940	86,257
France	24,272	32,306	32,362
Fed. Rep. of Germany	30,952	28,250	20,866
Italy	3,938	4,780	6,200
United Kingdom	1,630	3,133	2,960
United States	21,170	22,987	26,235
Canada	12,500	29,800	21,100
Japan	52,200	21,883	7,584
EEC	28,609	33,769	49,371
IBRD	16,495	38,700	42,850
UNDP	10,281	10,165	5,390
Other U.N.	15,970	14,390	15,505
AFDB	2,600	1,800	NA
Arab Funds	1,800	—	—
Other	2,310	7,110	7,000
TOTAL	354,458	334,034	323,680

Source: USAID/Zaire Country Development Strategy Statement FY 1987 update

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 crisis 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 and 1975, large foreign borrowing was incurred, 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 more than twice the 1984 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.

The neglect of agriculture began during the political troubles of the sixties and continued on through the seventies resulting in an uneven, imbalanced growth of the economy. While the manufacturing sector made some gains agriculture declined. As a result of 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. As central government spending regularly exceeded the amounts budgeted, borrowing from the banking sector contributed to excessive monetary growth and rapid inflation. Average money supply growth over the last 8 years is estimated to be about 40% per annum.

The mining sector is the major source of foreign exchange, but the drop in world copper prices in 1976-77 and post-1981, in addition to the political upheavals in the country's mining regions in 1977 and 1978, led to a drop in earnings for those periods and exacerbated the growing debt problem. Price increases for oil worsened Zaire's terms of trade, making the balance of payments situation precarious from then up to the present time. Table 3 (below) presents Zaire's terms of trade from 1975 through 1983.

TABLE 3

Terms of Trade
(1970 = 100)

Years	Indices of principal exports: min products	ag products	global index[1]	Indices of import prices[2]	TERMS OF TRADE
1975	86.6	122.8	91.9	215.5	42.8
1976	100.8	192.5	114.4	252.0	45.4
1977	99.8	290.9	128.1	286.1	44.8
1978	115.1	208.1	128.9	321.5	40.1
1979	172.2	180.8	173.8	384.1	45.2
1980	187.7	220.0	195.2	443.4	44.0
1981	169.3	198.7	173.6	463.6	37.4
1982	148.9	188.1	154.5	466.4	33.1
1983	159.5	226.3	169.3	472.1	35.9

[1] index weighted by the importance of each product exported
[2] index weighted by the importance of the principal countries exporting to Zaire

Source: Bank of Zaire Annual Report, 1983

As a result, the GDP grew very little in real terms. During the years 1977-1984, (Table 4, following page), GDP actually remained constant. Table 4 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 1976, the IMF helped design and finance economic recovery programs for Zaire. The latest of six IMF loans was negotiated in March 1985 following satisfactory compliance with both a twelve month shadow program in 1983 and a fifteen month $350 million (SDR 343) standby agreement covering 1984-85.

The stabilization program included, inter alia, a devaluation of the zaire currency to the parallel market rate; the introduction of a floating exchange rate; abolishment of certain controls over the foreign exchange accounts of the non-Zairian banks; a major relaxation of 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, the GOZ's budget deficits fell from 8.7% of GDP in 1982 to 2% in 1983 (the latest year with published data). Central bank government lending to the GOZ fell from 3.3 billion zaires (over $200 million) in 1982 to 2.6 billion zaires (less than $100 million) in 1983.

TABLE 4

Zaire: Gross Domestic Product by Sectors in 1970 Prices, 1977 - 1984 (in millions of zaires)

	1977	1978	1979	1980	1981	1982	1983	1984[1]
Primary sector								
Agriculture	175.9	176.2	181.6	186.7	191.7	195.6	199.5	205.3
Mining	239.3	218.0	206.3	220.4	236.2	228.8	237.5	247.7
subtotal	415.2	394.2	387.9	407.1	427.9	424.4	437.0	453.0
Secondary sector								
Manufacturing	83.0	72.5	68.3	67.5	68.0	60.6	60.3	63.8
Construction	40.9	41.5	37.0	27.4	27.6	28.7	33.8	31.2
other	11.2	11.4	11.0	11.6	11.3	12.0	12.0	12.6
subtotal	135.1	125.4	116.3	106.5	106.9	101.3	106.1	107.6
Tertiary sector								
Services	265.8	261.7	287.0	281.0	277.9	274.6	265.3	264.6
Commerce	114.0	95.8	95.9	103.0	107.6	103.2	108.6	114.0
other	76.1	75.5	68.0	70.1	75.7	62.0	60.2	63.3
subtotal	455.9	433.0	450.9	454.1	461.2	439.8	434.1	441.9
Gross Domestic Product	1,006.4	952.6	955.1	977.7	1,006.0	975.5	987.2	1,012.5

[1] estimation

Source: Bank of Zaire Annual Report, 1983

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 development role. It attempted to assist Zaire's economic recovery as far back as 1976. Copper prices dropped by more than 50% in 1975 from their most recent high in 1974, and at the same time, the rise in oil prices increased the import bill. 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.

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, arrearages accumulated to SDR 77 million.

A second IMF stand-by program was adopted in April, 1977, including SDR 45 million standby and SDR 28 million compensatory financing, but little of the standby loan was used because of the failure of Zairian authorities 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 suspended in November 1977.

The third stand-by arrangement starting in July 1979 and lasting 18 months, was programmed for SDR 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. Only SDR 20 million were drawn before this stand-by was also suspended.

A three-year Extended Fund Facility was launched in 1981 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 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.

As a result of Zaire's falling terms of trade, a Compensatory Finance Facility of SDR 107 million was accorded by the IMF in March 1982. This facility was suspended in June 1982 along with the EFF. However, drawings on the Compensatory Facility were resumed and completed in 1984 after the GOZ had complied with a new IMF agreement.

4. The Mining Sector

This area 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 world's 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 an 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.

Recently, the GOZ eliminated SOZACOM and instituted a system comprised of Gecamines Production, Gecamines Commercial, and Gecamines Development. Under the new system, the production company keeps title to the goods until the commercial company has sold them. It is hoped that this will allow greater control over assets and result in diminished losses. Gecamines has applied for, and will likely get, a loan from the World Bank.

5. 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 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%. 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 consistently hampered the 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 the refurbishing of some of the major rail lines.

b. Agriculture

"There are two main types of production units in the agricultural 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 effect 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.

Table 5 (following page) shows Zaire's agricultural production between 1977 and 1983.

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.

TABLE 5

Zaire's Agro-industrial Production 1977 - 1984
(in metric tons unless otherwise indicated)

	1977	1978	1979	1980	1981	1982	1983	1984[1]
Palm oil, total	104,856	98,648	98,513	93,155	97,846	88,198	78,700	79,128
exports	21,495	9,647	-	10,007	6,154	4,169	2,476	6,386
Coffee, total	64,672	87,002	67,799	80,274	72,645	73,004	68,354	74,345
exports	64,112	81,848	62,799	74,123	67,645	68,004	633,54	69,345
Timber (logs) tot. (m^3)	321,671	331,721	350,000	325,000	350,000	375,000	401,000	415,000
exports	59,231	43,186	48,227	66,064	66,439	73,036	76,092	94,191
Timber (sawn) tot. (m^3)	95,777	101,510	87,961	68,056	61,250	73,500	112,000	115,000
exports	29,376	30,690	28,600	21,829	19,680	22,339	18,184	27,142
Rubber, total	29,959	28,390	19,876	21,269	20,175	17,254	15,016	15,818
exports	27,622	26,083	17,888	19,472	18,509	14,927	13,014	14,607
Cocoa, total	3,890	4,348	3,534	4,218	4,518	4,169	4,486	4,306
exports	3,882	4,305	3,499	4,177	4,478	4,137	4,450	4,274
Tea, total	5,210	4,774	3,710	2,461	3,089	4,036	3,048	4,261
exports	4,210	3,774	2,711	1,461	2,089	3,036	2,048	3,261
Cotton, total	10,000	5,000	6,000	9,741	8,000	8,300	8,505	8,600

[1] preliminary

Source: Bank of Zaire Annual Report, 1983

6. **Exports and Imports and Donor Assistance**

Table 6 (following page) shows the the value of and composition of Zaire's principal exports during the period 1978-1983. Zaire now exports close to one billion dollars of raw materials and commodities per year.

Tables 7 and 8 show the direction of trade for exports and imports (trade by country) over a similar period. The total nominal value of imports was more or less constant over the seven year period shown, and remained 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.

The 1984-1985 IMF stablization program resulted in changing import and foreign exchange regulations that 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), 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.

Table 2 showed the levels of donor assistance to Zaire for the years 1981-1983. Table 9 shows the flows of AID and ODA funds to Zaire from 1976 to 1980. 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 disbursing 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 have 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 its standby agreements, is discussed separately in Section III.3.b

TABLE 6

Zaire's Exports by Product
(in SDR 000s)

	1977	1978	1979	1980	1981	1982	1983
Mining products	595,918	788,131	913,877	1,325,278	1,148,390	1,110,274	1,190,810
Copper	347,958	445,868	358,093	684,635	553,796	633,544	693,120
Cobalt	92,989	172,644	427,790	317,581	140,076	152,023	114,002
Diamonds	55,140	95,580	73,358	66,480	48,513	68,478	129,256
Zinc	27,797	13,536	9,957	15,589	44,046	36,001	42,883
Other	72,034	57,503	44,679	240,993	361,959	190,235	206,549
Agricultural Products	253,877	198,564	157,858	185,515	137,629	148,599	161,039
Coffee	165,439	132,026	104,262	125,805	81,293	97,303	124,910
Others	88,438	66,538	53,596	59,710	56,336	51,296	36,129
Industrial Products	6,930	6,557	19,673	53,553	247,957	242,400	226,455
Crude Oil	-	-	-	-	223,455	242,400	226,455
Others	-	-	-	-	24,502	12,912	11,121

Source: Bank of Zaire Annual Report, 1983

TABLE 7

ZAIRE: DIRECTION OF TRADE, 1973-83
(in millions of SDR)
EXPORTS

	1977	1978	1979	1980	1981	1982	1983
EEC	1,051.3	1,119.7	1,073.4	1,395.3	1,135.7	820.5	751.6
Belgium and Luxembourg	542.1	614.9	662.3	937.3	832.1	532.5	380.7
France	141.3	118.9	122.7	133.9	101.8	98.7	88.9
Italy	137.0	107.0	88.3	117.6	76.7	65.2	98.4
Fed. Rep. of Germany	101.9	100.6	78.9	88.2	77.6	72.5	145.1
Netherlands	33.0	21.6	14.0	17.7	33.0	18.1	20.9
United Kingdom	87.3	153.3	103.9	93.7	8.9	23.5	15.7
Ireland and Denmark	8.7	3.4	3.3	6.9	5.6	10.0	1.9
North America	154.1	186.9	211.8	277.1	373.2	553.3	358.2
Japan	76.3	67.1	85.5	103.1	50.1	52.5	95.5
Other OECD countries	51.2	40.6	34.1	41.7	35.1	37.8	30.7
Others	32.8	47.6	62.3	85.2	8.6	2.3	15.1
TOTALS	1,365.7	1,461.9	1,467.1	1,902.4	1,602.7	1,466.4	1,251.1

TABLE 8

ZAIRE: DIRECTION OF TRADE, 1973-83
(in millions of SDR)
IMPORTS

	1977	1978	1979	1980	1981	1982	1983
EEC	435.0	401.5	435.2	540.0	414.0	422.9	452.7
Belgium and Luxembourg	155.0	144.1	138.5	197.9	167.1	174.8	159.8
France	82.3	92.7	108.5	95.9	89.9	105.1	96.4
Italy	49.7	43.9	31.0	54.9	40.4	23.5	32.8
Fed. Rep. of Germany	75.4	72.7	100.2	119.4	77.4	63.4	94.5
Netherlands	43.7	14.3	19.4	20.9	21.9	22.6	37.3
United Kingdom	27.4	31.9	35.3	49.4	15.8	29.9	30.3
Ireland and Denmark	1.5	1.9	2.3	1.6	1.5	3.6	1.6
North America	97.6	66.3	83.7	119.2	119.6	85.1	78.6
Japan	31.7	19.2	19.5	35.0	60.0	38.9	31.9
Other OECD countries	81.4	76.1	55.1	61.8	101.2	49.7	110.4
Others	46.1	43.6	62.4	23.9	11.1	14.0	89.6
TOTALS	691.8	606.7	655.9	779.9	705.9	610.6	763.2

Source: Bank of Zaire Annual Report. 1983

TABLE 9

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.

B. 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 and agricultural transport sectors, 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 of local currency to support GOZ and USAID development activities.

2. Current Market Analysis of Agricultural Sector Inputs

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 at a disadvantage in trade terms because of the present strength of the dollar.

The ongoing Ag Inputs Support I (660-0100) program also experienced some initial difficulties in moving the available funds because the financing terms which were not attractive enough to importers to counteract the generally higher prices associated with American commodities. These terms were subsequently revised to allow an additional 90 days to repay in full the local currency equivalent of the value of the goods imported. The result of this revision has been positive and USAID now expects that all program funds will be disbursed prior to August 1, 1986.

Extending the repayment period for goods imported under 0100 was found necessary in order to meet terms commonly offered to Zairian firms by European exporters. The 180 day repayment period (for repayment of the final 50% in local currency equivalent of commodity cost) is not a "subsidy" (any more than the Foreign Assistance program itself is a subsidy) but a minimum condition needed to overcome inherent constraints under which U.S. exporters must work.

Over the past 18 months Zairian business has struggled with a severe shortage of liquidity, resulting from IMF-mandated devaluation and tight money policy. The GOZ requires that importers cover 25% of the value of a letter of credit when the L/C is opened. In practice, banks commonly demand a minimum of 50% from the largest firms and up to 100% or more from smaller or less substantial firms. Six months or more often goes by between the time an L/C is opened and the time when the goods finally arrive and may be sold. With the cost of capital running over 40% per annum, importing through standard channels has become extremely costly.

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In order to operate, local firms have developed financing techniques to accomodate the total market environment. Most of the major importers have head offices (or subsidiaries) in Europe. These European firms extend supplier credits or offer goods on consignment to the local importer, thus avoiding the need to tie up large amounts of zaire (local currency) liquidity for an extended period. The additional cost to the European exporter can be made up through over-invoicing and other accounting techniques which allow the local firm to expatriate capital and/or profits without going through conventional channels. American exporters are not usually in a position to operate in this fashion.

On large purchases, European exporters may have additional advantages. First, European governments still include trade credits as a significant portion of their bilateral assistance. Second, personal rather than economic interests are sometimes the key factor in winning a contract (European firms are unfettered by the Foreign Corrupt Practices Act).

Hence the terms of the CIP are simply those necessary to allow U.S. manufacturers and suppliers to compete in a typically complex market environment where many interests are at play.

During the design of the 0100 program, the design team conducted an informal market survey. Four principal machinery/chemical dealers using American products in the agricultural sector were contacted. 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. Three of these firms are currently participating in the 0100 program, and between them they anticipate using approximately $6.8 million of the available financing.

The list of commodities drawn up by the importers include chemicals needed for the manufacturing of tires. The firm involved requires $400,000-600,000 worth of chemicals per month at the current rate of operation. The other firms sell marine engines and spare parts, as well as 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, there is a possibility that a local manufacturer may draw on program financing to import steel required in the construction and repairing of barges and boats.

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 upgrading of the agricultural and agricultural 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. Marine engines will facilitate river transportation. Steel used in barge construction will help in the maintenance and replacement of Zaire's aging riverine transport fleet.

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

The Grant funds are best used to finance commodities for the agricultural and agricultural transportation sectors. Zaire needs to get its roads, waterways, and rail lines back in full operation. This $10 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, the Bureau of Roads, industrial and private construction firms responsible for road rehabilitation, agricultural production and processing companies, as well as industrial and trucking companies engaged in agricultural marketing.

Under the GOZ's financial program negotiated with the IMF, growth of total liquidity in the banking sector is strictly limited. Thus the initial removal of funds from the private banking sector at the time of disbursement of the CIP and the sunsequent return of the funds to the private banking sector at the time of the disburement of the counterpart funds will not affect overall liquidity. Thus the net effect of the program is to moderate inflation by making more goods available in the context of given, fixed, monetary growth.

3. <u>The Private Sector</u>

The recent economic reforms have resulted in tighter credit conditions for private borrowers. Under its 1983-1985 stabilization program, the GOZ took some steps to further control the flow of money. First, all importers are now required to advance between 65 and 100% of import costs as down payment in local currency to obtain their import licenses (for some goods it is reportedly necessary to deposit 150% of the goods' value). In effect, this ties up company capital from 6 weeks to 6 months until the goods arrive. Second, the GOZ has recently begun selling high interest short term treasury bonds. 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). It is presently anticipated that importers will be required to pay a 20% down payment, 30% upon removal of goods from customs, and 50% within 180 days from the date the commodities clear customs. These are the terms that are used under the ongoing Ag Inputs Support I program. Should these terms prove insufficiently attractive to potential importers, USAID may consider extending the final period or otherwise adjusting the terms as necessary to promote timely program implementation (an adjustment will also be considered in the event of developments in either the local or world economy which make these terms appear overly generous). It is expected that firms will have greater confidence in the availability of foreign exchange provided under the program than from local banks, which may experience periodic shortages. AID financing also 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. Counterpart Fund (CPF) Utilization

Another justification for the program is the need for counterpart funding. Because of a budget squeeze on the GOZ as part of the IMF terms, not enough local currency is available to fully support donor projects. USAID/Zaire currently has a portfolio of projects concentrated in the areas of agriculture, agricultural marketing, and health/nutrition. Counterpart funds are low, and USAID is reliant on the arrival of PL 480 Title I shipments and on counterpart fund generations from the Ag Inputs Support I program to meet immediate budget needs for local currency.

Adjusted CPF budgets for CY 1986 are in the process of being negotiated between USAID and GOZ. Total preliminary needs for joint USAID and GOZ activities for CY 1986 exceed Z 1.5 billion ($32 million) while anticipated counterpart fund receipts, without this program, amount to about Z 1 billion ($22 million). In view of these needs it is clear that this program will play an important role in supporting joint USAID and GOZ project activity expenses.

C. Issues

The following issues will be of importance during the implementation of this 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 products of American design manufactured under license in Europe, 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 the proposed activity is that in the past U. S. goods have been imported at an overvalued rate of exchange, which made participation in the program particularly attractive to importers. This was a concern during the initial phases of the 0100 program. 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 list of eligible commodities may diffuse the thrust of the desired impact.

2. Liquidity

A second issue to consider is how a possible short supply of local currency will affect the importers' ability to make purchases with USAID financing. The proposed 20% down payment under this program - as opposed to the 65 to 100% required by the banks - helps to alleviate this problem and is one reason why some importers will prefer to use AID financing.

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 maintaining a certain amount of flexibility in the establishment of 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 track of the commodity distribution to the end-user level. In the program described herein, monitoring has been simplified and 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 lose a great deal of their effectiveness. 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, and thus 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, and in light of the new IMF agreement expected to be approved in the near future, 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 and agricultural transport sectors (refer to page 20 for a partial list of eligible commodities). The Grant Agreement will be signed with the Ministry of Plan. USAID/Kinshasa, in close cooperation with the Ministry of Plan, will have primary responsibility for program monitoring and administration of the Agricultural Inputs Support II 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 target sectors. 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 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. 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 $10,000. 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 15 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 production, processing, marketing, and transport activities. Commodities will be identified by specific Schedule B numbers. The following list of eligible items is indicative. Actual eligibility of individual items to be imported will be determined by USAID at the time of approval of Letters of Credit and Import Licenses.

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 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 production, processing, and transport machinery and spare parts (for example: belt elevators, forklifts, cranes, trailers, tractors, trucks, refrigerator units)

7. Water pumps

8. Steel rails for railroads

9. Steel for use in the repair and construction of boats and barges

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.

A part of the grant funds may be used to finance studies in support of USAID's programs. In particular, these funds will be used in support of the design of the ESF-funded Central Shaba Agricultural Project (660-0105).

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 approval 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.

   b. PIL No. 1 and CPI issued with implementation package.

   c. USAID contacts importers importer(s) who are to operate with USAID approval under direct L/COMs to advise them to enter into a contract with their supplier contingent upon issuance of a covering direct L/COM. The contract will stipulate that that the goods to be imported will be used to support the agricultural or agricultural transport sectors. USAID will receive a copy of the contract.

   d. Discussions with the Bank of Zaire concerning the contents and format of the Bank Circular as well as the planning fro issuance of the several bank letters of commitment and any direct letters of commitment contemplated, which will be issued by the USAID Controller.

2. a. Conditions Precedent satisfied

   b. The GOZ Ministry of Plan will submit financing requests to USAID for issuance of bank letters of commitment by AID/W. Each financing request will designate the bank serving as the Approved Applicant, based on the determination by the GOZ.

   c. For a direct L/COM, a financing request will be submitted fro issuance by AID/W of a direct reimbursement approval (DRA) L/COM to be issued by USAID. The importer to participate and the supplier will be named, a copy of the underlying contract will be attached, and a bank will be designated as responsible for the validation of import licenses, the collection of local currency deposits, and the receipt of shipping documents to be released to the importer upon receipt of the local currency deposit required and establishment of a promissory note to cover balance due.

   d. USAID reviews and approves financing requests and forwards them to AID/W for issuance of bank L/COMs or a DRA to cover USAID issuance of any direct L/COMs. For a bank L/COM, the financing request will specify that all eligible items are authorized fro importation with the stipulation that each letter of credit must be accompanied by a certificate issued by USAID approving the letter of credit to be opened and the Schedule B codes to appear therein. (The US bank will thus have no further responsibility beyond insuring that shipments are covered by the authorized Schedule B codes and that the stipulated documents fro payment are received.)

3. a. Bank Circular is issued for the guidance of all banks and the importer community. It will identify the several letters of commitment and participating banks. Importers who are to operate under a direct L/COM (dollar value not specified) will be identified together with the Zairian bank chosen to monitor the transaction.

b. Following issuance of the bank circular, importers to utilize bank L/COMs will submit requests for a sub-authorization of funds, through their own bank, to USAID. The bank will certify as to importer's financial viability. USAID then issues a sub-authorization, valid for a limited period, to the importer through the importer's bank.

c. Importers under bank L/COMs submit for review and approval proforma invoices carrying Schedule B codes and a certification stating that the commodities proposed for importation will be used or sold for use within the agricultural or agricultural transport sectors.

d. In the case of a direct L/COM, the importer will apply for an import license and proceed to carry out the transaction under the terms of the underlying approved contract without further reference to USAID unless more than one shipment is involved. When there is more than one shipment, each shipment will require USAID approval prior to a license being issued to facilitate USAID control. The supplier will be paid by the USAID Controller, via the Paris disbursing office, upon presentation of all documents required by the direct L/COM.

4. a. Upon receipt of a bank L/COM, and based on a request from the importer, the Approved Applicant (Zairian commercial bank) will prepare a request to the US bank to issue an irrevocable letter of credit to the supplier for which approved proformas are on hand and will validate the import license(s). However, prior to the transmission of the request to the US bank, the letter of credit application, accompanied by the approved import license(s) and any other pertinent documentation, will be submitted by the Approved Applicant to USAID/Kinshasa for review. All documents, including the letter of credit application and the import license(s), will carry the pertinent Department of Commerce Schedule B codes for all commodities. USAID will issue its approval in writing. A signed original of the USAID approval will accompany the application for the letter of credit to the US bank and will be required for issuance of the letter of credit. This requirement will be stipulated in the L/COM.

b. The US bank will issue the irrevocable letter of credit to the named supplier. The supplier will be paid upon submission to the US bank of documentation required by AID Regulation 1 and as further stated in the L/COM and letter of credit. The US bank will seek reimbursement from AID/W under the letter of commitment.

5. Upon shipment of the commodities, one set of all shipment and payment documentation will be forwarded separately to the Controller and to the CIP Project Officer, USAID/Kinshasa.

6. Imports commence arriving.

7. The Terminal Date for Requesting Disbursement Authorization is r...

8. Final shipments from the US.

9. Grant fully disbursed.

10. Local currency generations fully disbursed.

J. Commodity Arrival and Disposition

The Government of Zaire has an established system for monitoring the arrival of goods 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 an exchange rate formula agreed to by USAID and the Ministry of Plan. At the present time it is anticipated that the formula currently in use under the Ag Inputs Support I Program (660-0100) will be maintained. However, this formula will be adjusted as needed so as to conform to the prevailing economic and financial situations at the time program implementation begins. The 0100 formula calls for the first deposit of 20% to 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% are based upon the exchange rate in effect on the day the commodities leave customs. The schedule for payment by the importer of the local currency funds may also be maintained from the present program. That schedule calls for 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 180 days from the date the commodities clear customs. Before the goods have cleared customs, the importer will establish a promissory note in favor of the Counterpart Fund Division of the Ministry of Plan for the remaining 50% (or whatever percentage remains). The decision to pay more than the minimum 20 or 30 percent rests solely with the importer. The terms outlined above are consistent with the GOZ's policy of encouraging less stringent terms for aid programs in order to ensure that the available foreign exchange will be used in a timely manner, thus maximizing the balance of payments support provided to Zaire. 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/USAID projects. At this time it is expected that a major portion of the local currency generated by the Agricultural Inputs Support II Program will be destined for development projects in the agricultural, transport and health sectors, with a portion of this being channeled 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 monitoring 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 technical services related to USAID's program.

V. <u>OTHER CONSIDERATIONS</u>

A. Management and Use of local currency generations

1. Management of Countorpart Funds

Presently, in addition to the ongoing Ag Inputs Support I program, 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 with 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.

The USAID Controller's Office is actively involved in the financial management of US generated counterpart funds. During the last several years the following have been accomplished in regard 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 inadequacies. To date, six systems have been upgraded. There are still three projects for which the systems need to be improved. These systems will be redesigned over 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 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:

(1) Organization of USAID and the 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. Two audits were conducted during 1984, and it is planned that several will be undertaken during 1985.

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 on 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.

USAID's capacity to effectively oversee the management of counterpart funds will be further enhanced through the hiring of an American personal services contractor who will work closely with the Ministry of Plan, and whose primary responsibility will be the programming of counterpart funds and the auditing of counterpart fund accounts.

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 II 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 where USAID has already targeted its limited resources. Funds will be channeled through both PVOs and private industrial firms, under the Area 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 initiated under the Basic Rural Health Project (660-0086) and continuing under the planned Basic Rural Health II Project (660-0107).

Counterpart Funds will also support three new projects situated in the refugee areas of southwestern Shaba Region. These projects will rehabilitate and improve the road, health, and water infrastructures in that area. 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 counterpart funds will have a direct impact on on-going policy discussions USAID is presently undertaking with the GOZ, for example: 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. Over 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 that import 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 to 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 interaction 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 existing roads. The chemicals selected for importation are to be used in tire manufacturing. The chemicals that are to be imported are the same as 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.

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 85 Congressional Notificat 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 Progra

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?

No

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 a a portion of the local currency generated will be channeled thro the private sector. The eligible Commodities List is limited to the Agricultural and Agricultural Transport sectors.

[illegible] 601(b). Information and conclusion on how assistance will [illegible] private trade [illegible] investment abroad [illegible] U.S. participation [illegible] for assistance programs (including [illegible] private trade channels [illegible] the [illegible] of U.S. private enterprise).

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

[illegible] 612(b), [illegible] that, to the [illegible] extent possible, the country is [illegible] local currencies to meet the cost of contractual and other services, [illegible] owned by the United [illegible] are utilized to meet the cost of contractual and other services.

N.A.

[illegible] 612(d). Does the United States [illegible] foreign currency and, if so, what arrangements have been made for its release?

N.A.

[illegible] 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 $10,000,00 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 governmment institutions?

Local currency generated by this Grant will help finance broadly-based develo[illegible] 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.]

(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; [103A] 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 commodit for use in the improvement of fa and river infrastructure thereb increasing productive capacity

c. [illegible] Sec. 11[illegible]. [illegible] [illegible] [illegible] 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 worker-power in the country; (4) [illegible] 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 [illegible] 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 t[illegible] Program will help finance rural develo[illegible] health and infrastructure activities the will be followed by a direct impact on country's human resources and institut[illegible] 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 encou[illegible] U.S. exports and have a positive effec[illegible] 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 private sources within the United States.

N.A.

b.

[illegible] N.A.

c. FAA Sec. [illegible] ... amount of the loan exceeds $[illegible], 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. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? 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)(8); 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?

ANNEX B

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Zaire

Project Title: Agricultural Inputs Support II Program Grant

Funding: FY(s) 85 $10 million

Period of Project: The terminal date for requesting disbursemen authorization is 15 months from the date of the grant ageement. The terminal disbursement date is 18 months from the grant agreement date.

IEE Prepared by: Bob Harrelson

Environmental Action Recommended: Negative Determination

Concurrence: WBodol

Date: 23 JUL 85