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Negotiating and Programming Food Aid:

A Review of Successes

**PL 480 Title I Case Study
ZAMBIA**

**Bureau for Food for Peace and Voluntary Assistance
Agency for International Development
Washington, D.C. 20523**

PL 480 TITLE I CASE STUDY

ZAMBIA

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PREFACE

Study Objectives

This report presents the findings of a case study of the Zambia PL 480 Title I program.* It is the fourth in a series of five case studies designed to meet the following objectives:

- o To assist AID and host countries to understand better how PL 480 resources are being programmed, including the identification, negotiation and monitoring of self-help provisions and the mechanisms developed to program and manage local currency sales proceeds.
- o To provide other USAID Missions and host countries with information useful for replication of successful experiences in the use of Titles I and III as development tools, for improvements on past performance, and for the identification of likely pitfalls in the process that may be guarded against.
- o From lessons learned from each case study, and from a comparative analysis of all five cases, to provide the Agency and host countries with an improved understanding of some of the implications of this kind of program assistance which may be useful for the design, implementation and evaluation of other kinds of non-project assistance.

Country Selection

The Agency used the following criteria to select countries for the case studies:

- o Country programs would be selected from several geographic regions;
- o The PL 480 programs would have been in operation long enough for sufficient data to be available for analysis;
- o There was consensus in the Agency that the programs had been successful;
- o Programs selected would represent different approaches to using PL 480 resources for development; and

* The study also examines the programming and management of local currencies generated under the Missions's Title II monetization and CIP programs since these are closely integrated.

- o Programs would be sufficiently representative that generalizations from the studies would be useful for other country settings.

Zambia's program was chosen for the Africa region because it had a reasonably long 10-year period of continuous operation; it was generally considered to have sufficiently specific self-help commitments to permit appraisal of probable impact; and it appeared to exemplify the type of integration of PL 480 and other US resources that the Agency is seeking increasingly to attain in those country assistance programs where a variety of resources are available.

Study Approach

Based on the first two pilot case studies--one of the Title I program in Tunisia, and the other of the Title II, Section 206 program in Mali--a methodology for the next three case studies was developed. The major sets of questions, organized in terms of key issues to be addressed, are included on page 6 of the PL 480 Pilot Case Study Report, RONCO, January 1985. These sets of questions are used as a guide for all of the case studies. However, the nature of each individual country program and the types of data available condition the relative weight given to each issue. The Scope of Work of this study is included as Annex A.

Team Composition

The evaluation team for Zambia was composed of an Agricultural Development Officer and Economic Consultant (team leader); an Economist from the Policy, Planning and Evaluation Division of the Bureau for Food for Peace and Private Voluntary Assistance in AID/W; and a Political Scientist from Michigan State University. The latter two had spent considerable time in Zambia in development work prior to this assignment.

Methodology

Discussions were held initially in Washington, D.C. with USG officials from different agencies familiar with the program. The team then traveled to Lusaka in late November for three weeks of intensive study. Discussions were held with personnel at all levels in the GRZ and USAID who had been involved with the program. Discussions also were held with other members of the donor community located in Lusaka. After the return of the team, additional contacts were made with AID personnel in Kenya.

Unfortunately John Patterson, the principal architect and administrator of the PL 480 program, was away on consultation

when the team arrived and his return was unexpectedly delayed. The team was very disappointed that it was impossible, therefore, to explore issues more directly with him.

Acknowledgements

The team wishes to express its appreciation to the many people in the GRZ, the U.S. country team, and other donor organizations who were so generous with their time, and frank in their discussions with us. We wish particularly to express our appreciation to Nicholas Jenks, Jim Snell and Les Dean of USAID as well as to Mr. Fred Siame (MOF), Mr. Francis Mbewe (Ministry of Cooperatives), and Mr. M. Lungu (MAWD). We are particularly indebted to Christina MacKinnon and Jean Sherring for preparing drafts and final copy in record time.

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ACRONYMS

| | |
|-----------|---|
| AEPRP | Africa Economic Policy Reform Program |
| AID/W | Agency for International Development, Washington, D.C. |
| BOP | Balance of Payment |
| CDSS | Country Development Strategy Statement |
| CIP | Commodity Import Program |
| CSO | Central Statistical Office |
| DA | Development Assistance |
| EFF | Extended Fund Facility (IMF) |
| ESF | Economic Support Fund |
| FAO | Food and Agricultural Organization |
| FFPO | Food for Peace Officer |
| FIFO | First In, First Out |
| FNDP | First National Development Plan (1966-1970) |
| GDP | Gross Domestic Product |
| GRZ | Government of the Republic of Zambia |
| IBRD | World Bank |
| IMF | International Monetary Fund |
| K | Kwacha |
| LC | Local Currency |
| LIFO | Last In, First Out |
| MAWD | Ministry of Agriculture and Water Development |
| MOF | Ministry of Finance |
| NAMBoard | National Agricultural Marketing Board |
| NCDP | National Commission for Development Planning |
| NCZ | Nitrogen Chemicals of Zambia, Limited |
| OPG | Operational Program Grant |
| PAAD | Program Assistance Approval Document |
| PCU | Provincial Cooperative Union |
| PL 480 | Public Law 480 "Food for Peace" Program |
| REDSO/EA | Regional Economic Development Service Office East Africa |
| REDSO/ESA | Regional Economic Development Service Office E & S Africa |
| ROP | Refined Oil Products, Limited |
| RFFPO | Regional Food for Peace Officer |
| SDR | Special Drawing Right (IMF) |
| SHM | Self-Help Measure |
| SNDP | Second National Development Plan (1972-1976) |
| TAZARA | Tanzania-Zambia Railroad |
| TNDP | Third National Development Plan (1979-1983) |
| UNIP | United National Independence Party |
| USAID/Z | United States Agency for International Development Mission, Zambia |
| USDA | United States Department of Agriculture |
| USDA/W | United States Department of Agriculture, Washington, D.C. |

| | |
|--------|--|
| ZADB | Zambia Agricultural Development Bank |
| ZAMCAM | Zambia Multi-Channel Agricultural Marketing Program |
| ZAPS | Zambia Auction Program Support |
| ZATPID | Zambia Agricultural Training, Planning and Institutional Development Project |
| ZAMARE | Zambia Agricultural Development Research and Extension Project |

COUNTRY BACKGROUND*

The population of Zambia is 6.6 million with a growth rate of about 3.2 percent per annum. Over 45 percent of the population lives in urban areas, making Zambia one of the most urbanized societies in Africa south of the Sahara. Zambia's per capita gross domestic product (GDP) is estimated at slightly under K700 for 1984 and about 15-20% higher in 1985. At a ratio of about K2:US\$1 early in 1985, per capita income would be \$400-450. However, at the exchange rate prevailing after October 3, 1985, it would be about \$200 per capita.

Mining is the most important sector and accounted for 32 percent of GDP for many years. After a period of decline in the 1970's, the relative share of mining in GDP has recently begun to show some improvement due to devaluation as well as increased efficiency in the industry. Despite the significant decline in copper prices, the copper industry earns over 90 percent of Zambia's foreign exchange and remains the primary determinant of Zambia's economic and financial performance. Other major contributors to GDP in 1984 were manufacturing, 19 percent; and agriculture, 17 percent.

The Zambian economy is further characterized by extreme dualism between an urban-oriented modern sector and the rural agricultural sector. Moreover, both the urban and rural sectors are dualistic. Both sectors are split between a formal and an informal subsector: in general, the former consists of larger, more modern, capital-intensive, higher wage activities, while the latter sector involves relatively low-skilled and more labor-intensive activities.

The agricultural sector retains the same structure it had at independence (1964). On the one hand are large commercial farmers, located mainly on the line-of-rail and other major arteries, using modern and capital-intensive methods to produce cereals, beef, poultry and tobacco. On the other hand, there are approximately 600,000 smallholder subsistence farmers, widely dispersed on land of varying quality, following traditional methods of farming to produce maize, cassava, millet, groundnuts, sorghum and free-grazed beef. There is, however, a growing emerging farmer group which uses both traditional and modern techniques in producing for the market.

* This section was extracted largely from the "Zambia Auction Program Support" PAAD; Lusaka USAID/Zambia, October 1985.

The fundamental development problem in Zambia is to diversify the economy by reducing dependence on the mining sector and increasing emphasis on the high potential yet low-performance agricultural sector. Of Zambia's estimated 75 million hectares about one third are well suited to agriculture. Of the 25 million hectares well suited to agriculture, 12 million are cropped intermittently but only about 2 million are cropped annually.

Zambia's landlocked position and heavy economic dependence on copper has made it particularly vulnerable to events outside its control. Factors inhibiting growth have been the country's dependence on copper, and on imported goods; sectoral income differentials; wage adjustments which were often unrelated to productivity gains; and rapid urbanization. The manufacturing sector's dependency on imported inputs has placed increasing demands on scarce foreign exchange. Given the economy's inability to meet the sector's requirements, capacity utilization, manufacturing output and employment have fallen.

Severe balance of payments deficits made it necessary to search for sources of external financing. This in turn led to mounting foreign debt and debt service requirements which the economy was not able to meet. The fall in mining revenues negatively affected the domestic economy and contributed to large gaps in the public budget between revenues and expenditures. The government's response was to reduce capital expenditures and borrow from the domestic banking system, which led to monetary expansion and inflationary pressures. Faced with a declining mineral resource base, deteriorating terms of trade, falling incomes and level of living, and growing unemployment and underemployment, the need for economic diversification could not be further postponed.

The Government of the Republic of Zambia (GRZ) has recently undertaken a substantial number of pricing and other economic reforms and has agreed to implement still more reforms within the next two years. These include:

- o Providing incentives to producers and exporters of agricultural and industrial products, taking into consideration market forces;
- o Ensuring the competitiveness of exports through an active exchange rate policy;
- o Using tariffs and interest rates to reverse past trends of import dependence and capital intensity;

- o Liberalizing administrative restrictions on foreign trade and the licensing of production in order to improve the allocation of resources and to encourage investment in productive activities;
- o Reducing the Government's deficit and domestic bank borrowing by reducing expenditures on personnel costs, subsidies and other recurrent outlays;
- o Improving planning and budgetary procedures to shift resources to productive uses and economic investments;
- o Allowing greater competition in the procurement and selling of food crops. The National Agricultural Marketing Board (NAMBoard) will move towards the role of buyer and seller of last resort, using a system of floor and intervention-selling prices for agricultural produce and inputs, respectively;
- o Strengthening the technical and managerial capacity of Zambia Industrial and Mining Corporation (ZIMCO), which is the holding company of most state-controlled enterprises;
- o Restructuring the energy sector to bring about lesser dependence on imported oil.

On October 4, 1985, the GRZ put a new foreign exchange rate auction system into effect to allow internal market forces to determine the kwacha value and distribution of available foreign exchange. This major and bold reform, given that the kwacha was significantly and chronically overvalued under the previous, controlled system, is the linchpin that underlies the viability of the agricultural pricing and marketing reforms.

I. EXECUTIVE SUMMARY

A. General

This report is the fourth in a series of five case studies aimed at identifying how PL 480 programs can be better designed and managed to increase their developmental effectiveness. Zambia's Title I Program was chosen because it had a reasonably long period of continuous operation, called for sufficiently specific self-help commitments to permit an appraisal of effectiveness, and appeared to exemplify the type of overall program integration the Agency is seeking to attain. The evaluation examines the processes by which Self-Help Measures (SHMs) and local currency uses are identified, negotiated, implemented, and monitored; assesses the congruence of SHMs and government actions; examines the adequacy of analyses supporting the SHMs; and identifies lessons learned.

B. Country Background

Zambia is a country of 6.6 million with a growth rate of 3.2 percent per annum. Over 45 percent of the population is urbanized. Per capita income was estimated at about \$400-\$450 in 1985. However, it would be about \$200 per capita at the exchange rate prevailing after October 3, 1985.

Zambia's economy is characterized by:

- o Heavy dependence on copper, an export subject to wide price swings on the international market;
- o Dualism between an urban-oriented modern sector and the rural agricultural sector; and
- o Dualism within the agricultural sector between a small number of expatriate commercial farmers using modern, capital-intensive techniques and the vast number of Zambian farmers using traditional, subsistence technology.

The fundamental development problem in Zambia is to diversify the economy by reducing dependence on the mining sector and increasing emphasis on the high potential yet low-performance agricultural sector. Toward this end, the Government of the Republic of Zambia (GRZ) recently undertook several bold economic reforms and has agreed to implement still more over the next two years. Western donors, particularly the World Bank and AID, view Zambia's market liberalization program as a major test case for the kind of policies they believe are necessary throughout sub-saharan Africa. They are placing high stakes on chances that Zambia's program will succeed.

C. Program Development

From FY 1977 to FY 1986, the U.S. Government provided Zambia with 448,300 metric tons of PL 480 Title I wheat, rice, and vegetable oil valued at \$90 million. This assistance comprised 23 percent of total U.S. economic assistance to Zambia over this period. Other assistance included economic support funds consisting of commodity import programs, 51 percent; Project aid, 14%; AEPRP Funds, 6%; and Title II emergency food aid, 6%.

The development of the Zambia PL 480 Title I program is conveniently viewed in terms of three time periods: FY 1977-1979, when Zambia's economy suffered a severe economic crisis; FY 1980-1984, a period of continuing economic deterioration; and FY 1985-1986, a period during which the GRZ undertook major economic reforms to stabilize, restructure and revitalize the economy.

From 1977 to 1979 the GRZ experienced severe financial difficulties due to continuing depressed world copper prices and the political and economic strains caused by the independence struggles in Southern Africa. The primary purpose of the PL 480 Title I program during this period was to provide balance of payments and budgetary support. Self-Help Measures (SHMs) mainly supported institutional and human resource development activities in the agricultural sector; no major policy changes were sought. Local currency generations supported the GRZ's agricultural and rural development budgets although specific uses of local currencies were not stipulated.

PL 480 Title I aid during this and the subsequent periods was as follows:

U.S. Economic Assistance to Zambia

FY 1977-FY 1986
(U.S. \$ Million)

| <u>PROGRAM</u> | <u>FY 1977-1979</u> | | <u>FY 1980-1984</u> | | <u>FY 1985-1986</u> | | <u>FY 1977-1986</u> | |
|----------------|---------------------|----------|---------------------|-----------|---------------------|----------|---------------------|----------|
| | <u>\$</u> | <u>£</u> | <u>\$</u> | <u>£</u> | <u>\$</u> | <u>£</u> | <u>\$</u> | <u>£</u> |
| ESF (CIP) | 70.0 | 72 | 101.4 | 54 | 30.0 | 26 | 201.4 | 51 |
| AEPRP | - | - | - | - | 25.0 | 22 | 25.0 | 6 |
| ESF Pro- | | | | | | | | |
| ject | 0.4 | - | 18.3 | 10 | 39.5 | 35 | 58.2 | 14 |
| PL480 I | 23.9 | 25 | 46.5 | 25 | 20.0 | 17 | 90.4 | 23 |
| PL480 II | <u>3.2</u> | <u>3</u> | <u>20.4</u> | <u>11</u> | <u>0.0</u> | <u>0</u> | <u>23.6</u> | <u>6</u> |
| TOTAL | 97.5 | 100 | 186.6 | 100 | 114.5 | 100 | 398.6 | 100 |

Source: AID Congressional Presentations FY 1981-FY 1986.

The table shows that PL 480 Title I comprised about one-fourth of total economic assistance to Zambia until FY 1985 when ESF obligations increased substantially their relative share.

From 1980 to 1984, Zambia's economic situation continued to deteriorate. The GRZ responded by issuing a three-year investment plan to promote agricultural and rural development, and to diversify the economy. This prompted a transition in the AID program whereby balance of payments support would continue on a diminishing scale while project assistance gradually increased. The AID program aimed to increase food production and small farmer income. All program elements--ESF, DA and PL 480--were closely integrated to contribute to these goals.

SHMs during this period centered mainly on policy initiatives to improve producer prices and reduce subsidies. Beginning in FY 1981, the CIP agreements included "support measures" which paralleled the PL 480 SHMs. PL 480 LCs supported policies to increase the productivity of small farmers and improve food distribution systems. However, a "special account" was not established and generations were accounted for by "attributions" to GRZ development budget items satisfying the above stated criteria.

The GRZ undertook a bold economic reform program in 1985 to restructure and "privatize" its public sector-dominated economy. This effort has won substantial support from the U.S. Government (USG) and other donors. The USG responded with a \$25 million AEPRP commodity aid program (FY 1985) in exchange for major policy reforms, and a \$15 million untied cash transfer grant (FY 1986) to support a foreign exchange auction program.

The FY 1985 PL 480 SHMs and CIP support measures were reoriented to complement the market liberalization measures negotiated under the \$25 million commodity aid program. The cash transfer grant substituted for the CIP program in FY 1986. The new FY 1986 SHMs mainly filled in gaps not covered under the \$25 million commodity agreement. Local currencies continued to be allocated by attribution to jointly agreed budget activities.

D. Self-Help Measures

The Mission processes for identifying, negotiating, implementing, and monitoring SHMs were given particular attention in this evaluation. USAID/Zambia's approach to identifying SHMs involved reliance upon analyses prepared in large part by outside consultants; recurrent use of the same consultants; a continuing informal dialogue with the GRZ and other donors; and establishment of a SHM committee to insure SHMs were well integrated into the mission's overall development strategy.

The negotiation process involved a mixed informal/formal approach whereby negotiations were pursued informally up to six months before the PL 480 agreement is signed. Only when the prospects were good for final agreement did the parties sit down to a session of formal negotiations. Policy dialogue took place at three levels: between the USAID Mission Director and the Permanent Secretaries of Finance and Agriculture; between the USAID technical staff and GRZ counterparts; and within the Ministry of Agriculture and Water Development (MAWD), between personnel assigned to USAID-supported projects and their Zambian counterparts.

Methods of monitoring implementation included the establishment of benchmarks, the commissioning of in-house analyses, procedures for follow-up, and schedules for the disbursement of commodities and local currency.

The examination of these processes yielded several lessons learned that may be of interest to other missions, particularly

smaller ones managing sizable programs. The following lessons learned are especially noteworthy:

- o PL 480 Title I and overall program management can be facilitated if program activities are integrated and focused on one or two key objectives or sectors.

USAID/Zambia's PL 480 and other assistance programs were tightly woven and focused on increasing small farmer productivity and income. This permitted complementarities and "economies" of analytical effort in identifying SHMs and other program initiatives. It also enabled USAID/Zambia to strengthen its negotiating position. Once agreement was secured on one program, agreement proceeded more smoothly on other programs that followed.

On the other hand, integration can cause implementation delays if progress in one program is linked to that in another. For instance, the Ministry of Finance (MOF) was unsympathetic to a USAID request to improve monitoring of one program until USAID released funds under another.

- o A small post can strengthen its analytical capability to identify SHMs through regular periodic TDY's of direct hire officers and consultants.

USAID/Zambia tended to use the same TDY personnel to assist in identifying and redesigning SHMs. This was advantageous because consultants arrived with a working knowledge of the country and an established rapport with key GRZ and USAID officials.

- o Informal discussions with HG counterparts in advance of the SHM negotiations can provide insight into the host government's receptivity to contemplated SHMs. They also allow time for ideas and concepts to be vetted within the government.

USAID/Zambia held informal discussions up to six months before formal negotiations. Discussions were held at several levels ranging from the technician level to the cabinet level, and sometimes included the Economic Advisor to the President.

- o The SHM identification process can be strengthened in larger missions by appointing a committee to identify SHMs.

USAID/Zambia's Mission Director appointed a committee to identify SHMs. The members included the Assistant Director, the Regional Food for Peace Officer, the Agricultural

Economist, and the Agriculture Officer. The committee prepared a matrix indicating the SHMs and measures negotiated under other programs. SHMs were eliminated that had been met or were likely to be met. SHMs which required continued emphasis were retained. Most important, the committee identified "missing pieces" that were needed to fill "gaps" not addressed in existing agreements.

- o Mixing informal and formal negotiating approaches can facilitate agreement and leave the host government feeling they were involved more in "dialogue" than "leverage".

The USAID/Zambia negotiating strategy shifted over time from a formal to a mixed informal/formal approach. Informal discussions took place by appointment at the MOF and MAWD and during encounters at official or social functions. Only when prospects were good for final agreement did the parties engage in formal negotiations. One senior Zambian official compared this approach favorably to the stricter style of negotiation employed by the World Bank.

A more informal approach is not without pitfalls. Negotiations can suffer if mission staff do not keep each other fully informed about their discussions with host government officials. To avoid this problem, Zambia's Mission Director preferred to lead policy negotiations himself rather than delegate this responsibility to other Mission staff members. Mission staff discuss policy issues with their GRZ counterparts but have had a more limited role in negotiations.

- o Projects provide useful mechanisms for supporting and implementing policy reform initiatives.

USAID/Zambia's development strategy offers an excellent example of integrating PL 480 Title I SHMs with other program activities. Implementation of SHMs could be further facilitated if additional project aid were made available and if existing project aid were drawn upon to a greater extent.

- o Implementation and monitoring considerations should be part of the policy and program dialogues.

The GRZ viewed self-help reporting more in terms of a need to fulfill an AID requirement than as a useful device for improving its implementation performance.

- o SHMs should include specific benchmarks and deadlines to facilitate implementation and monitoring.

Over time, and to the credit of USAID/Zambia officials, SHMs have been expressed increasingly in terms of more precise evaluation criteria.

- o Measuring the degree of cause and effect between self-help commitments and host government policy reforms is difficult. Nevertheless a strong and continuing U.S. commitment to major policy reforms can produce successful results.

The evaluation team found a very high level of congruence between commitments contained in U.S.-GRZ agreements and GRZ performance. These commitments included measures to: improve research; reduce levels of spending on food subsidies, especially consumer subsidies; improve price incentives for farmers; increase private enterprise involvement in marketing; reduce input subsidies (with some variations); reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; reduce the domestic budget deficit, and narrow the BOP gap.

- o Continuity of SHMs over a period of years probably is essential for successfully promoting policy reform.

As a general rule, individual SHMs should continue only minimally changed in annual agreements until the issue is satisfactorily resolved or until it is established that a poor choice was made originally in including the particular SHM.

Continuity in the Zambian case has been outstanding, both taken alone and in conjunction with other U.S. assistance. The U.S. assistance program has focused heavily on the development policy theme, particularly on policies affecting agriculture and food. Policies receiving major emphasis included consumer, producer and input prices and their relationships to producer incentives and production; imports and the balance of trade; subsidy costs; and internal economic stability.

E. Adequacy of Supporting Analyses

Analyses supporting the Zambia Title I SHMs and other policy and program activities were conducted largely by contractors and TDY officials from REDSO/ESA and AID/W. IBRD and IMF studies were drawn upon as well. These analyses, together with "in-house" analyses by Mission professionals, constituted a substantial body of documentation upon which to base policy and program recommendations.

USAID/Zambia has been an exemplary Mission in terms of the amount of resources committed relative to the number of U.S.

direct hire personnel. Nevertheless, this situation gives rise to the question of whether the quality of SHMs might have been improved had the USAID had more professional support from within and outside the Mission. From within, the addition of one or two professionals beyond those allowed would have seemed justified given the level of program resources. Outside the Mission, greater use could have been made of the analytical capabilities of the dozen TA's currently in Zambia on the ZATPID and ZAMARE projects.

Some SHMs received more supporting analysis than others. Substantial evidence was marshalled concerning the effects of subsidies and foreign exchange rates on the GRZ budget and balance of payments. Less attention was given to estimating the likely outcome of a) the decontrol of prices and the auctioning of foreign exchange, b) the opening of agricultural markets to private and cooperative traders, and c) the transfer of responsibility for agricultural inputs, including fertilizers, to the private sector. The following are illustrations of areas in which further analysis appears desirable:

- The capacity of existing rural enterprises to handle trade in agricultural commodities;
- The economic impact of grain market liberalization on small farmers;
- The efficiency of fertilizers in terms of the balance chemical input and crop production; and
- The soil acidity problem and the potential for developing a limestone processing and marketing capability.

F. PL 480 Local Currency Programming - Lessons Learned

Local currency (LC) equivalent to \$82 million in Title I aid was generated from FY 1975 to FY 1985. Local currency generated under Title II totalled 28.3 million Kwacha. CIP programs generated the equivalent of about \$200 million over the same period. In general, LCs generated under all loan-funded programs were "attributed" to jointly agreed items in the GRZ budget. All Title I and CIP programs were loans until FY 1984; no special accounts were established to program the resulting LCs. A shift was made to special accounts for CIP LCs as the USG provided CIP assistance shifted to a grant basis. The USAID and GRZ established a special account for LCs generated under grant-funded Title II programs beginning after 1979, just under NAMBoard and later under the MOF control.

PL 480 agreements through FY 1982 provided that LCs finance the SHMs and development activities in the agricultural and rural sectors. These agreements also placed emphasis on improving the lives of the poorest and their capacity to participate in the country's development. The FY 1983 agreement specified priorities to support agricultural price incentives, strengthen agricultural marketing infrastructure, and improve agricultural management and technical capabilities. The FY 1984 agreement added the strengthening of agricultural credit institutions and included cooperatives under the marketing infrastructure priority.

USAID and the MOF jointly reviewed the GRZ budget to identify and negotiate items for attribution. Reports of LC have tended to be perfunctory and USAID monitoring limited to insuring that it receives periodic attribution reports. USAID/Zambia has always considered the SHMs to be more important than the LC uses. As long as the GRZ performed on the SHMs, USAID placed little emphasis on LC use.

Lessons learned from Zambia's LC experience follow:

- o LC programming can be both an asset and a liability.

It is an asset if the host government perceives it as bringing additional resources permitting modification of uses in directions the recipient agency desires. It is a liability to the extent it reduces the budgetary authorities' control over the total allocation of resources and, as such, diminishes the value of the resources to these authorities. The real value of the resources, and the extent to which leverage exists, lies in the commodities financed, not the LC.

In the Zambian case, the GRZ viewed LC programming more as a liability and protected their authority over LC uses. The Government was concerned that other donors might argue for a special account if USAID insisted upon one. The GRZ feared this would spell chaos for the government's budgeting process to the extent that this occurred. Further, the GRZ believed the Title I LC that was theirs to allocate because the Title I loans were repayable in foreign exchange.

- o Local currency programming can produce serious, possibly destabilizing uncertainty in the HC's budgetary process when LC generations are large compared to total resources and AID must approve LC uses.

USAID/Zambia adopted an attribution process for Title I LC because efforts to program LC (together with CIP LCs) would

seriously distort the GRZ's budget and development priorities. Nonetheless, about K250 million generated from LC programs other than Title I will accumulate in special accounts over the next year or two. This is an amount equivalent to the GRZ's total 1984 development budget. In such cases, it may be prudent to require special account deposits only in amounts the mission can reasonably expect to manage. The balance would be accounted for by attribution.

II. PL 480 Title I Program Development

A. 1976 - 1979

At the start of the PL 480 Title I program in late 1976, Zambia's economy was still suffering from the same structural problems it had inherited at independence in 1965, namely:

- o Heavy dependence on copper, an export subject to wide price swings on the international market;
- o Dualism between a rich mining sector and a poor subsistence agricultural sector;
- o Dualism within the agricultural sector between a small number of expatriate commercial farmers using modern, capital-intensive techniques and the vast number of Zambian farmers using traditional, subsistence technology;
- o Large income differentials between urban and rural workers; and
- o Heavy reliance upon expatriates because of shortages of skilled Zambian labor.

The major aim of government economic policy from 1965 to 1978 was to use the country's mineral wealth to diversify the economy and to advance the economic and social welfare of the entire country. Although progress was made in building physical infrastructure and expanding social services, it made little progress in improving economic productivity.

Efforts to diversify the economy and lessen its dependence on copper were disappointing. Investment priorities continued to be placed on mining and developing the modern urban sector, particularly the industrial parastatal corporations. In the agricultural sector, dualism was promoted through the use of capital intensive agricultural technology and subsidized fertilizers. Simultaneously, the traditional farm sector declined due to low producer prices, limited access to credit and subsidized inputs, and general neglect by the government.

As a result of this pattern of development, the economy continued to be dominated by the mining sector which contributed 34% to GDP in 1976 compared to 41% in 1965; 1/

1/ Largely offsetting this decline in mining's relative share of real GDP was the services sector which rose from 9% to 13% and manufacturing which rose from 7% to 10% over the same period.

real per capita income in 1976 was only US \$250/per annum compared to US \$243 per annum in 1965; and the gap between urban and rural incomes was wider in 1976 than it had been at independence.

The economy suffered a major economic crisis beginning in 1975 when world copper prices plummeted and remained low until 1978. The impact was severe on Zambia's copperbased economy. Budget revenues and foreign exchange earnings fell dramatically and economic growth declined further. The GRZ responded with a stabilization program in 1976 and later with a two-year IMF stand-by arrangement (April 1978 - April 1980).

The political climate in the Southern African region during the 1970's further exacerbated Zambia's economic difficulties. Being a land-locked country, Zambia is dependent upon rail links through neighboring states to reach seaports. When the independence struggles in Angola, Mozambique and Rhodesia disrupted these access routes, Zambia incurred heavy costs to maintain existing routes (when they were open) and to develop and maintain an alternate route, the TAZARA railway, to Dar-es-Salaam, Tanzania. Economic sanctions against Rhodesia also proved costly as traditionally traded goods and services had to be procured elsewhere--or be produced locally--at higher costs.

Under these economic and political strains, the GRZ implemented its Third National Development Plan (TNDP)- 1979-1983. The objective was "to diversify the economic structure in order to reduce the economy's dependence on copper and to undertake a crash economic program of promoting agriculture and industry based on the use of local raw materials and the establishment of the necessary capital goods industries". The Plan acknowledged that highest priority should be given to agricultural and rural development.

U.S. economic assistance to Zambia up to 1979 had consisted solely of non-project aid (see Table I). A commodity import program (CIP) was begun in 1973. Most of the CIP commodities supported the development of the agricultural sector; e.g., fertilizer, stockfeed, spare parts and equipment for vehicles used in agricultural production. CIP assistance totaled \$75 million from FY 1973 to FY 1979.

AID began a modest PL 480 Title II program in 1975 (see Table II and footnotes). The first PL 480 Title I program followed in 1976. PL 480 aid through FY 1979 totaled \$30 million, including \$4.3 million Title II. Commodities included wheat, rice and vegetable oil.

In addition to providing essential agricultural inputs and food supplies, the primary purpose of these early programs was to provide balance of payments and budgetary support to assist the GRZ in overcoming its financial crisis. Politically, the underlying justification for U.S. assistance was Zambia's constructive, moderating role in promoting a peaceful transition to majority rule in neighboring states.

Self-help measures (SHMs) negotiated under these early PL 480 Title I agreements were oriented mainly toward institutional and human resource development activities in the agricultural sector; no major policy changes were encouraged. The CIP programs did not include "support measures" as they would in later years. Local currency generations under both the PL 480 Title I and CIP programs were used to support the GRZ's agricultural and rural development budgets. However, specific uses were not stipulated.

AID first established resident representation in Zambia in 1978 when one AID officer and one secretary were officed in the U.S. Embassy. Prior to this time, AID affairs were administered from REDSO/EA in Nairobi and AID/W with caretaker assistance from U.S. Embassy staff.

Zambia received economic assistance from many countries--East and West--and multilateral agencies in the late 1970s. The composition of commitments in 1977 totaled \$235 million as follows:

| | |
|----------------------|-----------------|
| Technical Assistance | \$40.5 million |
| Capital Assistance | \$123.0 million |
| Commodity Assistance | \$71.5 million |

Assistance in 1978 and 1979 continued at about \$200-\$250 million annually. Project aid was primarily targeted at agriculture, forestry and fisheries; education; and transport and communications. The GRZ also signed a SDR 250 million, two-year stand-by agreement with the IMF in April 1978.

B. 1980 - 1984

From 1980 to 1984 Zambia's economic situation continued to deteriorate. World copper prices remained stagnant at low levels; budgetary discipline was not maintained; the balance of payments situation grew worse; and external debt rose to unmanageable levels necessitating debt rescheduling. In May 1981, the GRZ signed a SDR 800 million three-year Extended Fund Facility (EFF) with the IMF. After drawing SDR 359.3 on the EFF in 1981, the EFF was cancelled in 1982 because agreement

TABLE 1
US BUDGET ASSISTANCE TO ZAMBIA

FY 1977 - FY 1986

US \$ MILLION

(COMMITMENTS AND FUND AUTHORIZATIONS)

| <u>CATEGORY</u> | <u>FY1977</u> | <u>FY1978</u> | <u>FY1979</u> | <u>FY1980</u> | <u>FY1981</u> | <u>FY1982</u> | <u>FY1983</u> | <u>FY1984</u> | <u>FY1985^{1/}</u> | <u>FY1986^{1/}</u> | <u>FY77-86</u> | <u>PERCENT</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------------|----------------------------|----------------|----------------|
| ESF (Project) | * | * | 0.4 | 4.0 | 5.6 | 5.1 | 0.5 | 3.1 | 16.4 | 23.1 | 58.2 | 14.6 |
| ESF (CIP) | 20.0 | 30.0 | 20.0 | 24.0 | 20.6 | 20.0 | 15.5 | 21.3 | 15.0 | 15.0 ^{3/} | 201.4 | 50.5 |
| Africa Economic Policy Reform Program | - | - | - | - | - | - | - | - | 25.0 ^{2/} | - | 25.0 | 6.3 |
| PL 480 Assistance | 5.6 | 8.5 | 13.0 | 22.4 | 10.0 | 7.0 | 12.4 | 15.1 | 10.0 | 10.0 | 114.0 | 28.6 |
| Total | <u>25.6</u> | <u>38.5</u> | <u>33.4</u> | <u>50.4</u> | <u>36.2</u> | <u>32.1</u> | <u>28.4</u> | <u>39.5</u> | <u>66.4</u> | <u>48.1</u> | <u>398.6</u> | <u>100.0</u> |

(EXPENDITURES)

| <u>Project Assistance</u> | <u>FY1977</u> | <u>FY1978</u> | <u>FY1979</u> | <u>FY1980</u> | <u>FY1981</u> | <u>FY1982</u> | <u>FY1983</u> | <u>FY1984</u> | <u>FY1985^{1/}</u> | <u>FY1986^{1/}</u> | <u>FY77-86</u> | <u>PERCENT</u> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------------|----------------------------|----------------|----------------|
| Agriculture Training, Planning, & Industrial Development | - | - | - | - | 0.2 | 0.4 | 0.9 | 0.9 | 2.0 | 3.0 | 7.4 | 31.7 |
| Agricultural Development Research & Extension | - | - | - | - | 0.1 | 1.0 | 1.6 | 1.6 | 4.0 | 4.0 | 12.3 | 52.8 |
| Human and Institutional Resources Development (IYO) | - | - | - | - | - | - | - | - | 1.0 | 1.0 | 2.0 | 8.6 |
| Open Area Development (IYO) | - | - | - | - | - | 0.5 | * | 0.4 | 0.2 | 0.1 | 1.2 | 5.2 |
| Western Province Small Farmer Production (IYO) | - | - | - | - | - | - | - | 0.2 | 0.2 | * | 0.4 | 1.7 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>0.3</u> | <u>1.9</u> | <u>2.5</u> | <u>3.1</u> | <u>7.4</u> | <u>8.1</u> | <u>23.3</u> | <u>100.0</u> |

FY1977 FY1978 FY1979 FY1980 FY1981 FY1982 FY1983 FY1984 FY1985^{1/} FY1986^{1/} FY77-86 PERCENT

(YEARS COMMODITIES FINANCED)

Commodities Financed
Under Commodity
Import Programs

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|------------------|---|
| Fertilizer | X | | X | X | | X | | X | X | NA ^{3/} | X |
| Fertilizer Raw Materials | | | | X | X | | X | | X | NA | X |
| Agricultural Equipment and Spare Parts | X | X | X | | | X | | X | X | NA | X |
| Other | X | X | | | | | | X | X | NA | X |

Source: AID Congressional Presentation FY 1981 - FY 1986

1/ Estimate

2/ Zambia Multi-Channel Agricultural Marketing Program Grant. Commodities financed under this program include fertilizer, agricultural machinery and spares, transportation equipment, and agricultural processing equipment.

3/ Zambia Auction Program Support Grant. This commodity import program is not tied to specific commodity or source procurements.

* Less than \$50,000

130

TABLE 11
PL 480 ASSISTANCE TO ZAMBIA

ACTUAL PURCHASES

FY 1977 - FY 1986 ^{1/}

| | <u>FY 1977</u> | <u>FY 1978</u> | <u>FY 1979</u> | <u>FY 1980</u> | <u>FY 1981</u> | <u>FY 1982</u> | <u>FY 1983</u> | <u>FY 1984</u> | <u>FY 1985</u> ^{2/} | <u>FY 1986</u> ^{1/} | <u>FY 77-</u> ⁸ |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------------|------------------------------|----------------------------|
| <u>U. S. MILLIONS</u> | | | | | | | | | | | |
| Title I | \$ 5.4 | \$ 8.5 | \$10.0 | \$12.5 | \$10.0 | \$ 7.0 | \$ 7.0 | \$10.0 | \$10.0 | \$10.0 | \$ 90.4 |
| Wheat | 2.1 | 4.1 | 4.3 | - | 10.0 | 3.1 | 2.8 | 2.7 | 5.0 | 5.0 | 40.7 |
| Rice | - | 1.1 | 1.3 | - | - | 2.0 | 1.8 | 1.8 | - | - | 8.0 |
| Vegoil | 3.3 | 3.3 | 4.4 | - | - | 1.9 | 2.4 | 5.5 | 5.0 | 5.0 | 30.8 |
| Feedgrains | - | - | - | 12.5 | - | - | - | - | - | - | 12.5 |
| Title II | 0.2 | * | 3.0 | 9.9 | - | - | 5.4 | 5.1 | - | - | 23.6 |
| Total | \$ 5.6 | \$ 8.5 | \$13.0 | \$22.4 | \$10.0 | \$ 7.0 | \$12.4 | \$15.1 | \$10.0 | \$10.0 | \$113.9 |
| <u>THOUSAND METRIC TONS</u> | | | | | | | | | | | |
| Title I | 21.5 | 45.2 | 40.0 | 104.0 | 57.0 | 31.4 | 29.0 | 32.9 | 47.3 | 40.0 | 448.3 |
| Wheat | 16.5 | 37.5 | 29.0 | - | 57.0 | 20.6 | 16.8 | 17.4 | 38.4 | 32.0 | 265.2 |
| Rice | - | 3.7 | 4.0 | - | - | 6.5 | 6.3 | 7.0 | - | - | 27.5 |
| Vegoil | 5.0 | 4.0 | 7.0 | - | - | 4.3 | 5.9 | 8.5 | 8.9 | 8.0 | 51.6 |
| Feedgrains | - | - | - | 104.0 | - | - | - | - | - | - | 104.0 |
| Title II | - | - | 60.0 | - | 21.5 | - | 35.0 | 32.3 | - | - | 148.8 |
| Total | 21.5 | 45.2 | 100.0 | 104.0 | 78.5 | 31.4 | 64.0 | 65.2 | 47.3 | 40.0 | 597.1 |

Source: AID Congressional Presentation FY 1981 - FY 1986

1/ Prior to FY 1977, PL 480 aid to Zambia totaled \$2.7 million (FY 1975-TQ1976) including \$1.6 million Title I and \$1.1 million Title II. Cumulative PL 480 aid to Zambia from FY 1975 to FY 1986 totals \$116.6 million.

2/ Estimate

* Less than \$50,000

could not be reached on a stabilization program. Later, however, in 1983, the GRZ signed a one-year stand-by agreement with the IMF. Agreement was reached on a new stand-by agreement in July 1984. The GRZ also issued a Three-Year Investment Plan (1981-1983) to implement the TNDP's objective to diversify the economy.

The GRZ began to take actions in 1982 to encourage agricultural production. The government increased maize producer prices and offered early delivery bonuses and tax incentives. Farmers responded by increasing acreage planted by 25 to 30 percent. Unfortunately, a region-wide drought kept Zambia from reaching self-sufficiency in maize (the principal staple) in 1982. Additional price increases were announced in 1983 and 1984 but the drought continued to affect production adversely.

In addition to substantial production shortfalls, the GRZ faced major agricultural marketing problems posed by the inefficiency of its agricultural parastatals and the excessive subsidies required to support them. In 1980, these subsidies were equivalent to 132 percent of the total capital budget. By 1984 they had been reduced but were still equivalent to 41 percent of the capital budget. These subsidies were a major issue between the GRZ and the donor community as they absorbed GRZ resources that could otherwise have funded development programs.

The U.S. economic assistance program charted a new course in FY 1980. The TNDP's emphasis on agriculture and rural development prompted a transition of the AID program whereby balance of payments support would continue on a diminishing scale while project assistance gradually increased. The program aimed to increase food production and small farmer income.

Project and non-project assistance were structured to operate on a "policy front" and an "action front". On the policy front, the Zambia Agricultural Training Planning and Institutional Development (ZATPID) Project (FY 1980) provided technical assistance and training to strengthen the GRZ's capacity to analyze, define, and implement development policy, particularly as it related to rural development.

On the "action front", the Agriculture Research and Extension (ZAMARE) Project (FY 1980) was launched to establish a crop-specific research capacity as well as an on-farm research approach in one or two geographic areas. It also aimed to increase small farmer income and to increase the GRZ's capacity to manage and replicate such programs. AID/Zambia also approved an O.P.G. with Africare for a pilot agricultural production project (FY 1981) in the north-eastern part of Zambia.

Lastly, AID/Zambia launched a Human and Institutional Resources Development Project in FY 1974 to provide training opportunities in a variety of development fields such as economics, engineering, management, etc.

The CIP and PL 480 programs complemented the above activities on both the policy and action fronts. Beginning in FY 1977, PL 480 Title I SHMs were used to influence GRZ agricultural policies. From FY 1980 to FY 1984 the SHMs centered mainly on policy initiatives to improve producer incentives and reduce subsidies. On the action front, SHMs called for strengthening the GRZ's agricultural planning capacity and agricultural research and extension capability. Beginning in FY 1981, the CIP agreements included "support measures" which paralleled the PL 480 SHMs during most of the FY 1980 - FY 1984 period.

PL 480 Title I local currencies were used "in support of those policies and projects which increase the productivity of small farmers and improve food distribution systems". However, a special account was not established to monitor the allocation of local currencies, nor were specific uses stipulated. Instead, sales proceeds were allocated by attribution to activities satisfying the above criteria. CIP local currencies were similarly programmed by attribution.

From FY 1980 to FY 1984 PL 480 Title I aid totaled \$46.5 million compared to \$101.4 million for CIP programs. Commodities imported under both programs were the same as those financed in earlier years. AID/Zambia seriously considered a PL 480 Title III for Zambia in FY 1982 but concluded it would be too complex for the GRZ and AID/Zambia to manage.

Donor technical, capital and commodity aid rose significantly in the early eighties overall. For example, agreements totaled \$665 million in 1981 compared to \$233 million in 1979. Bilateral project assistance by economic sector was as follows:

| | |
|---|-----|
| Agriculture, including forestry and fishing | 40% |
| Transport and Communications | 26% |
| Health | 10% |
| Education | 8% |
| Industry | 5% |
| Other | 11% |

Multilateral assistance was heavily skewed toward general development policy and planning because of the influence of the SDR 800 million three-year EFF agreement with the IMF. The GRZ drew SDR 359.3 million against the EFF before it was

cancelled. The one-year IMF stand-by agreements signed in 1983 and 1984 totaled SDR 211.5 million and SDR 225 million respectively.

C. 1985

1985 may represent a major turning point in Zambia's economic history. After two decades of tight central government control over the economy, the GRZ introduced bold economic reforms to allow the private sector and market forces to regulate economic activity. These reforms include the establishment of an auction system to allocate foreign exchange and establish exchange rates; the decontrol of prices on consumer goods; and the repeal of laws prohibiting private traders from engaging in the marketing of goods heretofore marketed only by government parastatals.

In the agricultural sector, maize prices will no longer be controlled, although a floor producer price will be set each year. The marketing of maize and agricultural inputs will be opened to the private sector. The marketing parastatal, NAMBoard, will become a buyer of last resort and will function primarily to manage a grain reserve. The GRZ will increase its support to the development of regional cooperative unions and will encourage the establishment of more primary societies to assume agricultural marketing functions.

The GRZ's bold 1985 actions were taken in close consultation with donors. Policy reform to equalize markets, for example, was an agreed condition for U.S. approval of the \$25 million Zambia Multi-Channel Agricultural Marketing Program (ZAMCAM) in FY 1985. This program, funded under the Africa Economic Policy Reform Program, provides commodity aid in exchange for major policy reforms including price adjustments and subsidy reductions on maize and fertilizer; reduction of the role of the food marketing parastatal NAMBoard to buyer and seller of last resort; and free entry of private traders into maize and fertilizer marketing.

In support of the auction program, USAID and the GRZ signed an agreement in November 1985 for a \$15 million Zambia Auction Program Support (ZAPS) Program. Funds under this cash transfer grant are untied as regards type and source of commodities imported. Project aid through the ZATPID, ZAMARE and Human Resources Development Projects continued in 1985. It is anticipated that the former two projects will be extended into Phase II activities after FY 1986.

The FY 1985 PL 480 SHMs and CIP support measures shifted somewhat from the approach on incentive prices and subsidies in the FY 1980 - FY 1984 agreements. They complement the market liberalization measures under the ZAMCAM program. The cash transfer ZAPS program substituted for the CIP program in FY 1986 and did not include support measures. The FY 1986 PL 480 Title I SHMs filled in "gaps" not covered by the ZAMCAM agreement.

Other donors also participated in the dialogue to launch Zambia's market liberalization policies. The World Bank approved a \$72.3 million Agricultural Rehabilitation Project to provide farm machinery, spare parts and agro-chemicals to support the program. The Bank also approved a \$75.0 million Industrial Reorientation Project to raise the capacity utilization and production levels of efficient industrial parastatals. The project provides technical, training and commodity assistance. Great Britain and Canada are considering reprogramming current project aid in support of the auction system. The IMF is currently negotiating with the GRZ on a new standby and is reportedly well pleased with Zambia's recent performance.

Western donors, particularly the World Bank and AID, view Zambia's market liberalization program as a major test case for the kind of policies they believe are necessary throughout sub-saharan Africa. They are placing high stakes on chances that Zambia's program will succeed.

III. SELF-HELP MEASURES^{2/}

A. Identification Process

Approach

USAID/Zambia's approach to identifying SHMs over the FY 1977-1986 period can be characterized as follows:

- o Use of both "ex ante" and "ex post" analyses to identify and redesign SHMs;
- o Reliance upon technical analyses of closely related program activities (CIP support measures, ZAMCAM support measures, ZATPID and ZAMARE projects) to facilitate the identification of SHMs;
- o Frequent reliance on outside analytical assistance due to the small size of the USAID staff relative to the scope and size of the overall assistance program;
- o Recurrent use of the same technical personnel to establish continuity and rapport with USAID and GRZ personnel;
- o A continuing informal dialogue with the GRZ to assess government receptivity to contemplated SHM's; and
- o Consultation with other donors on the complementarity of SHMs relative to their programs.

The following sections describe the kinds of data and analyses used to identify SHMs and the entities involved in the identification process.

Data and Analysis

1. General Characteristics

The data and analyses used by USAID/Zambia (USAID/Z) to identify SHMs over the FY 1977-1986 period shared several general characteristics. Data upon which the analyses were based were usually weak; SHMs were based on both "ex ante" and "ex post" analyses; analyses tended to be framed in terms of the consequences of not taking prescribed actions; and analyses reflected the influence of AID/W policy directives.

^{2/} Self-help measures included in the FY 1977-FY 1986 agreements are presented in Annex B.

As in most third world countries, the data base for Zambia's agricultural sector is weak. Recognizing this constraint, AID/Zambia designed the ZATPID project to strengthen the data collection and analysis capability in MAWD's Planning Division and the Central Statistical Office (CSO). The project provides technical assistance, training and commodities, including two recently-arrived mini-computers. The project is also funding a food consumption and income expenditure survey now underway to collect more reliable data on the eating and spending patterns of the poor in Zambia. Additionally, SHMs have included specific measures to strengthen the data collection and analysis capability of MAWD's Planning Division and the CSO.

USAID/Z used both "ex ante" and "ex post" analyses to identify and redesign SHMs over the FY 1977-FY 1986 period. This was largely the result of the integrated nature of the overall program and the use of the same or similar SHMs over several years. Analyses for one program element were often relevant to others, and in these instances, the analyses would sometimes further justify an existing SHM or provide the basis for a new one. This is demonstrated frequently in the description of analyses below.

Conceptually, the analyses of AID and other donors tend to be framed more in terms of what will be the consequences of not taking certain policy actions rather than the results to be expected from following recommended policy changes. For example, to encourage market liberalization, the Mission and other donors point to Mozambique's disastrous experience in controlling prices and markets and suggest Zambia may meet a similar fate if it continues the same type of policies. Donors follow this approach because Zambia's unreliable data base limits the precision with which economic projections can be made.

Analyses and SHMs over the FY 1977-FY 1986 period also reflect the influence of AID/W policy directives. This is seen in the early, relatively stronger emphasis from FY 1977 to FY 1981 on agricultural research and extension; the focus on agricultural price and subsidy issues from FY 1980 to FY 1984; and the shift to broader market liberalization initiatives since FY 1984. These relative changes in emphasis closely parallel those of the AID Administrator over the same period. AID/W guidance issued on the integration of PL 480 resources (1980) and self-help measures (1984) were influential as well. This is

reflected in the integrated nature of the program and the increasing specificity of SHMs in recent years.

The identification of SHMs can be conveniently divided, on the basis of content, into three time periods. The following sections identify the analyses used in each period.

2. FY 1977 - FY 1979

SHMs during the FY 1977-FY 1979 period were influenced largely by AID-contracted studies completed in 1977 and 1978.^{3/} These studies were prepared in conjunction with a major U.S. initiative to identify ways in which AID could support economic self-reliance among the majority-ruled states in the southern Africa region. AID incorporated the 1978 studies into a region-wide "Report to Congress on Development Needs and Opportunities for Cooperation in Southern Africa."

The FY 1977-FY 1979 SHMs calling for economic stabilization efforts were further supported by macroeconomic assessments included in the annual CIP PAAD's, U.S. Embassy economic reporting, and World Bank and IMF economic appraisals. The GRZ's "Third National Development Plan" (1979-1983) was also influential in suggesting SHMs that would support the government's development goals.

3. FY 1980 - FY 1984

The SHM identification process from FY 1980 to FY 1984 was influenced strongly by the Mission's strategy to:

- o Integrate its ESF and PL 480 assistance;
- o Maintain the focus of its policy dialogue in the same key areas from year to year; and

^{3/} "Transition in Southern Africa: Zambia", USAID, 1977; "Agricultural Sector Assessment: Zambia", USAID, August 1978; "A Report to Congress on Development Needs and Opportunities for Cooperation in Southern Africa, Main Report and Annex A: Zambia, USAID, March 1979.

- o Pursue similar policy initiatives under the PL 480 Title I and CIP programs to strengthen the Mission's negotiating position.

This approach resulted in complementarities and "economies" of analytical effort because most CIP support measures and PL 480 SHMs were the same during most of these years. The analysis for SHMs usually was done in conjunction with the CIP program design because analytical justification must appear in CIP documentation but not in Title I proposals.

Although the CIP PAAD's have provided the supporting analyses for SHMs in recent years, the FY 1980 PL 480 Title I agreement identified the policy areas that the subsequent CIP and PL 480 agreements emphasized over the FY 1980-FY 1984 period. The FY 1980 PL 480 Title I SHMs were based in turn on analyses undertaken in 1980 to support the ZAMARE and ZATPID projects.

Project analyses thus made important contributions to the identification of SHMs. The FY 1985 CDSS, prepared in 1982, also reinforced the analyses that had been done to date. The common thread linking all these activities and analyses was their concentrated focus on the Mission's goals to increase small farmers' productivity and income.

4. FY 1985 - FY 1986

This integration process has continued with the identification of the FY 1985-FY 1986 SHMs. Analyses supporting these SHMs, oriented toward market liberalization, began in late 1982 with the preparation of the FY 1985 CDSS. The CDSS drew attention to the need for market liberalization in the agricultural sector. Market liberalization was further supported in two major 1983 REDSO/ESA studies, one a major evaluation of USAID/Zambia's assistance strategy^{4/}

^{4/} "Major Zambian Development Problems", C.S. Callison, D. Dijkerman and B. Robinson, REDSO/ESA, Nairobi, Kenya, April 1983.

"Evaluation of AID's Assistance Strategy for Zambia", R. Aulakh, C.S. Callison, C. Claude and D. Dijkerman, REDSO/ESA, Nairobi, Kenya, June 1983.

The principal analyses underlying the FY 1985-FY 1986 SHMs were the IBRD's Zambia Agricultural Rehabilitation project paper and work related to the ZAMCAM PAAD. These studies were also the basis for the FY 1985 CIP support measures and the FY 1986 ZAPS program.

Entities Involved

1. U.S. Mission and Consultants

The scope and size of the total economic assistance program to Zambia is substantial relative to the U.S. AID staff assigned to implement it. The Mission has therefore relied heavily upon outside technical assistance to undertake analyses supporting SHMs. However, with the addition of an agricultural economist in FY 1985 and a commodity management specialist in FY 1986, the Mission's technical staff has begun to take a more direct, analytical role in the identification process. The Commodity Specialist took over management of the CIPs thus permitting the agricultural economist to devote more time to analytical work.

Before FY 1978, REDSO/EA (later REDSO/ESA) had implementation responsibility for the Title I program, with the U.S. Embassy's Economic Officer playing a "caretaker" role between REDSO/EA visits. From FY 1978 to FY 1979, when the AID Representative and an AID secretary constituted the "U.S. Mission", the AID Representative was responsible for identifying SHMs. He was assisted by the Regional Food for Peace Officer posted in REDSO/EA, the U.S. Embassy staff, and consultants preparing AID's 1978 agriculture sector assessment and country study noted above.

AID strengthened the Mission staff over the FY 1980-FY 1984 period by adding a Regional Food for Peace Officer (RFFPO) for the Southern Africa region, a General Development Officer, and an Agricultural Officer. The RFFPO assisted the AID Representative in identifying and drafting SHMs. The General Development Officer and Agriculture Officer reviewed proposed SHMs to insure they were compatible with AID/Zambia's project activities.

REDSO/EA and AID/W TDY personnel contributed to the process via their assistance in analyzing and recommending language for the CIP support measures. The CIP support measures originated in the FY 1980 PL 480 Title I agreement but were modified and strengthened each year thereafter by the CIP design teams. The same language was used for the PL 480 and CIP agreements during most of the period.

The AID Representative remained the key decision-maker in the identification process, consulting mainly with the RFFPO, U.S. Embassy staff, TDY personnel, and, on an informal basis, GRZ counterparts and other donor representatives.

Notable during this period was the Mission's desire to use the same TDY personnel and consultants to assist in identifying and redesigning SHMs. For example, an agricultural economist from REDSO/EA was used on the CIP design team each year from FY 1980 to FY 1983. He also made major contributions to the development of the Mission's CDSS strategy, the design of an agricultural sector grant proposal (which wasn't implemented), and other selected studies. Similarly, the same AID/W economist was a member of the CIP teams from FY 1980 to FY 1982.

This same approach has been followed in the project design and implementation areas. The advantages of this process are that the consultants arrive with a working knowledge of the country and familiarity with key GRZ and USAID officials. This enables them to work more efficiently and effectively given time constraints.

Still, since FY 1984, the Mission's technical staff has been more active in the identification process. In FY 1986 the Director appointed a PL 480 SHM committee consisting of the Assistant Director, RFFPO, Agricultural Economist, and Agriculture Officer. The Agricultural Economist provides valuable technical input given the economic policy orientation of the SHMs. The General Development Officer and Agriculture Officer assist by identifying SHMs which would be supportive of their respective project activities.

The RFFPO is responsible for reviewing and editing the proposed SHMs to insure they are specific, measurable and additional to actions the GRZ would otherwise take. After agreeing on SHMs, the committee forwards the proposed SHMs to the Mission Director for approval.

The approach the committee used to identify the FY 1986 SHMs is noteworthy. The committee prepared a three-column matrix indicating the SHMs and support measures that had been negotiated in the recent PL 480, CIP and ZAMCAM agreements. Suggested Title I SHMs were eliminated that had been met or were likely to be met.

Measures which needed further encouragement were retained. Most important, the committee identified "missing pieces" that were needed to fill "gaps" not addressed in existing agreements. The resulting FY 1986 SHMs were relatively modest

as the Mission believed the donor community was already asking a lot of the GRZ and USAID/Zambia did not want to "overload the system". Moreover, it was felt key measures, for example decontrolling maize prices and market liberalization, had been covered adequately in other agreements. This process seems to work well and is one other missions might consider.

2. Other Country Team Members

During the FY 1977-FY 1979 period and the early years of the FY 1980-FY 1984 period, the U.S. Embassy staff played a more active role in the identification process than in recent years. This is attributed to the more limited size of the AID/Zambia staff in the earlier years of the program. In recent years, embassy staff involvement has consisted mainly of reviewing and clearing cables proposing SHMs.

USDA participation in the identification process is nil at the country level. The regional USDA Agricultural Attache posted in Nairobi visits Zambia periodically to prepare the bi-annual Attache Report on Zambia's agricultural situation. However, he is not actively involved in the SHM identification process. USDA concurs with the identification of SHMs via the Development Coordinating Committee (DCC) approval process in Washington.

USDA/Washington reviews the proposed SHMs carefully and occasionally exerts strong influence on how they are presented. For example, USDA would not accept a SHM proposed in the FY 1981 agreement to use PL 480 and CIP local currencies to partially subsidize consumer maize prices in conjunction with the GRZ's agreement to progressively eliminate the subsidy. The measure was recast to support higher incentive producer prices and the elimination of the subsidy.

In 1985, USDA/W and AID/W raised an issue with the Mission over SHMs to increase the capacity utilization of Zambia's edible oil processing facilities. In contrast to previous years, AID/W and USDA/W cabled these SHMs with negotiating instructions to the Mission. This was not well received as the Mission believes that the proposed action was inappropriate and that Mission staff is in a better position to identify SHMs. If such situations develop in the future, USAID/Zambia might consider inviting AID/W or USDA/W to send representatives to Zambia to discuss problematic issues on site.

3. Host Government

The SHM identification process is largely an "in-house" exercise within the AID Mission. At the same time, the

Government of Zambia (GRZ) participates indirectly through informal discussions with the Mission Director and other Mission staff. These informal discussions are held at several levels ranging from the technician level to the Cabinet level, and sometimes include the Economic Advisor to the President. In this way, the Mission gets some sense of the GRZ's receptivity to contemplated SHM initiatives. They also allow time for ideas and concepts to be vetted within the government.

4. Other Donors

The identification of PL 480 SHMs and CIP support measures has come, over time, to reflect a concerted effort between AID, other donors and the multilateral financial institutions. The various parties apparently find little difficulty in agreeing on a package of policy measures which, according to one Mission officer, "any Western-trained economist would arrive at". The only note of dissent heard by the evaluation team was an assessment by an EEC official that, while supporting policy reforms, the EEC would not take the political risks of "being in the forefront of policy reform" as had the IMF, IBRD and USAID. The IMF has also been careful to maintain official impartiality and independence from bilateral donors.

In the early 1980's, AID/Zambia took its own initiatives in identifying policy measures, and took an early lead in promoting changes in the GRZ's agricultural price and subsidy policies. In recent years, however, USAID/Z has more often "ridden the coattails" of the IBRD and IMF. For example, the market liberalization thrust of the FY 1985 SHMs and the 1985 ZAMCAM support measures were derived directly from the provisions of the 1985 World Bank Agricultural Rehabilitation Loan Agreement. At the same time, the World Bank representative in Lusaka commented that "it would not be possible to bring about this far-reaching policy revolution without assistance from other donors".

The formal forum for coordination is a Joint Monitoring Committee comprised of donors and government. But this committee is unwieldy (more than 30 of the 68 diplomatic missions in Lusaka have "aid" programs) and meets sporadically (only twice in 1985, both times at the behest of the IBRD). Effective interactions occur more frequently on an informal basis on the diplomatic "cocktail circuit" and in other informal meetings. On questions of macroeconomic policy such as balance of payments and budgetary performance, the IMF and IBRD clearly take the lead.

Lessons Learned

- o A small post can strengthen its analytical capability to identify SHMs through regular periodic TDY's of direct hire officers and consultants.
- o A Mission can improve the efficiency and effectiveness of outside technical assistance by recruiting the services of the same persons on a recurring basis. This approach maintains analytical continuity and facilitates the establishment of rapport with host government and Mission staff.
 - o The SHM identification process can be facilitated if program activities are sharply focused on one or two key objectives or sectors. This permits "economies" of analytical effort. It also strengthens the analytical base underlying all program activities as additional analysis is undertaken.
 - o Informal discussions with host government counterparts in advance of the negotiation of SHMs can provide insight into the host government's receptivity to contemplated SHMs. They also allow time for ideas and concepts to be vetted within the government.
 - o In larger missions, the identification process can be strengthened by appointing a SHM identification team to identify SHMs and prepare supporting analyses.
 - o Overall program coherence can be facilitated by comparing policy changes being sought under non-PL 480 agreements with those being considered for PL 480 agreements. This promotes program integration and enables the Mission to identify "missing links" needed to strengthen the overall program.

B. Negotiation Process

Entities Involved

The key GRZ entities involved in the SHM negotiations are the Ministry of Finance (MOF) and the Ministry of Agriculture and Water Development (MAWD) and through them, the Cabinet. The Ministry of Cooperatives (created in 1983) participates when issues within its purview are involved. Discussions with the GRZ on self-help measures (SHMs) usually begin with MAWD. This was particularly the case during the period 1977 to 1979 when SHMs emphasized institutional development in the areas of agricultural research, extension and planning. Even in the

period 1980 to 1985 when SHM's shifted in emphasis to price deregulation and market liberalization, MAWD remained centrally involved.

In the final analysis, however, the MOF was the dominant partner on the Zambian side as it was responsible for the allocation of government resources to the agricultural sector. The MOF initiated formal requests for PL 480 assistance and signed Title I and Title II agreements on behalf of the GRZ. The MOF was the decision-making hub of the Zambian bureaucracy, especially during the budgetary austerity of the early 1980's.

Initially, the GRZ vested responsibility for PL 480 requests and negotiations in the National Commission for Development Planning (NCDP). A close working relationship was never established, however, between USAID/Zambia and the NCDP. There were various reasons for this situation, including differences of personality and professional backgrounds between key actors in each organization, as well as divergences of opinion over such basic issues as the role of central planning and market incentives in agricultural strategy. USAID/Zambia found difficulty in placing personnel for the ZATPID project within the NCDP and, during one nine-month period, was unable to get NCDP to produce a letter of request for PL 480 resources. These difficulties were resolved when GRZ decided to transfer responsibilities to other ministries. In this case, ZATPID came to be centered in the Ministry of Agriculture and PL 480 in the Ministry of Finance.

By 1985, the MOF was the dominant partner on the Zambian side as the agency responsible for the allocation of government resources to the agricultural sector. The MOF initiated formal requests for PL 480 assistance and signed Title I and Title II agreements on behalf of the GRZ. If SHMs reinforced GRZ policy as outlined in the current national plan, the MOF and MAWD were able to make an administrative decision to adopt them. If the SHMs departed from the prevailing government strategy, however, the decision was referred to an interministerial committee by the relevant Minister and then to the Cabinet. If a major policy decision was needed it would ultimately reach the Central Committee of the United National Independence Party (UNIP) or the President of the Republic of Zambia. A written understanding was reached that, in that case, USAID/Zambia would not be privy to the content of Ministry recommendations to higher authorities. In practice, however, the USAID has been well informed of the policy options and recommendations forwarded by MAWD.

For the most part, negotiations have been conducted with technical officials in the Zambian bureaucracy. The pace of

technical assistance and training to strengthen the GRZ's capacity to analyze, define, and implement development policy, particularly as it related to rural development.

On the "action front", the Agriculture Research and Extension (ZAMARE) Project (FY 1980) was launched to establish a crop-specific research capacity as well as an on-farm research approach in one or two geographic areas. It also aimed to increase small farmer income and to increase the GRZ's capacity to manage and replicate such programs. AID/Zambia also approved an O.P.G. with Africare for a pilot agricultural production project (FY 1981) in the north-eastern part of Zambia.

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the negotiations and the content of agreements has therefore come to depend critically on the willingness of these officials to support and promote particular SHMs. In rare instances where an SHM is sufficiently important to require the attention of high-level Zambian authorities, USAID/Zambia, directly or through the U.S. Ambassador, has sought to reach and influence the President of the Republic rather than members of the Central Committee. In negotiating the current measures to reduce fertilizer subsidies, the key individuals approached were the Economic Advisor to the President and the Governor of the Bank of Zambia (BOZ). Both reportedly welcomed the thrust of the current policy reform program.

Policy dialogue has taken place regularly at three levels. At the first and highest level, the AID Mission Director interacted officially via correspondence with the Permanent Secretaries of the Ministries of Finance and Agriculture. In practical terms, direct consultations and discussions were held with less senior officials, namely the Senior Undersecretary of the MOF and the Director of the Planning Division, MAWD. The former official served intermittently as Acting Permanent Secretary of the MOF and held a seat on the Foreign Exchange Control Commission. The discussions at this level concerned the general policy content of the SHMs.

At the second level, the professional staff of USAID/Z interacted with their counterparts within the GRZ. From the USAID side the Agricultural Economist was concerned with CIP agreements, the Agricultural and General Development Officers with project agreements (ZAMARE and ZATPID), and the Food for Peace Officer (FFPO) with PL 480 agreements. Their contacts were with the GRZ officials mentioned above and with the technical and administrative staff of the relevant GRZ units. The FFPO, for example, made the procedural arrangements for signing PL 480 agreements with the personal assistant to the MOF Undersecretary and monitored the allocation of PL 480 local currency proceeds with the Director of Planning, MAWD. While the Agricultural Economist was primarily responsible for CIP agreements, he also brought his professional knowledge to bear in the PL 480 negotiations. This overlap of personnel probably helped to ensure consistency across SHMs negotiated in the course of implementing different USAID/Zambia programs and projects.

The third level of policy dialogue was within the MAWD itself and was conducted from the USAID side by the technical assistants (TA's) appointed on long-term contracts under the ZATPID and ZAMARE projects. Their counterparts on the Zambian side were economists in the Planning Division, Department of

Agriculture (ZATPID) and senior research and extension officers (ZAMARE). Whereas seven of the eight ZAMARE TA's were assigned to field positions at regional research stations, all six ZATPID TA's were stationed at MAWD Headquarters in Lusaka. Central location and daily contact with Zambian planners afforded the ZATPID team more opportunities for policy dialogue than their ZAMARE colleagues. Indeed, the provision of technical analysis to improve the quality of agricultural policy decisions was an explicit goal of the ZATPID project.

The question remains, however, as to what extent the decision-making process in Zambia is influenced by technical analyses or is driven by other, more pressing, political imperatives. A number of possibly conflicting considerations have to be taken into account and balanced at Cabinet level: the technical advice of MAWD (which tends to favor high producer prices to stimulate production); the fiscal objectives of the MOF (which favor subsidy removal); and the political and social concerns of UNIP leaders (which favor low consumer prices and uniform product prices). It is important that USAID participants in the dialogue maintain a knowledge of and sensitivity to the various forces.

Approach

The 1982 AID/W policy paper Approaches to the Policy Dialogue makes a useful distinction between "leverage" and "policy dialogue". Whereas "leverage" refers to the capacity to have one viewpoint dominate over another, "dialogue" refers to the interchange of ideas and information. There is always a temptation to rely on leverage where one party (usually the donor) has substantial economic resources that are urgently required by the other (the host government). On the other hand, dialogue may be a preferable alternative where the first party (the donor) has broad foreign policy objectives, lacks information on local economic conditions or requires conformity to a schedule for performance and reporting. The USAID relationship with the GRZ can best be described as a policy dialogue that is underpinned by a potential use of leverage.

In terms of procedure, two approaches to negotiation are possible, each of which can be observed in the Zambian context. Negotiations can be:

- (a) Formal. Formal negotiations take place between teams of professionals in which the members may not be personally acquainted. An official setting is provided, usually a conference room in which the two sides are seated at either side of a table. Discussions are limited to a

single meeting or series of meetings with a fixed agenda and a deadline is set for reaching an agreement.

- (b) Informal. Informal negotiations often occur "one-on-one" between individuals. The parties are often well known to one another because they have met on numerous previous occasions. The setting is a routine professional interaction in the office of one of the parties or even a relaxed social setting. The discussion is open-ended and on-going, is not limited to a written agenda, and is not constrained by an impending deadline.

Over time, the USAID/Zambia strategy for negotiating PL 480 agreements shifted from a formal to a more informal approach. In the early 1980's the process of negotiation was initiated with a large meeting presided over by the Permanent Secretary of Finance. The GRZ side was represented by all those involved in the implementation of SHM's, that is, MOF, MAWD, NAMBoard and the National Milling Company; AID representation included the Mission Director, FFPO and REDSO personnel. A draft agreement was circulated in advance of the meeting and the agenda comprised detailed discussion of every proposed SHM. A second, smaller formal meeting was later scheduled to sign the agreement.

By 1985, the process had become much more informal. The first contacts with the GRZ may begin up to six months before the annual PL 480 agreement is due. These discussions take place by appointment at MOF/MAWD or during encounters at official or social functions. Only after informal agreement is reached on broad principles does the Mission Director send written proposals to the PS, MOF with copies to the Undersecretary, MOF and Planning Director, MAWD. When the Mission feels it has an adequate understanding concerning the appropriations and feasibility of alternative SHMs, these are cabled to AID/W and approval is received thereafter. If at any stage changes are made at GRZ behest, the Mission in Lusaka must refer to AID/W for approval.

Only when the prospects are good for final agreement do the parties sit down to a session of formal negotiations. At this juncture, details of wording in the proposed SHM's are hammered out. A senior USAID/Z official expressed the opinion that formal negotiations were useful in encouraging GRZ to acknowledge its commitment to SHMs. The fuller the understanding of the GRZ of the implications of an agreement, the less likelihood that misunderstandings would arise during implementation.

The key element in the negotiation process seems to be the establishment of rapport among the key actors. Individuals on both sides told this evaluation team that, as might be expected, they found certain of their counterparts easier to work with than others. With reference to MAWD, better personal relationships seem to have been established at the Mission Director level than at either the professional staff or TA levels. This may in part be a function of the Mission Director's position, his seven-year tenure in Zambia, and his preference to conduct policy negotiations himself rather than delegate this responsibility to his staff. To all appearances, however, Mission and GRZ negotiators have worked out a method for mutual accommodation that works in the Zambian context.

The mixed formal/informal approach used by USAID/Zambia was compared favorably by one senior Zambian official to the stricter style of negotiation employed by the World Bank. The presence of an AID Mission in Lusaka with a growing staff, and relative stability of personnel on the Zambian side, have facilitated continuity of discussions among the same people over time. Until 1985 the IBRD had only a single representative in Lusaka and was unable to invest much effort in setting the stage for successful negotiations.

USAID/Zambia has also sought to make the pace of negotiations relatively leisurely by early initiation and thus to allow both sides to reflect on the ramifications of proposed policy changes. By contrast, the IBRD/IMF negotiations are conducted by visiting teams from Washington under tight time limits. This intensive approach is interpreted on the Zambian side as imposing too much outside pressure in too short a time for adequate review and appropriate level concurrence.

Finally, the total amount of resources committed by USAID/Zambia in any given year (\$57 million in 1985) is not as large as the IBRD (\$300 million in 1985) or IMF (\$225 million for 1984-85). This reduces the relative capacity of AID to use leverage, even if this approach were deemed preferable to dialogue.

A more informal approach, however, is not without pitfalls. Sometimes, USAID/Zambia officials have not kept each other fully informed about their discussions with GRZ officials. In the period 1980-1983, for example, there was occasional disagreement between the Mission Director and the FFPO with regard to PL 480 discussions with the GRZ. One of the problems with informal exchanges is that since success often depends on the personalities, professional backgrounds and personal relationships of particular individuals, there can be

disruption when staff changes are made. The arrival of a new FFP officer in 1984 appears to have improved the situation described above, but it is unclear what the effect of the appointment of a new Director of Planning, MAWD in late 1985 will be on policy dialogue.

Perhaps the most serious breakdown of dialogue occurred in 1984 with the failure of ZATPID personnel to observe the official channels of administrative communication within MAWD. A U.S. contract economist made the mistake of going directly to the Permanent Secretary over the head of the Director of Planning with a policy model which ultimately failed to perform as promised. The GRZ demanded that the economist leave the country and used the occasion to express dissatisfaction with other members of the ZATPID team. Moreover, general concerns were expressed to this evaluation team that all USAID/Zambia officials needed to spend more time out of the office on rural field visits and in discussions with MAWD personnel. The Zambians felt the need for further improvements in the USAID staff's appreciation of the constraints faced by GRZ in rapid policy reform.

Despite setbacks, however, the mixture of informal and formal approaches adopted by USAID/Z has led to a genuine dialogue. Most of the SHMs adopted between 1978 and 1985 appear to have adherents among the professionals in MAWD and the MOF. Indeed, the insistence by donors on policy reform probably strengthened the hand of technically oriented officials in internal GRZ policy discussions. When a particular policy reform departed too sharply from current political thinking, however, the MOF and MAWD negotiators declined to support it. In other words, progress on policy reform was only possible when there was a strong domestic "constituency" within the relevant Zambian administrative agency.

Differences of opinion did arise between USAID/Zambia and the GRZ over the substantive content of SHMs. In each case, however, there was "give and take" between the parties. In some cases USAID/Z acceded to the GRZ position, for example, that the Zambians had the principal, almost exclusive, say in the programming of local currency proceeds from PL 480 Title I loans. In the case of grants (Title II, ESF), however, USAID/Z was able to ensure that it retained a significant voice in the use of local currency.

In other cases, the GRZ acceded too quickly to the AID position in order to gain access to urgently-needed PL 480 resources. For example, in negotiating with the World Bank and USAID/Zambia on the measures calling for the removal of

fertilizer subsidies and the introduction of spatially differential producer prices for maize, the GRZ approved the measures before reaching a full consensus within the Cabinet.

A third alternative to concession by either side was to find a middle position. This was often effected by the inclusion of ambiguous wording--"the GRZ will consider", "take into account", "appropriate incentives", "phased feasible reduction"--in the annual PL 480 agreements.

In sum, a negotiation process has been institutionalized between USAID/Zambia and the GRZ that has become relatively routine. By 1985 the Mission claimed "no substantial disagreements" on the self-help measures. As evidence, Mission officials cited the 1985 PL 480 discussions in which it proved possible to dispense with formal negotiations entirely. The proposed SHMs were submitted in writing to the MOF and were returned, without significant changes, within three weeks. In this case the GRZ had little difficulty in accepting the terms since they had already committed themselves to more stringent measures under the World Bank Agricultural Rehabilitation Agreement. Indeed, PL 480 agreements were always easier to obtain if similar SHMs, for example under the CIP program or in the ZATPID/ZAMARE projects, had already been secured earlier in the same year.

The converse was also true, namely, that PL 480 agreements achieved early in the year could open the door for other programs in the USAID/Zambia portfolio. One of the advantages of an integrated assistance strategy is that successful agreements on one program can reduce the need for negotiation on other, related programs.

Over almost a decade of policy dialogue concerning PL 480 and other USAID programs, a gradual but substantial shift has occurred in GRZ agricultural policies. The GRZ has moved from a rhetorical commitment to agriculture to a real willingness to create conditions favorable to the development of that sector. Even though several rounds of annual negotiation were required, the GRZ ultimately decided, at least on paper, to adopt a policy reform package that closely resembled the measures that had been promoted by donors and lenders. Until such time as the existing agreements are largely implemented, it is unlikely that either side will propose or accept new support measures.

Lessons Learned

- o Consistency of self-help measures across different programs can facilitate negotiations. Once agreement is secured on one program, agreement can proceed smoothly on other programs that follow.

- o Overlapping personnel (e.g., the AID Director, the Ag Economist, the FFPO), in negotiating SHMs for different programs can facilitate agreement.
- o Mixing informal and formal approaches can facilitate agreement and leave the host government feeling they were involved more in "dialogue" than "leverage".
- o Interagency communication is very important in informal dialogue as well as in formal negotiation.
- o The key element in the negotiations process is the establishment of rapport among the key actors. This is likely to arise when negotiations are conducted between individuals of similar rank and professional background.
- o Negotiations can be impaired if U.S. country team members or consultants do not observe official channels of communication within host government institutions.
- o AID officials need to be very sensitive to the administrative workload imposed on the time of senior officials by requiring many and complex implementation procedures and by commitments that take substantial time to analyze. (The newness, large size, and complexity of aid in Zambia make this a potentially serious problem.)

C. Implementation and Monitoring Process

Entities Involved

The Ministry of Finance has served as the supervisory and monitoring agency for policy adjustments made throughout the GRZ, for example, in MAWD, NAMBoard, and the Ministry of Cooperatives. The MOF is required to provide annual certified financial statements on local currency attributions; MAWD is required to provide annual progress reports on Title I activities. USAID/Zambia is responsible for monitoring the GRZ both in respect to the implementation of agreed-upon self-help measures and in the timely submission of reports.

In September 1982, the Regional Inspector General for Audit, Nairobi recommended that USAID/Zambia put "increased pressure" on the GRZ to meet the provisions of PL 480 agreements. This evaluation concluded that (a) the GRZ's self-help reports had not been punctual or precise; (b) the GRZ has never submitted a certified statement of receipts and expenditures on local currency use; and (c) USAID/Z needed to formalize and improve the monitoring of self-help "projects".

It must be noted that the Zambia Mission disagreed with most of these conclusions and recommendations. It pointed out that timely reporting by the AID/W annual deadline (then December 15) was not realistic when Title I agreements in Zambia were usually signed in June, July or August and when commodities did not arrive until October, November or December. (It should be noted, however, that by FY 1986 USAID/Z had accelerated its planned schedule for PL 480 negotiations and delivery of commodities in order to respond to USDA early programming initiatives and to spread the workload in the Mission more evenly over the financial year.) The Mission also claimed that AID/W or USDA had never insisted on the strict enforcement of financial reporting requirements worldwide. Finally, USAID/Zambia argued that the SHMs referred to policy reform rather than to project activities and thus were not verifiable by field trips and onsite inspection as recommended in the evaluation. The 1982 and 1983 reviews of the CIP loan program recommended that the USAID hold quarterly meetings with GRZ to discuss and determine the use of local currency generations, although it is unclear whether this provision was intended to apply also to PL 480 Title I loans.

Implementation

Over the ten years of the PL 480 Title I program, two factors appear to have affected the ease with which selfhelp measures have been implemented. The first and most important is the relative ease or difficulty of the negotiations over specific measures. In cases where USAID and the GRZ were in basic agreement from the outset or where the measure was non-controversial, implementation proceeded relatively smoothly. In cases where the initial positions of the two parties were far apart, perhaps because the proposed policy measures were politically sensitive, implementation became slower, and sometimes stalled. The existence of a written agreement did not necessarily signify that all elements within the GRZ had "lined up" in full support of the SHMs. Indeed, the implementation process has often required that specific measures be renegotiated, point by point and with new compromises, at the time they are scheduled to be put into effect.

The second factor is the extent to which policy-oriented SHMs can be complemented with project assistance. Although the USAID/Zambia program offers an excellent example of program integration, implementation and monitoring could be facilitated even more if additional project aid were made available to

supplement the current program and if existing project aid were drawn upon to an greater extent. This might require additional technical staff being assigned to USAID/Zambia as well. Now that the GRZ has agreed to undertake the difficult policy reforms that AID and other donors have promoted in recent years, increasing project support directed at the private and cooperative sectors would seem appropriate.

The first PL 480 agreements in the late 1970's gave prominence to essentially non-controversial issues: the acceleration of applied research on food crops, the strengthening of agricultural planning and the forging of links between research and extension and unspecified measures for increased economic stability. These measures were subsequently reinforced with AID funded projects (ZATPID and ZAMARE) approved in 1980. The latter project was implemented with speed and effectiveness. By June 1985, a mid-term evaluation of ZAMARE noted that the overseas training of Zambians was on schedule and that new varieties of maize and soybeans had already been released to small farmers. Obstacles to project success--the persistence of an institutional gap between research and extension and the weakness of the extension operations at field level--are expected to be addressed if a second phase of the project is approved. The ZATPID project has moved more slowly, but by the time of the midterm evaluation of March 1984, seven major policy studies had been completed.

Some more controversial self-help measures, however, require protracted negotiations and prove difficult to implement. The toughest negotiations occurred in 1981 when USAID/Zambia began to push hard for specific benchmarks on subsidy reduction for maize and fertilizer. The top administrators in MOF/MAWD initially were reluctant to take the lead on measures with which they as professionals may have disagreed or which they thought were unlikely to command support in the Cabinet. By 1982, however, the Minister of Finance and the Minister of Agriculture had come out openly in favor of price reform and the climate for discussions of such measures had improved substantially. Indeed the 1983 self-help report noted that "it is the desire of the party and its government to provide strong producer price incentives to farmers". By 1985, the President of the Republic of Zambia had also put his own considerable prestige on the line--against strong opposition within UNIP--in favor of measured price deregulation, including the auctioning of foreign exchange. He also appears to have personally made the decision to raise the 1986 maize producer price from K45 to K55.

On the other hand, in practice the complete removal of fertilizer subsidies has yet to occur and plans for phased

reductions have fallen behind schedule. In 1981, the GRZ first undertook to aim for real prices for fertilizer and advised the IMF that all subsidies including those for transportation and handling costs would be removed by 1984. The ZAMCAM agreement included a condition precedent to reduce the fertilizer subsidy by one-third but by late 1985, the question of whether the GRZ had complied was holding up the release of funds.

The GRZ had delayed raising fertilizer prices for the 1985/86 season until after the farmers had already made most of their fertilizer purchases. Nonetheless, for the year the IBRD apparently decided to relax the same condition, included in their ARP agreement and release funds on the basis of general compliance with other conditions precedent and the Cabinet's decision to raise fertilizer prices in January 1986. For a variety of reasons the Lusaka AID Mission was willing to follow suit but, at the time of this writing, AID/Washington did not accept the Mission's recommendation on this matter. The release of ZAMCAM funds was frozen until such time as the GRZ made a public announcement that fertilizer subsidies had been reduced by at least one-third.

Delay in the implementation of ZAMCAM in this case "spilled over" to affect the implementation of other GRZ-AID programs. The Undersecretary, MOF was under pressure both from his superior and the end-users of foreign currency (in this case, transport companies) to release funds. He was therefore unsympathetic to appeals by the RFFPO to improve PL 480 monitoring procedures until such time as ZAMCAM funds arrived. In this type of case, the tight integration of programs within an overall assistance strategy may lead to some implementation bottlenecks. The host government can argue that it will not respond to AID's request on one program until its own demands on another program are met.

By 1985, the policy debate had come to include private sector marketing of maize and fertilizer and the reduction of the NAMBoard marketing monopoly. Yet senior officials in the Ministry of Cooperatives were not aware of the liberalization policy. The GRZ agreed to the PL 480 and ZAMCAM agreements. USAID/Zambia invited Ministry of Cooperatives representatives to the ZAMCAM and Title I negotiations but the latter did not attend. Nevertheless, the newly-appointed Director of Cooperatives, who had been informed in his previous position as MAWD Director of Planning, expressed grave doubts about the capacity of the private sector to respond to market opportunities and the ease with which the government would be able to monitor production and maintain a national grain reserve. In other words, difficult negotiations can be

anticipated in the years ahead, as AID and other donors attempt to pin down the GRZ on measurable commitments and firm deadlines on market liberalization. Illustratively, it seems debatable whether the GRZ will be able to comply with agreements on the removal of all subsidies from cooperatives and parastatals by 1988.

One harbinger of success in the government policy of privatization of parastatal operations is the current negotiations between ZIMCO and a consortium of Heinz and Colgate-Palmolive under which the consortium would take over and operate the ROP LTD. oil processing facilities. At the time of the evaluation the negotiation was down to the final issue of who gets 49% and who gets 51% of the stock. The latest word was that ZIMCO agreed to turn over 51% of the ownership and control. This would remove one PL 480 issue raised by Washington on the need for GRZ or USAID to take direct steps to improve ROP operations.

Implementation problems are sometimes attributed by the Zambians to the USAID/Zambia side. In December 1985, for example, the MOF was seriously concerned about delays in the availability and draw-downs from USAID loans and grants. Commitments had been made by the GRZ to provide commodities to the trucking industry but the funds had not been released due to GRZ failure to meet conditions precedent (CPs). Two agreements had been signed in CY 1985 from which resources were not yet available: the ZAMCAM for \$25 million in September and the ZAPS for \$15 million in November. It was claimed by MOF that financing from other donors, notably SIDA and EEC--which do not include conditions precedent in their agreements--moves much more quickly and easily. A senior MOF official complained that "before signing you (AID) push us very hard; but as soon as we have signed, everything stops". Problems relate to conditions precedent, the procedures for release of funds and to the verification of performance of self-help commitments.

It appears that SHMs are sometimes prepared by MOF and donors without adequate analysis of the practical implications of putting them into effect. It was noted that, while there were some delays in draw-down on the IBRD Agricultural Rehabilitation loan, the Industrial Reorientation program was moving rapidly. The problems in the agricultural sector are that farmers are reluctant to draw on available foreign exchange because of the high exchange rate, the uncertainty of future prices, and the fact that farmers have already made most of their purchases by this time of the crop year. Industry already has, or has been offered, liberty in pricing to recapture its higher Kwacha outlays for imports.

Methods of Monitoring

Of the entities involved, USAID/Zambia has had a more explicit concern than the MOF with the monitoring and implementation of SHMs. A senior MOF official conceded that "we review PL 480 agreements but we do not go deeply into them". The MOF lacks the staff to do much more than inform implementing agencies within the GRZ of the agreements reached: "we do not follow up; we are under too much pressure from donors for new agreements". The only time that the MOF has further contact with implementing agencies is if foreign exchange is required. Within recent months the staffing position had improved at MOF with the transfer of personnel from NCDP; even though the MOF would like to play a proper advisory role, vis-a-vis implementing agencies, there is still insufficient staff to do an adequate job.

In an assistance strategy which rests principally on policy dialogue, implementation is in the hands of the host government. Unlike a project-led strategy, where TA personnel occupy operational positions within HG institutions, in this case AID is in a weak position to follow up. The process of monitoring HG implementation therefore becomes critical. Monitoring should be more than a mere paper exercise to satisfy standard reporting and evaluation requirements. When linked to phased disbursement of funds, it is USAID's main, and possibly only, method of post-agreement control.

On the USAID/Zambia side, methods of monitoring include the establishment of benchmarks, the commissioning of in-house analyses, procedures for follow-up and schedules for the disbursement of commodities and local currency. Each will be considered in turn.

Over time, and to the credit of USAID/Zambia officials, in general SHMs have been expressed in terms of increasingly more precise evaluation criteria. The first time a measure appears in a PL 480 agreement it may be included in somewhat general or ambiguous language. In subsequent agreements, however, the language is tightened and more specific performance requirements are added. This either takes the form of a measurable benchmark ("increase professional and non-professional staff positions"; "reduce the fertilizer subsidy by one-third") or an explicit deadline ("advise USAID

of such decisions by June 1, 1983"; "complete studies by July 1, 1986").^{5/}

The Mission jealously guards its independence in establishing benchmarks. On several occasions USAID/Z has resisted the imposition of additional or more rigorous benchmarks by AID/W on the grounds that officials in Zambia are better able to judge what performance can realistically be expected under prevailing local conditions.

Not all targets are met. It is clear, for example, that the GRZ has not started to develop a program to address the soil acidity problem in Zambia, due before 1986 as spelled out in the 1984 PL 480 agreement. But the provision of a benchmark clearly has increased the ability of USAID/Zambia to hold the GRZ accountable for performance on SHM commitments. However,

^{5/} While the CPs agreements appeared quite specific, i.e., a one-third reduction in the subsidy on maize and fertilizer, how this was to be interpreted, as it turns out, is not so clear. The GRZ normally sees the kwacha cost of the subsidy as its budget outlay which is the difference between total K costs including distribution costs of fertilizer (or maize) and the net sales proceeds in kwacha. In effect, first in, first out (FIFO) accounting is used: (A) AID/W argued that cost should be based on the net sales proceeds compared with cost of replacement of stocks, last in, first out (LIFO); (B) There were two years stocks on hand and the kwacha had declined by 65% in October 1985, with the initiation of the FX auction system. This AID/W position on fertilizer seems inconsistent since it apparently has not objected to FIFO for maize and mealie meal. An alternative interpretation might have included the first FIFO approach, but conversion of the subsidy cost into dollar values at the prevailing K exchange rates for 1984/85 and 1985/86, (C) Another alternative would be to apply the second method (B), but then again convert total kwacha costs for 1984/85 and 1985/86 into dollar values, (D). AID/W has argued for (B) the most extreme interpretation while the IBRD apparently has accepted progress to date as meeting the requirement. Any of the other alternatives suggested above would show much more progress in meeting the commitment than does the AID/W proposal.

there is little point having measurable evaluation standards unless data are gathered to trace actual performance. This task of analysis has fallen exclusively to USAID/Zambia personnel and consultants. There is limited technical capacity in the Mission, however, to undertake "in-house" monitoring and evaluation studies on more than a selective or ad hoc basis.

One exception should be noted. The 1984 CIP agreement and the 1985 and 1986 PL 480 agreements called for real increases in GRZ budget allocations and expenditures for agricultural research, extension and planning. A staff assistant at USAID/Zambia analyzed the GRZ budget for the period 1980-1985 and found that allocations to MAWD had declined on average by more than five percent per annum. The GRZ therefore did not have a record of meeting this support measure as specified in written agreements. The USAID/Zambia analysis nonetheless concluded that, since the budgets for research and statistical services had declined less than the government budget as a whole, the GRZ had complied with the spirit of the agreements by making efforts to fund key agricultural agencies.

When targets are not being met in a timely manner, USAID/Zambia has several methods of follow-up action at its disposal. This is best illustrated with reference to a deadline that was about to fall due while this evaluation team was in Zambia. The 1985 PL 480 agreement called for the GRZ, in this case the Ministry of Legal Affairs, to promulgate procedures and criteria for the licensing of private agricultural traders by December 31, 1985. The GRZ has decided to amend the National Agricultural Marketing Board Act, an approach which would involve a time-consuming parliamentary passage through the National Assembly. USAID/Zambia was concerned that the deadline was approaching without the necessary action having been taken. Based on similar past experiences, several stages of follow-up were envisaged. First the Undersecretary, MOF would be reminded informally by telephone. A letter would next be sent to the Permanent Secretary, followed, if necessary, by letters to the Ministers of Finance and Agriculture. If this failed to get results, the Mission Director would seek meetings with the Ministers and offer local currency to help expedite the arrangements for implementing the support measure.

At least one USAID/Z official predicted that "delaying disbursement" would become an increasingly important tool as more stringent self-help measures come due for implementation. The inclusion of "conditions precedent" in SHM agreements provides a built-in mechanism for maintaining direction and speed. "Conditions precedent", which can be monitored more closely than covenants, have been found by the Zambia Mission

to be both an asset and a liability. On the one hand they permit AID to hold the GRZ accountable to specific wording in SHM agreements but, on the other, they sometimes become inappropriate when the situation that obtained at the time of agreement has changed by the time of implementation. For example, the 1985 CIP agreement required the GRZ to provide full cover in kwacha before a letter of credit could be opened for the importation of commodities. The foreign exchange auction, however, depressed the value of the kwacha by a factor of 3 (from US.50c to US.16c) which in turn required the GRZ to set aside prohibitive amounts of local currency as a precondition for CIP imports.

AID's insistence on local currency programming, resented by the GRZ in the case of other donors, has increased the GRZ management and reporting load and complicated the budgetary process to the point when these requirements soon may begin to prove counterproductive. Where amounts of LC are as large as they are in Zambia it might be better to argue that a small percentage of the LC from ESF and PL 480 could be seriously programmed for jointly agreed-upon uses and the balance simply attributed to the GRZ's development budget with minimal budget reporting requirements or better the remainder might be attributed to the overall budget with no reporting requirements beyond review of total allocations by sectors.

The final step in the annual monitoring cycle is the preparation of a self-help report. Responsibility for preparation of basic information for this report appears to rest with the Planning Division, MAWD. However, MOF must get the report finalized as a precondition for future negotiations. Reports on local currency attribution emanate from MOF. On at least six occasions over the last eight years the report has been submitted late, usually by March or April rather than by December 15. The 1985 report, due now by an earlier deadline of November 15, had not been received at the time of writing and the person responsible was on an overseas assignment. On at least one occasion an interim report was prepared by the AID until such time as the GRZ report arrived. Indeed, several Mission officials expressed the view that it was more efficient for USAID/Zambia to prepare drafts of routine documentation for GRZ signature in order to ensure that they include the content and format suitable for monitoring of USAID assistance programs.

In sum, the GRZ has adapted its own procedures to provide a minimum level of monitoring in the form of annual self-help reports. It seems that even in the instance of self-help reports, however, the GRZ involvement is motivated more to fulfill a AID requirement than to develop an internal

monitoring system of its own. The quality of the reports has not changed markedly since the 1982 audit report commented that "those submitted were not complete, lacking specific information on some self help activities".

In other respects, monitoring performance has improved over the situation noted in the same report. For example, greater attention is now paid to the monitoring of PL 480 local currency proceeds. During the visit of the evaluation team the RFFPO was trying to establish a system for tracking local currency deposits in the Special Account of the BOZ. It appeared that the necessary information was available within MOF, but a method was required for recording and submitting it to AID. As further support of improved monitoring, the MOF for the first time submitted reports on the attribution of local currency proceeds. Improvements in reporting were only achieved, however, as a result of repeated reminders by the FFPO and other Mission staff. All told, the monitoring of PL 480 SHMs is one of the weaker parts of the interactive process between USAID/Zambia and GRZ.

Lessons Learned

- o Where the donor and HG are in basic agreement on SHMs, implementation proceeds smoothly; where the donor and HG initially disagree and the SHMs remain controversial, implementation problems are encountered.
- o The integration of several programs into a coherent assistance strategy can sometimes contribute to implementation delays--the HG can delay proceeding on one program until the donor responds to HG requests on another program.
- o Well-selected and carefully-designed projects are a useful supplement to policy dialogue and reform because they reinforce mechanisms for implementation of negotiated reforms.
- o While it may be desirable at first to state SHMs in general terms to secure agreement, the gradual injection of more specific benchmarks and deadlines may be desirable later to facilitate implementation and monitoring. The country mission should be in the best position to judge whether specific requirements are suited to the particular country circumstances.
- o If monitoring is focussed only on the submission of self-help reports, the HG is likely to regard monitoring as a fulfillment of a donor requirement rather than as a

useful device for improving its own implementation performance. Implementation and monitoring discussions can and should be an important part of the policy and program dialogues.

D. Congruence of Self-Help Measures and Government Action

Cause and effect between self-help provisions or other commitments contained in agreements and host government (HG) action are at best very difficult to establish even by those in a position to observe events directly. Arriving years later, with most of the principal actors no longer around, making a reliable determination of directions of cause and effect becomes even more difficult. The team has opted instead, for this exercise, to examine the record and attempt to gauge congruence between GRZ policies and the commitments contained in PL 480 agreements. Beyond this congruence with respect to the initiation of new directions, it is possible to identify instances where US aid has been supportive of implementation actions regardless of the source of the impetus for the new policies or other reforms.

Review of the Government's various five year and interim plans, the self-help provisions of the PL 480 agreements, the self-help reports covering 1977 to 1983, the various CIP authorization documents, Project Papers, PAAD's and evaluation reports indicates that indeed there is a very high level of congruence between commitments contained in US-GRZ agreements and GRZ performance. Further, while there have been some delays, the Government has done a respectable job in reporting specifically on implementation of the self-help measures in the PL 480 Title I agreements despite the large number of measures included over time and, in some years, virtually total change in the specific self-help agenda within the overall stabilization and development policy theme. However, some SHMS dropped from subsequent agreements sometimes appear to have been overlooked by the GRZ although the issues continued to be current.

Disregarding the question of which reforms, if any, can be shown to originate with the PL 480 negotiations, it is clear that the US has been extremely supportive of Zambian efforts to recover from the disastrous economic problems resulting from mostly international events beyond its control--decline in copper demand, sharp increase in prices of oil and other imports, regional instability, high cost and uncertainty of links to the sea. It is evident too that many of the resulting economic problems--balance of payments, domestic deficit, large net agricultural import requirements (it could not finance)--were greatly aggravated by the choices made in economic organization and development.

The supported reforms center around the above choices. There seems to have been substantial agreement on the diagnosis of the problem and the prescription for the cure by the late 1970's when the US began its rapid increase in financing. The US has applied its resources in support of measures to improve research, extension and planning capability; reduce levels of spending on food subsidies, especially consumer subsidies; improve price incentives for farmers; increase private enterprise involvement in marketing; reduce input subsidies (with some variations); reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; reduce the domestic budget deficit; and narrow the BOP gap.

The US has provided a great deal of continuity in its emphasis on improvement in economic policies though specific items changed considerably. The Government has taken significant steps to implement improved policies, e.g., better, more appropriate and timely farm price adjustments, austerity budgets, control of imports and, most recently, freeing of the exchange rate by the introduction of a FX auction system, measures (albeit as yet feeble) to make parastatals more efficient and reduce their roles, attempts to improve the farm credit system, stimulation of cooperatives, development programs specifically directed to small farmers (e.g., LIMA), reduction in agricultural subsidies from K154.5 million in 1982 to K82 million in 1983 (-47%)* to name a few.

In 1985 the IMF and IBRD have established a position of leadership of the donor community in negotiation of and support of an intensified program of economic reform. The US provides major bilateral donor support to the new initiatives which in 1985 have established an exchange auction system and aim to eliminate all subsidies by 1988 including food, agricultural inputs and parastatals in all areas. Whether these comprehensive reforms can be carried out without unacceptable economic, social and political consequences is yet to be seen.

* The reduction in agricultural subsidies followed a commitment of 1981/82 to make a 50% reduction by 1983. After declining from K154.5 million in 1982, to K82 million in 1983, the subsidy went up to K91 million in 1984, but given the decline in the value of the kwacha, this was a reduction from US \$160 million in 1981/82 to \$51 million in 1984 (-68%).

The introduction of the FX auction in October, that resulted in a 65% devaluation, is having rapid repercussions throughout the economy since commercial agriculture, industry and mining are so heavily dependent on imports for intermediate production goods. The large drop in the exchange rate has created serious new distortions in prices and made some of the very commendable early progress on stabilization appear insignificant, e.g., fertilizer prices were more than tripled during 1982-1984 (which might have been enough to eliminate subsidies), but the sharp decline in the value of the kwacha and high transport and distribution costs have now raised the anticipated future costs to over double these new prices. That the strong medicine of the FX auction was correct can be argued, of course. It was taken with widespread donor support. Now perhaps retention of some of the subsidies on inputs to cushion the shock is called for, at least until the GRZ can force greater parastatal efficiency, e.g., in local fertilizer production, import and distribution. The US has taken a tougher stance on adherence to the letter of commitments than have other donors including IBRD. Further study of the fertilizer situation in conjunction with limestone seems desirable.

The interim report of the consultative group for the mid-December 1985 meetings speaks very favorably of GRZ policy reform to date. The price of maize has been increased from K28 to K55 per bag for the next year, (AID has long pushed for incentive prices for crops). The mealie maize price has been similarly increased and now is about double the price at which NAMBOARD purchased the current crop. However, the report indicates that the progress made in reducing the maize subsidy appears likely to be largely offset by increased cost of marketing, transport and processing operations resulting from the large devaluation. Increase in costs also has led the GRZ to double maize prices to farmers. This may require another doubling of retail prices in mid-1986.

NAMBoard's future role will be restricted to that of a purchaser of last resort (to support prices), something AID has long advocated. Floor price support systems at increased levels will apply also to other crops. There is a GRZ commitment that in the future private traders and cooperatives are to play the major role in marketing of fertilizer and maize. Improved policies, along with improved weather this year, are credited with a record crop and marketing of maize and large increases in many other crops. In recent years small holders have made major advances in production of cash crops (most notably cotton), but appear to have declined in the share of total output.

Studies have been commissioned to design improvements in a wide range of parastatals including divestiture of some public functions. Research, extension and credit are being strengthened and directed more to smallholders. Clearly, the PL 480 self-help measures have covered a large part of these reforms and the US Mission has consistently been a part of the forefront on identification and support of these and other reforms reported by the aid consortium.

In the rest of this section, some of the specific SHMs and Government plans and actions are reviewed.

In studies of the first three countries included under the current PL 480 review, continuity was reported to be highly regarded by host country officials. Measured broadly against this criterion, the Zambian PL 480 program has been outstanding, both taken alone and in conjunction with other US assistance. The US assistance program has focussed very heavily on the development policy theme, particularly on policies effecting agriculture and food. Consumer, producer and input prices and their relationships to producer incentives and production, imports and the balance of trade, subsidy costs and internal economic stability have received major emphasis.

Supporting grant-funded assistance was provided outside PL 480 in improving agricultural development planning and statistics, agricultural research and extension. Where it appeared appropriate, commitments were obtained and included in PL 480 agreements for specific GRZ support of these undertakings and some PL 480 local currency was supplied (Title II) or attributed (Title I) to these efforts. However, there also are instances where specific SHMs included in agreements over a period of years involved shifts in approaches or priorities, some of which do not appear to be supported by underlying analysis or changes in economic conditions.

Early self-help measures included in PL 480 commitments emphasized economic stabilization and reduction in inflation which at that time were the primary concerns of both the GRZ and the donor community. (A brief summary of GRZ agricultural plans and indicators of progress made is included in Annex I to assist the reader.) Other PL 480 measures mentioned included studies of programs and policies especially to improve marketing and steps to improve research and extension in order to increase output. Over the next several years, incentive measures became more specific. Early announcement of incentive prices, commitment to reduce food subsidies and direct input subsidies more toward low income farmers were incorporated (1980) while a variety of institutional commitments and the specific commitment to economic stability were dropped.

In a 1981 CIP, it was reported that the GRZ had taken a series of measures to stabilize the economy. These included an initial 1976 stabilization program and, in 1978-80, a two-year IMF standby agreement. It reported that in the TNDF (1979-1983) measures were planned to diversify the economy and increase food production. Further, 1979 brought improvements in the BOP. IMF standby performance was reported satisfactory except on agricultural pricing policy and subsidies. At that time it was intended that subsidies would be eliminated by 1980, but instead (in 1980) they were forecast to reach \$187.5 million. Major causes of the high subsidies were reported to be uneconomic pricing of maize and fertilizer (1981 CIP paper p.2, prepared in late 1980).

The 1981 agreement stressed reinforcement of the MAWD planning unit and review of the maize and fertilizer subsidies to determine if there are sufficient incentives to reduce the maize production shortfall. A significant shift from concern over subsidy costs to concern over the adequacy of production incentives was clearly implied and item V.IA.3 was changed to "(3) Adopt a selective approach to the subsidization of fertilizer and other input costs in order to provide all categories of farmers with the necessary incentives to increase the production of maize and to reduce subsidies to manageable levels". (Previously the concern expressed in item VB1b had been to direct the remaining subsidies to small farmers.)

However, a commitment to continue to reduce subsidy costs on maize and fertilizer was included with a further commitment to reach agreement with AID by June 1981 on the schedule for reduction of maize subsidies. The agreement further stipulated use of PL 480 LC to increase maize prices without increasing GRZ treasury costs. It also committed to review other prices, improve credit for small farmers, improve crop forecasting, and improve grain storage.

The 1982 CIP loan paper reported substantial progress on the principal commitments included in the 1981 PL 480 and CIP agreements. More significant, it reported an announcement of the GRZ of June 7, 1981 that it would immediately eliminate the negative differential between the producer price and the resale prices to millers. Mealie meal and other consumer price increases were reported. However, progress on some commitments, e.g., marketing, was disappointing (1982 CIP pp. 42-48). As already noted, in September 1982 the AID auditors observed that GRZ self-help reporting was not adequate. (This continues to be a problem, but a minor one).

The 1982 and 1983 agreements continued to emphasize improving MAWD planning and price incentives but with a substantially

broadened range of commodities included. They also called for reduction in fertilizer and maize subsidies and improved crop forecasting. Prices of fertilizer were raised between 20 and 45% for the 1981/82 crop year and raised again in the 1982/83 crop year for a total of the two seasons of nearly 150%. The early commitments to marketing, storage, credit for small farmers and improving research and extension were not continued (except for LC for research and extension).

Progress as reported in the 1983 CIP is brief and, in general, relatively modest. Prices have been raised somewhat, early delivery bonuses have been given for maize (using PL 480 LC) and credit increased somewhat (1983, CIP, p. 48). AID considered progress made to be adequate for program continuation.

The 1984 report on past performance on CIP loans only discusses use of dollars for procurement (p. 51). However, the diagnosis contains specific reference to policy measures which reflect significant progress (under PL 480), e.g., a real increase in maize prices and other commodities. Fertilizer prices were increased from K14.95 to K24.10/bag resulting in a 60% reduction in fertilizer subsidies. It is noted that this may reduce fertilizer use but make use more economic. Soil fertility as a problem is mentioned. It is also reported that since January 1981, NAMBoard has assigned cooperative unions responsibility for primary-level maize procurement which enabled the board to reduce its workforce. Further, it was reported that many producer price controls had been eliminated leaving controls mainly on maize and wheat and their milled products and candles. This, it was stated, has permitted somewhat greater latitude for private shopkeeper operations and more freely determined prices. Progress and further GRZ commitment to reduce maize and fertilizer subsidies are reported (1984 CIP grant paper, pp. 27-33).

While emphasizing somewhat similar policy and program terms, the 1984 and 1985 agreements are substantially more specific in terms of their policy and output targets and schedules. These are reproduced in full on the following pages.

1984 Self-Help Measures

1. The Government of the Republic of Zambia agrees to undertake self-help measures to improve the production and marketing of agricultural commodities. The following self-help measures shall be implemented to contribute directly to development in underdeveloped rural areas and to enable the

underprivileged to participate in increasing agricultural production through small farm agriculture.

2. In implementing these self-help measures, which complement the overall objectives of the Government of the Republic of Zambia Expenditure Program, greater emphasis will be placed on increasing agricultural production by small scale farmers.
3. The Government of the Republic of Zambia agrees to undertake the following activities and in doing so to provide adequate financial, technical and managerial resources for their implementation. The Government of the Republic of Zambia will:
 - a. Follow an economically rational pricing policy by:
 - o Continuing to improve local agriculture producer price relationships with due consideration given to the prevailing prices on the world market as well as at Zambia's borders. The purpose of such efforts is to insure that sufficient incentives are provided to encourage production by the small scale farmer of those crops in which they have comparative advantage, such as sorghum, groundnuts, cotton, millet and cassava.
 - o Instituting regional prices, which will reflect the costs of storage, transportation and handling, by the 1987/88 crop year for major agricultural commodities for both producers and consumers.
 - b. Encourage efficient resource allocation by:
 - o Continuing to adjust the relative consumer price of food products to reflect the real costs by progressively reducing the Government of the Republic of Zambia's subsidies to fertilizer and maize handling. Subsidies are to be eliminated by 1988.
 - o Continuing the move toward economic efficiency by eliminating subsidies (restitution payments) to cooperatives by 1988 in order that they might become economically viable in their own right.

- o Encouraging managerial and economic efficiency in agricultural parastatals by removing subsidies by 1988.
 - o Encouraging the adoption of improved technology by the small farm sector by providing credit at economic rates beginning in 1985 which are aimed at maintaining the initial funds.
- c. Develop a program to strengthen the capacity and capabilities of the Central Statistical Office within the National Commission of Development Planning in order that CSO generate the necessary data for sound policy analysis and decisions.

The following items will be considered in determining progress toward item 3 above:

- o A reduction in the length of time from the end of a given survey to the issuance of the report of that survey.
 - o Increase in the number of studies and reports submitted to the Government of the Republic of Zambia.
 - o Increase in the number of professional staff and survey supervisors.
 - o An increase in the number of staff with advanced training (degree and nondegree).
 - o An increase in the number of in-service training opportunities.
 - o An increase in real budget allocations and expenditures.
 - o An increase in the number of programmers and systems analysts.
 - o An increase in the number of publications.
- d. Continue to expand the capacity and capability of the Research and Extension Branches within the Department of Agriculture in the Ministry of Agriculture and Water Development to generate and disseminate improved technology to the small scale farm sector.

The following items will be considered in determining progress toward item 4 above.

- o An increase in real budget allocations and expenditures.
 - o An increase in professional and nonprofessional staff positions.
 - o An increase in yield rates after adjusting for other factors.
 - o An increase in the percentage of professional staff with advanced training (degree and nondegree).
 - o An increase in the in-service training opportunities.
- e. Develop a program before 1986 to address the soil acidity problem in Zambia.
- f. Continue to encourage efficiency in resource allocations by maintaining the progress toward the establishment of a positive real interest rate for both savings and loans.

By late 1985, progress had been made on several of these commitments. There appears to have been a general agreement in Government circles to more closely follow world prices in setting local prices (1A), but the recent decision on 1986 maize prices was largely a negotiated price based on expected supply response, not the CIF price, which would have been about twice the actual price (of slightly under \$100/MT). The concept of instituting regional pricing by 1987/88 (1B) was replaced in the 1985 agreement by commitment to allow cooperatives, processors and dealers to operate more freely. It is expected that MAMBoard will perform a price support role with minimal related storage and transport activity. In such a role it may buy nationally at a single price and allow the private trade to establish regional and seasonal differentials above the minimal.

The GRZ now appears convinced that measures to reduce subsidies and force parastatals to become more efficient are necessary, and has made specific commitments in US, IMF and IBRD agreements (see 2A, B, Ç). Substantial progress is reported.

It is not clear what action was intended by including item 2D in the 1984 agreement. "Encouraging the adoption of improved technology by the small farm sector by providing credit at economic rates beginning in 1985, which are aimed at maintaining the initial fund". First, it has not been established that credit is a major constraint for much of the improved technology, (except for major investment items like farm machinery and draft animals). Second, the low interest rate has been a relatively insignificant factor in credit fund decapitalization compared with low and rapidly declining levels of repayment, (reportedly now in the 30% to 50% range). It is likely some action will be taken on credit, but the direction is not yet clear. It would be unfortunate if the concern expressed in the PL 480 agreement on the modest interest subsidy were to divert concerns for, and action on, the repayment problem, or if costly credit were to be substituted for prompt NAMBoard payment, which would eliminate many credit needs.

Progress on commitments to improve the Central Statistical Office (3), and Research and Extension Branches (4) is inevitably slow, but there has been marked improvement in training and in numbers of more highly-trained personnel in various positions. Increases in agricultural sector budgets have been made difficult by the general austerity programs.

As of December 1985, significant efforts had not been made to address the soil acidity problems. However, the evaluation team's widespread questioning on this topic surfaced a substantial underlying concern and interest among Government officials. In May, 1986, USAID reported that the CRZ had established an "Agricultural Minerals Department", had held seminars and had made recommendations to small farmers on liming, (Lusaka 2619).

While continuing the basic theme of market liberalization and elimination of subsidies, the 1985 PL 480 Agreement introduced essentially a totally new set of commitments. Emphasis is placed on substantially freeing up agricultural markets to private cooperatives, processors and licensed dealers and to gradual elimination of subsidies to parastatal transport companies.

The 1985 commitments shown below are supportive of the commitments in the 1985 AID, CIP, ZAMCAM and ZAPS programs and those included under the IBRD Rehabilitation program.

1985 Self-Help Measures

1. The Government of the Republic of Zambia agrees to undertake self-help measures to maintain the movement toward the goals of increased food production and small farmer incomes through improvements in the marketing of agricultural commodities. The following self-help measures shall be implemented to contribute directly to development in under-developed rural areas, and to enable the underprivileged to participate in increasing agricultural production through small farm agriculture.

2. The Government of the Republic of Zambia agrees to undertake the following measures and in so doing to provide adequate financial, technical and managerial resources for their implementation. The Government of the Republic of Zambia will:

a. Encourage efficiency in marketing by allowing Cooperative Unions to sell agricultural commodities across provincial borders and allowing millers and processors to buy from their preferred sources.

The above agricultural marketing liberalization measure will be implemented within one year of the signature of this agreement.

b. Encourage efficiency in transportation by eliminating subsidies to road transportation parastatals, and requiring that they charge full-cost pricing.

Subsidies to road transportation parastatals will be eliminated completely by December 31, 1987, by means of yearly phased reductions as follows:

o Year one--total reduction of road transportation subsidies in calendar year 1986 by at least one third of the 1985 level.

o Year two--total reduction of road transportation subsidies in calendar year 1987 by at least two-thirds of the 1985 level.

o Year three--transportation parastatals to receive no subsidies in calendar year 1988.

c. Allow licensed private trading in all agricultural commodities throughout Zambia.

Procedures for licensing private traders will be adopted by the concerned GRZ Ministries and Agencies and the criteria for licensing promulgated to the private sector by December 31, 1985.

This market liberalization measure will be fully implemented, as evidenced by the issuance of licenses, by April 1, 1986.

Lessons Learned

- o Measurement of the degree of cause and effect between self-help commitments and specific HG policy reforms is difficult. Regardless of where the initiative originates, strong and continuing US support can result in implementation of major policy reforms in developing countries.
- o Continuity of general directions and major commitments over a period of years probably is essential for success in stimulation of significant policy reform. As a general rule, individual self-help measures should continue only minimally changed in annual agreements until the issue is satisfactorily resolved or it is reasonably established that a poor choice was made originally in including the particular SHM.
- o Multidonor support greatly enhances the likelihood of positive HG performance aimed at the fulfillment of commitments made as a quid pro quo for aid and probably makes the clear proof of such linkages less unpalatable.

E. Adequacy of Supporting Analyses

Evaluation of Conclusions and Options Chosen

The US assistance program in Zambia has been consistent in the sense that its prevailing theme has always been policy and policy dialogue. There has been a substantial degree of continuity from year to year in some areas, for example, measures to improve the agricultural planning capacity of the GRZ. However, there have been many self-help items, such as the important acidity study commitment of 1984, which have been included in one year and dropped in the next year. There have also been cases where the position varied considerably over time. Subsidization of fertilizer is one such issue on which the US position has changed over time without there being a clear analytical basis presented for the differing positions.

The main point, however, is that from the start there was substantial integration of PL 480 and other US assistance including ESF, CIP and most recently ZAPS and ZAMCAM. Further, over time the degree of integration has increased.

The USAID/Z Mission has sought ways to run a relatively large assistance program with a small professional staff. This apparently influenced the decision to focus on policy reform in the agricultural sector on the assumption that design and management of program aid can be conducted without the large technical assistance staff normally required by a project-oriented strategy.

USAID/Zambia has been an exemplary Mission in terms of the amount of resources committed relative to the number of US direct hire personnel. Further, the Mission has moved perhaps as far as any in Africa in honoring the intention of AID/W to make reform of agricultural policy the centerpiece of assistance, and it has honed in on many of the key policy issues.

In a situation such as this, there is always the question whether too much has been attempted with too small a professional staff. US assistance in FY 1985 peaked at \$66 million for the year and totalled \$350 million over 9 years (1977-1985). A great deal of intellectual and professional effort is required to design and effectively monitor responsible policies. While this evaluation team did not have time to review in detail all the supporting studies to which the Mission had access, it was clear that there were a substantial number of such studies involving highly competent professional efforts. After the initial sector assessment completed in August 1978, the principal data collection studies and analyses have been presented in the annual CIP authorization documents. It nonetheless seems that the quality of SHMs might have been improved had the USAID had access to more professional support from within and outside the Mission. The addition of one or two professional people would be a small cost to pay if it could increase by a small amount the effectiveness of a program worth \$66 million in 1985.

In the Zambian case, reliance was placed on analysis conducted by contractors and TDY officials from REDSO/ESA and AID/W and on studies commissioned by the IBRD and IMF in conjunction with programs for structural adjustment in the Zambian economy. Taken together with "in-house" analysis by Mission professionals, a substantial body of documentation was assembled as part of the process of arriving at recommendations on macroeconomic policy reform.

Greater use could have been made by the USAID of the analytical capabilities of the dozen TA's currently in Zambia on the ZATPID and ZAMARE projects. This appears to have been done only in rare instances. The objective of both projects is to generate knowledge for purposes of policy improvement. The opportunity should be taken, not only by the GRZ but also by the USAID/Z Mission, to call for and take advantage of the knowledge.

Given the wide range of measures included in the PL 480 agreements between 1977 and 1985, it is not surprising that some policy issues received more supporting analysis than others. For example, evidence was marshalled by the IMF, IBRD and in the 1981 CIP PAAD and 1983 AID Strategy Evaluation concerning the effects of subsidies and foreign exchange rates on the Zambian government budget and balance of payments. Less attention appears to have been given, however, to attempting to estimate the likely outcome of (1) decontrol of prices and the auctioning of foreign exchange, and (2) opening the agricultural markets to private and cooperative traders and the transfer of responsibility for agricultural inputs, including fertilizer, to the private sector.

With increasing numbers of donors and the tendency of some to shift from projects to programs with more emphasis on complex and broad policy and programmatic commitment, the responsible GRZ agencies have also found it increasingly difficult to do the necessary pre-agreement analysis of the various policy and program commitments proposed by donors and to understand and manage the implementation procedures required.

With full recognition that it is the aim of AID/W and USAID/Zambia to emphasize policy reform programs, there is a question whether a more appropriate and effective mix of programs and projects may have been foregone in Zambia. With the exception of a small allocation for ZAMARE research and extension, AID has programmed the entire US assistance from all sources toward policy changes, mainly in agriculture. This has been well orchestrated and considered with other donors, especially IBRD and IMF. Such overriding adherence to a single objective offers possibilities for major gains but also involves risks, including the risk of being too far out in front on some issues that are politically very sensitive. There may be other (usually project type) activities in which greater gains for the US and Zambia might have been made. The question is whether existence of such possibilities has been adequately explored.

It is difficult to predict what the responses of different types of farmers will be to policy reforms now being implemented or planned for the future. But there is a backlog of five years of experience in Zambia in which a number of innovative price and other reforms have taken effect. Not all farmers will respond in predictable or "rational" economic fashion, especially given that approximately 85% of Zambian farm households produce principally for subsistence and are beyond the reach of national agricultural markets. Further analysis is needed to ensure that price deregulation meets the requirements that SFMs "benefit the needy".

In addition to the shortage of information on economic impacts of policy reforms, the question of political feasibility seems not to have been explicitly addressed in the USAID's supporting analysis. Our discussions with Mission officials revealed that in day-today decision making such factors are always taken into account. Nonetheless, a number of senior Zambian officials expressed the view that donors did not adequately appreciate the political costs of proposed economic reforms. The Zambian government has moved a substantial distance in recent years and, in some instances of policy reform (foreign exchange auction, price deregulation), has been well in the lead of other African countries. USAID/Zambia recognizes that the time is not always right to be bearing down hard on the GRZ to fulfill specific policy commitments on a tight time schedule. What may be required instead is a greater measure of understanding for GRZ concerns about moving too fast with measures that could lead to political unrest and destabilization. The ultimate logic of development assistance, to enhance the development prospects of a friendly and stable government in an unstable region, should be kept firmly in mind.

USAID/Zambia recognizes that it is sometimes more productive to ease up on the pace and specificity of reforms than to insist on strict performance. Indeed, they have sometimes made representations to AID/W on this point. The IMF and World Bank are both reported to be very concerned about the political ramifications of the rapid increase in prices--about 70% since the introduction of the FX auction. There is concern too that what has been relative price stability could degenerate into run-away inflation and, hence, caution in pushing for more price decontrol is called for. The Mission is already systematically monitoring, in conjunction with the Embassy political officer, (a) changes in the consumer price index and (b) the incidence of political protest and violence. The incorporation of such information at a higher level of visibility in the Mission's analysis and communications with

Washington would provide an objective basis for determining when and how hard to urge further policy reform and strengthen the Mission's case for moderation. In this regard, the agreement with the GRZ to program a portion of local currency proceeds to a food relief scheme for urban consumers hardest hit by food price inflation is welcomed.

The policy reforms in Zambia are innovative, deep and comprehensive and they represent a tremendous achievement on the part of the USAID, other donors and the GRZ. They cannot be allowed to fail. The reforms will take many years to come to fruition. Constant attention will be needed to monitor and institutionalize them. The effects on the small farmer and the urban consumer will remain a recurring cause for concern. Unless donors, USAID included, make a long-term commitment to give practical support to Zambia through the forthcoming difficult period of transition, there is little likelihood that the policy reform experiment will be seen to have succeeded. If this happens, governments elsewhere in Africa will be reluctant to follow in Zambia's footsteps.

IV. PL 480 LOCAL CURRENCY PROGRAMMING

A. Local Currency Use Negotiation

Primary emphasis has been placed on the self-help measures contained in the PL 480 agreement. Each agreement through 1982 contained similar general wording on the use of LC to finance the self-help measures contained in each agreement--for agriculture and (later) the rural sector. Emphasis was to be on improving both the access of the poor to an adequate diet and their capacity to participate in the development of the country (essentially the boilerplate used worldwide). Taken literally, application of the LC to SHMs in the agreement could have created some accounting difficulties since the specific SHMs within the continuing economic development policy theme varied substantially from year to year. Thus, if the resources were to be used for the SHMs in the agreement it would seem necessary to treat LC from each agreement separately. However, the broader wording noted above permitted a wide range of uses including agriculture, rural development, small farmer credit and improved diets for the poor. In early years these tended to be guiding. Thus, the negotiation of the self-help measures in early years did not significantly limit the application of the LC.

The specific self-help measures to be included have always been considered to be much more important in the Zambian PL 480 Title I program than the uses to be made of the local currency. Through 1982, negotiation and agreement on the LC use was handled quite informally, usually starting with a (sometimes joint) review of the budget to identify qualifying budget items to which the LC could be attributed (and hence disposed of). Of course, at the start of the PL 480 program AID was less involved in the process than normally is the case.

Reports of LC use have tended to be perfunctory and USAID monitoring limited to insuring that it receives periodic reports on attribution and use. PL 480 evaluation and reporting emphasize progress against specific self-help measures included in agreements. This seems appropriate given the high priority assigned to these commitments. The position taken appears to have been that as long as the GRZ performed on the crucial self-help commitments in the agreements, AID would not concern itself about LC use. Whether the position would have changed in the event of a major instance of nonperformance is not clear. The 1983 agreement introduced much more specific wording on the use of the LC from Title I. The agreement specified that GRZ and AID were to decide jointly on use with priority to be given to the support of agricultural price

incentives, the strengthening of agricultural infrastructure through assistance to the marketing system, and assisting with the improvement of agricultural management and technical capabilities.

By 1985, two changes had been made. Cooperatives were included under the marketing system priority and a new item--increase in the availability of agricultural credit at economic rates by strengthening ZADB and other agricultural credit institutions--was added. However, the concept of these being GRZ resources continues and the AID and Ministry of Finance officials joint decision process continues to be limited largely to identification of budget items to which funds can be attributed. No separate LC account is maintained for Title I LC as in the case of the grant-funded CIP. Given the large amount of grant-source LC, this appears to be a reasonable way to handle the funds. It might be better in the Zambia situation if there were no programming requirement at all for the LC from Title I; that is, if funds were simply attributed to the budget with no reporting on use required. With large amounts of local currency from PL 480 and other sources, the programming and accounting has become a burden on both sides. In May, 1986, USAID reported it had decided to require that PL 480 Title I LC be deposited in a special account beginning 1986 (Lusaka 2619).

B. Local Currency Use

PL 480 assistance to Zambia has included major amounts of both PL 480 Title I and PL 480 Title II. Title II generated approximately K28 million in local currency in 1979-84. Title I began with \$1.6 million in the transitional quarter 1977, and \$20.4 million over the FY 1977-85 period with annual commitment ranging from \$5.4 million (in 1977) to a high of \$12 million (in 1980).

To a considerable degree the treatment of local currency has followed historical precedents. That is, in general, where funds were provided as a loan, even a very soft loan, the HG played the major role and AID participation in local currency programming was minimal. In the case of loans the process was largely one of attribution of LC to specific items in the budget. Where resources were provided as a grant, USAID played a greater role in the LC programming. This same approach has been applied to LC generated by the CIP program. Through 1983 these funds were provided as long-term loans and simply went into the budget, but beginning in 1984 they were provided as grants and placed in a special account.

Since all of the Title I commodities are loan funded, none of the local currency funds have been deposited in a special account nor has AID taken a strong position in the decisions on the "attribution". To the extent USAID has participated, it generally appears that it has reviewed the budget and offered suggestions as to most appropriate items for attribution. The early justifications given were that:

- (a) The amount of LC involved (taken with the CIP loan Program) is so large that efforts to program it would seriously distort the budget and the Government's development priorities. (This would seem to imply that the GRZ has acceptable procedures for establishing priorities and budgeting.)
- (b) It is unfeasible for AID to manage and monitor such a large amount of resources.

Added, of course, has been the GRZ argument that since it is a loan and "repayable" in full in FX, the LC resources are theirs to allocate. It was also intimated that if the GRZ permits this for AID loans other donors might argue for the same and that would spell chaos for the budgeting processes.

In the 1982 CIP loan paper, the country team and project design team set forth their rationale for not requiring a special account as follows:

1. A record of good compliance by the GRZ with past commitments.
2. Problems created by USAID involvement in the decision making process (on use of resources).
3. Audit and monitoring requirements which exceed USAID's capability and the extent to which a special account requirement would burden a weak and already overburdened management and accounting capacity of the GRZ.
4. Limitations a special account places on USAID's flexibility in the application of resources, e.g., (a) to rectify problems of crop supply imbalance, (b) to strengthen GRZ resolve on consumer price liberalization, (c) to use LC to meet local currency needs of present or new USAID projects, and (d) to reduce the impact of the GRZ commitment (to the IMF) to reduce fertilizer subsidies by 50% by 1983. (1983 CIP Loan Paper, p. 53a.)

These justifications basically resulted in support of the earlier decision to leave the LC programming largely to the GRZ.

Despite these arguments against a special account, the CIP program has followed the loan/grant dichotomy. A special account and greater AID participation in local currency programming began with FY 1984 when the CIP financing was changed from long-term dollar repayable loans to grants. Currently, some \$5 million of the 1984 CIP generations have been put into the special account but to date, agreement has been reached on use of K300,000 LC funds to meet USAID Mission LC needs and MOF has reported payment for construction of three houses for the HIRD project (499,500K) and Central Statistics Office (K1,190,430). In 1985, there was a CIP grant of \$10 million to support agribusiness, particularly marketing by private enterprise. In FY 1986, \$15 million has already been obligated as a cash transfer grant to support the FX auction (ZAPS) with no ties whatsoever to US procurement. Both the ZAMCAM and ZAPS agreements also provide for the deposit of the money in a special account and GRZ and USAID agreement on uses which, in general, are consonant with, or support the thrust of 1984 and 1985 PL 480 self-help provisions. In FY 1986, the CIP will be replaced by a dollar transfer program with no US procurement ties.

There have been substantial delays in programming and utilizing the local currency from the Title II grants which--as grants--are more subject to joint-programming than Title I. Assuming the delays in dealing with the Title II grant LC will soon be resolved, there will still be prospectively about \$60 million in local currency from the 1984 and 1985 CIPs, the 1985 ZAMCAM and the 1986 ZAPS. The latter is designed to be fairly quick on draw-down. Thus, GRZ and USAID will have about K250 million in special account(s) to deal with from agreements already signed. This is about 20% of the total 1984 GRZ budget and equal to the total 1984 development and lending budget. Of course, these funds will not all become available in a single year. ZAPS should move fairly quickly, generating K75 million by April-May. However, ZAMCAM is tranching and probably will only generate K30-40 million by mid-1986. The two CIP programs also are slow disbursing. While the situation through the next year probably will be manageable, further large accumulation from future ESF assistance along with PL 480 could create serious management and accounting problems for USAID and the GRZ. It also might strain bilateral relations as the GRZ attempts an austerity budget in a situation of substantial uncertainty with respect to US concurrence on increasing parts of that budget.

1979 - 1981 Use of LC

The manner of handling local currency from early Title I agreements follows along the lines of the perfunctory wording of the local currency use in the agreement. A letter of 15 June, 1982 concerning outstanding local currency suggests the minimal AID participation in programming of local currency that prevailed in early years regardless of source of funds.

1. 1979 Agreement on PL 480 Title II

There is an outstanding balance of K1,673,419 on which we are obliged to provide utilization details. We had agreed to use part of the funds under this agreement to provide local currency funding for expansion/construction of storage facilities for which major funding was expected from other donors.

The Canadian-financed storage development program which was discussed at this time got delayed for a variety of reasons but is gaining momentum from early this year.

NAMBoard is maintaining, for this project, a special bank account which will inter alia account for both direct and indirect GRZ fundings. A certificate on the utilization of K1,673,419 will therefore be furnished by 1 June, 1983.

2. 1981 CIP Agreement for US \$15 million

Under the agreement, the local currency equivalent (K11,802,000) was to be used to partially subsidize 1981 maize producer/consumer prices. The expenditure incurred by us in such subsidies in 1981 amounted to K39,914,000 as under:

| | |
|---|-------------------|
| Handling costs (producer) subsidy paid to NAMBoard in 1981: | 24,914,000 |
| Cash | 19,500,000 |
| Book adjustments (IDC No. 15342) | <u>5,414,000</u> |
| Total | 24,914,000 |
| Price differential (consumer) subsidy paid to NAMBoard in 1981: | 15,000,000 |
| Cash | 5,355,126 |
| Book adjustment (IDC No. 135542) | <u>9,614,874</u> |
| Total | 15,000,000 |
| Total | <u>39,914,000</u> |

The amount of K11,802,000 under the CIP Agreement is therefore fully attributed in subsidies duly paid.

1981 PL 480 Agreement for US \$10 million (Title I)

The local currency equivalent (K7,868,000), was to be used to partially pay for increases in maize producer price effective in 1981. The producer price increase implemented by the Government in 1981 resulted in an investment of K13,840,285 in the economy as follows:

| | |
|--|---------------|
| Unit price increase (from K11.70 to K13.50) | K1.80 per bag |
| No. of bags procured | 7,689,050 |
| Total value 7,689,050 x K1.80 | K13,840,285 |

The covenant under the subject agreement is therefore deemed to be fully met.

1982 Use of LC

For the 20 June, 1982 PL 480 Title I signing of a \$7 million agreement, attribution apparently was quite quickly reached and by December 31, 1982, most of the money had been spent as shown in the statement below. However, it appears little or no change occurred in the budget or in expenditure relative to budgets as a result of the local currency commitments.

1983 Use of LC

Agreement on the attribution of LC from a February 18, 1983 agreement came before the end of CY 1983 as reflected in a letter from the AID Representative to the PS of MAWD of December 20, 1983, confirmed (by MAWD) by a letter from the Office of the Permanent Secretary to USAID on 16 January, 1984, a letter from the PS, Ministry of Cooperatives to the PS Ministry of Finance of 20 January, 1984 and finally, by a letter from the PS to USAID Representative of 23 January confirming the allocation with minor exceptions (mostly wording) and including a statement of expenditure against the line items as of December 31, 1983.

There are some differences between the USAID letter of December 18 and the Ministry of Finance letter of January 23 as explained in the footnotes to the Ministry of Finance letter

shown below. Also the USAID proposed a miscellaneous item for MAWD (K.430 million) not included by the Ministry of Finance. There is in this, as in the earlier response, a large unexplained discrepancy between funds allocated and funds expended. On some line items, much more was spent and, in others, much less while overall about 75% was spent. The largest shortfalls on reported expenditure were for research and extension (60% spent), and NRDC College plant and vehicle maintenance (50% spent). These would seem to be the same recurrent costs that the World Bank reported as being least adequately funded, to the disadvantage of agriculture progress.

STATEMENT OF SUMMARY OF EXPENDITURE
 INCURRED AS OF 31ST DECEMBER, 1982
 PL 480 DATED 20TH JUNE, 1982

RECURRENT CAPITAL BUDGET ITEMS
 DETAILS OF EXPENDITURE UP TO 31ST DECEMBER, 1982

| <u>Recurrent</u> Head/Subhead | Alloc. | Supplem. Alloc. | Total Alloc. | Expend. |
|----------------------------------|--------------|--------------------|-----------------|--------------|
| | K'M | K'M | K'M | K'M |
| 089/01/202 | 0.165 | 0.079 | 0.244 | 0.310 |
| 089/03/202 | 0.580 | 0.170 | 0.750 | 0.586 |
| 089/04/202 | 0.078 | 0.008 | 0.086 | 0.083 |
| 089/05/202 | 0.115 | 0.016 | 0.151 | 0.141 |
| 089/06/202 | 0.361 | 0.017 | 0.378 | 0.335 |
| 089/07/202 | 0.191 | 0.039 | 0.230 | 0.271 |
| 089/08/202 | 0.049 | 0.018 | 0.067 | 0.083 |
| 089/09/202 | <u>0.018</u> | <u>0.006</u> | <u>0.024</u> | <u>0.018</u> |
| Total | 1.557 | 0.353 | 1.910 | 1.827 |
| <u>Capital</u> | | | | |
| 321/89-L&I/Prov.Coops | 1.200 | - | 1.200 | 1.200 |
| 389/01-ZAN-CAN Wheat Sch. | 0.067 | - | 0.067 | 0.117 |
| 389/02-Dpt of Agric. | 0.942 | - | 0.942 | 1.675 |
| 389/03-Dpt Vet & Tse Con | 1.040 | 0.528 | 1.568 | 1.436 |
| 389/04-Trg. Inst. | 0.200 | - | 0.200 | 0.252 |
| 389/05-Ag. Research | 0.715 | - | 0.715 | 0.901 |
| 389/06-Dpt Water Affairs | 0.967 | - | 0.967 | 0.940 |
| 389/07-Dpt Mark & Coop | 0.274 | - | 0.274 | 0.616 |
| 389/09-Fisheries Dpt | <u>0.254</u> | - | <u>0.254</u> | <u>0.129</u> |
| Sub-Total | 5.659 | 0.528 | 6.187 | 7.266 |
| Grand Total | <u>7.216</u> | <u>0.881</u> | <u>8.097</u> | <u>9.093</u> |

Notes:

- (1) The overspent subheads are covered by variations.
- (2) Item 389/09-Fisheries Department changed to 389/10

STATEMENT OF SUMMARY OF EXPENDITURE INCURRED
 LOCAL CURRENCY ATTRIBUTIONS DATED FEBRUARY 18, 1983
 TITLE I AGREEMENT

CAPITAL BUDGET ITEMS DETAILS OF EXPENDITURE UP TO 31ST
 DECEMBER, 1983

| <u>Head/SubHead</u> | | <u>Allocation</u> | <u>Expenditure</u> |
|---------------------|--|-------------------|--------------------|
| | | <u>K'M</u> | <u>K'M</u> |
| 321/- | Ministry of Finance (L&I) | | |
| | 321/86 Min. of Coops (Prov. | 0.800 | 0.850 |
| | 321/89 (415) MAWD (NAMboard Storage) | 1.200 | 1.140 |
| | 321/37 (108) (ZADB) Zambia Agr. Dev. Bank | 1.000 | 1.000 |
| 386- | Ministry of Cooperatives | | |
| | 386/02 Dept. of Cooperatives & Marketing | 1.048 | 0.866 |
| | *386/03 Cooperative College | <u>0.293</u> | <u>0.132</u> |
| | (A) Total | <u>4.341</u> | <u>3.988</u> |

Recurrent Budget Items
Details of Expenditure up to 31st December, 1983

| <u>Head/SubHead</u> | <u>Allocation</u> K'M | <u>Expenditure</u> K'M |
|---|--------------------------|---------------------------|
| *086/- Ministry of Coops (Rural Storage) | 0.375 | - |
| Sub total | <u>0.375</u> | <u>-</u> |
| 089/- Ministry of Agriculture & Water Development | | |
| 089/02/206-Mechanization Unit. | | |
| 002 Materials | 0.006 | 0.006 |
| 003 Other charges | 0.005 | 0.003 |
| 089/02/207-Field Service (Gen) | | |
| 002 Materials | 0.113 | 0.075 |
| 003 Other charges | 0.021 | 0.062 |
| 089/02/208-Palabana Dairy | | |
| 002 Materials | 0.070 | 0.060 |
| 003 Other charges | 0.010 | 0.007 |
| 089/02/209-Field Service (Trng) | | |
| 002 Materials | 0.113 | 0.084 |
| 003 Other charges | 0.040 | 0.027 |
| 089/02/210 Kalulushi Farm Col. | | |
| 002 Materials | 0.030 | 0.013 |
| 003 Other charges | 0.009 | 0.004 |
| 089/02/211 Popota Tobacco Col. | | |
| 002 Materials | 0.030 | 0.020 |
| 003 Other charges | 0.010 | 0.020 |
| Sub total | <u>0.457</u> | <u>0.281</u> |
| 089/04 Training Inst. | | |
| 089/04/201 General Expenses | 0.062 | 0.063 |
| 089/04/202 Travelling on Duty | 0.057 | 0.088 |
| 089/04/207 Maintenance of Plant & Vehicles | 0.010 | 0.019 |
| 089/04/209 Training Expenses (Mazabuka College) | 0.185 | 0.127 |
| 089/04/210 Training Expenses (Monze College) | 0.336 | 0.271 |
| 089/04/211 Training Expenses (Mpika College) | <u>0.281</u> | <u>0.268</u> |
| Sub total | <u>0.931</u> | <u>0.836</u> |
| 089/11/025 Training Expenses (NDRC) | 1.099 | 0.579 |
| 089/11/207 Maintenance of Plant & Vehicles (NRDC) | 0.040 | 0.026 |
| Sub total | <u>1.139</u> | <u>0.605</u> |

| | | | |
|-----------------------|---|--------------|--------------|
| 089/05 | Agricultural Research | | |
| 089/05.202 | Travelling on Duty | 0.118 | 0.135 |
| 089/05/207 | Field Service (Gen) | 0.402 | 0.035 |
| 089/05/209 | Seed Control Serv. | 0.095 | 0.211 |
| 089/05/210 | Tree & Plant Res. | 0.053 | 0.012 |
| 089/15/211 | National Irrigation Research Station | 0.157 | 0.145 |
| 089/05/212 | General Research Team | 0.203 | 0.052 |
| 089/05/213 | Oil Seed Research Team | 0.031 | 0.089 |
| 089/05/214 | Fibre Cross Research Team | 0.049 | 0.021 |
| 089/05/215 | Vegetable Research Team | 0.012 | 0.008 |
| 089/05/216 | Tobacco Research Team | 0.024 | 0.002 |
| 089/05/217 | Roots and Research Team | 0.042 | 0.022 |
| 089/05/218 | Animal Husbandry & Pasture Research | 0.129 | 0.034 |
| 089/05/219 | Stored Products Research | 0.019 | 0.009 |
| 089/05/222 | Plant Protection Research | 0.030 | 0.010 |
| 089/05/223 | Weed Research Team | 0.007 | 0.003 |
| 089/05/224 | Soil Productivity Research | 0.044 | 0.010 |
| 089/05/225 | Inter-cropping Research | 0.010 | 0.007 |
| 089/05/226 | Biometrics Research Team | 0.003 | 0.001 |
| Sub Total | | <u>1.428</u> | <u>0.806</u> |
| (B) Total | | 4.330 | 2.628 |
| Grand Total (A) + (B) | | <u>8.671</u> | <u>6.616</u> |

PL 480 Title II Use

There have been some K28.3 million of local currency generated under the Title II agreements of 1979, 1980, 1983 and 1984. To some extent the difficulty in handling the PL 480 Title II LC justifies the argument concerning administrative and monitoring capability and management difficulty in jointly programming and managing local currency generations especially where they involve major levels of funding.

Under Title II, which is a grant, it was agreed that there would be a special account and that AID would participate fully in the programming decisions. However, the correspondence suggests that the GRZ initially interpreted this to apply to approximately K28.3 million from agreements beginning in 1979 whereas AID interpreted it to apply to some K19.3 million from agreements of 1983 and 1984. There are counter proposals from the GRZ (Exhibit A) and the USAID (Exhibit B) which have not yet been reconciled. However, the difference is more one of accounting than of substance. The GRZ proposal covering the larger figure is basically in agreement with the uses in smaller figures from AID.

This correspondence suggests that as of FY 1986, there still is not a full understanding on the handling of the LC generations going back as far as six years. The 1979 and 1981 commitments, according to USAID, went directly to NAMBoard and were already spent by NAMBoard (approximately K8.6 million). The difference between items 5 and 6 in A and B reflects the 1979 and 1981 funds retained and controlled by NAMBoard. It was decided in 1983 that NAMBoard would no longer control the funds. The amounts in Exhibit A for items 5 and 6 is the amount from the 1983 and 1984 agreements put into the special account controlled by the Ministry of Finance. One item of concern is low levels of expenditure from the allocation for agricultural development (2) compared with other areas. The other is that of FY 1986, programming of LC going back as far as 1979 as had not been completely agreed upon, spent and accounted for.

EXHIBIT A

TOTAL PL 480 TITLE II PROGRAMMING/DISBURSEMENTS

| <u>Programming</u> | <u>Amount</u> | <u>Disbursed</u> | <u>Comments</u> |
|--------------------|--|------------------|-----------------|
| A. | Emergency Famine Relief | | |
| 1. | Contingency Planning 300,000 to WFP | 1,948,380 | 948,380 |
| 2. | WFP 500,000 | 500,000 | to C.P. |
| 3. | Volags 636,807.76 | 0 | |
| 4. | Total 3,085,187.76 | 1,448,380 | |
| B. | Ag Development | | |
| 1. | Extension 850 000 | 0 | |
| 2. | Planning 1,300,000 | 400,000 | |
| 3. | Research 1,745,000 | 800,000 | |
| 4. | General Ag Development | 2,065,000 | 800,000 |
| 5. | Total 5,960,000 | 2,000,000 | |
| C. | Farm Credit | | |
| 1. | ZADB or DBZ | 1,050,000 | 0 |
| | ZCF coops credit | 3,000,000 | 2,500,000 |
| | Storage coops | 500,000 | 0 |
| | Storage Primary societies | 900,000 | 900,000 |
| | Total 5,450,000 | 3,400,000 | |
| D. | Training | | |
| 1. | Ag Education/training | 750,000 | 0 |
| 2. | Total 750,000 | 0 | |
| E. | Early Delivery Bonus | | |
| 1. | Coops 1,276,286 | 1,276,286 | |
| 2. | NAMBOARD 8,232,109.35 | 8,232,109.35 | |
| 3. | Total 9,508,395.35 | 9,508,395.35 | |
| F. | NAMBOARD Storage 2,573,419.90 | 3,573,419.90 | |
| G. | Total | 28,327,003.06 | 18,930,195.30 |

EXHIBIT B

PL 480 PROGRAMMING/DISBURSEMENTS--TA'S 4606, 3605 AND 3604---
CONTROLLED BY THE MINISTRY OF FINANCE

NEW PROGRAMMING (TAKING 1985 EARLY DELIVERY BONUS INTO ACCOUNT)

| <u>Programming</u> | <u>Amount</u> | <u>Disbursed</u> | <u>Comments</u> |
|------------------------------|---------------|------------------|---------------------------|
| A. Emergency Famine Relief | | | |
| 1. Contingency Planning | 1,948,380 | 948,380 | 300,000 to WFP to C.P. |
| 2. WFP | 500,000 | 500,000 | |
| 3. Volags | 636,807.76 | 0 | |
| 4. Total | 3,085,187.76 | 1,448,380 | |
| B. Ag Development | | | |
| 1. Extension | 850,000 | 0 | |
| 2. Planning | 1,300,000 | 400,000 | |
| 3. Research | 1,745,000 | 800,000 | |
| 4. General Ag Development | 2,065,000 | 800,000 | |
| 5. Total | 5,960,000 | 2,000,000 | |
| C. Farm Credit | | | |
| 1. ZADB or DBZ | 1,050,000 | 0 | |
| 2. ZCF coops credit | 3,000,000 | 400,000 | |
| 3. Storage coops | 500,000 | 0 | |
| 4. Storage primary societies | 900,000 | 900,000 | |
| 5. Total | 5,450,000 | 3,400,000 | |
| D. Training | | | |
| 1. Ag Education/training | 750,000 | 0 | |
| 2. Total | 750,000 | 0 | |
| E. Early Delivery Bonus | | | |
| 1. NAMBoard | 2,500,000 | 2,500,000 | |
| 2. Total | 2,500,000 | 2,500,000 | |
| F. Storage | | | |
| 1. NAMBoard | 1,900,000 | 1,900,000 | |
| 2. Total | 1,900,000 | 1,900,000 | |
| G. Total | | | |
| H. Unprogrammed balance | 0 | | |

D. Lessons Learned

There appear to be fairly clear limits on levels of local currency (from PL 480 and other assistance) beyond which US involvement in decisions on application and US requirements for accounting, reporting and monitoring not only are not practical, but are likely to be counter productive. As a corollary, it probably would be desirable to attempt to decide, in each program, how much local currency can usefully be jointly programmed to effectively supplement resources for specific uses and put this in special accounts to be used to increase resources for a few carefully selected development purposes.

Participation in programming of local currency can be an asset in achieving program objectives but it also can be a major liability. To the extent that leverage exists, it relates to the resource transfer, which in the case of PL 480 is the commodities financed. The requirement that the local currency generated by their sale must be programmed jointly reduces the control of budgetary authorities over the total allocation of resources and, as such, diminishes the value of the resources to these authorities (in this case the Ministry of Finance) with whom AID normally directly negotiates agreements, including self-help measures. These authorities are looked to as the likely proponents (for budgetary reasons, if not otherwise) of the policy reforms proposed or supported.

Local currency programming may involve some leverage and/or good will at the level of the final recipient if it is perceived as bringing additional resources or permitting modification of uses in directions the recipient agency desires.

Where amounts of local currency become very large, compared with the local resources, as they are in Zambia, and approval of their use by AID is required, they can introduce serious, possibly destabilizing uncertainty in the budgetary process unless agreement on use is achieved well in advance of resource generation. The likely near term local currency situation in Zambia is reminiscent of the situation in India some 15 years ago, where local currency levels, over which the US could exercise a substantial degree of control, had reached a level considered by some Indians to be potentially dangerous.

Perhaps an intermediate solution should be sought between simple attribution and having very large amounts in special accounts to program, monitor and account for. In cases such as Zambia, a small part of the local currency might be put in a special account or allocated to agreed uses, preferably in the

agreement, with a clear means for verifying additionality. The percentage to go into the special account might depend on the significance of the undertakings that the funds support and the effectiveness of the country in its performance against prior commitments. Such a procedure might be applied equally to PL 480 Title I and II and ESF and other assistance, especially that directed primarily to policy reform.

Scope of Work

I. OBJECTIVE

THE OBJECTIVES OF THE STUDY ARE:

- TO ACQUIRE A BETTER UNDERSTANDING OF SUCCESSFUL PL 488 PROGRAMMING PROCESSES, INCLUDING IDENTIFICATION AND ANALYSIS OF KEY ISSUES, NEGOTIATION OF AGREEMENTS AND MONITORING OF SELF-HELP PROVISIONS AND MECHANISMS AND PROCEDURES FOR PROGRAMMING AND MANAGING LOCAL CURRENCY SALES PROCEEDS.

- TO REVIEW CRITICALLY THE DATA AND ANALYSES AND CONTRIBUTE SUBSTANTIALLY TO INDIVIDUAL COUNTRY PL 488 STRATEGIES AND RELATED POLICY DIALOGUE.

- TO PROVIDE INFORMATION THAT WILL BE USEFUL TO USAID

MISSIONS IN REPLICATING SUCCESSFUL EXPERIENCES AND OTHERWISE IMPROVING PL 488 PERFORMANCE. THE STUDY WILL PARTICULARLY EMPHASIZE SUCCESSFUL APPROACHES AND METHODS OF MANAGEMENT OF PL 488 PROGRAMS TO ACHIEVE BROAD AND SIGNIFICANT DEVELOPMENT OBJECTIVES.

II. SCOPE OF WORK

A. BACKGROUND

THE TUNISIA-MALI CASE STUDIES 100 WORK ORDER (CONTRACT NO. PDC-1486-1-92-4087-901) DEMONSTRATED THAT IT IS POSSIBLE TO CARRY OUT COUNTRY CASE STUDIES OF PL 488 PROGRAMS IN A RELATIVELY BRIEF PERIOD OF TIME PER COUNTRY, AND AT RELATIVELY LOW COST. HOWEVER, TAKING ONLY THESE TWO COUNTRIES AS THE BASIS ON WHICH TO MAKE BROAD GENERALIZATIONS FOR OTHER-COUNTRY SITUATIONS IS METHODOLOGICALLY UNSOUND, AND MIGHT LEAD TO THE DEVELOPMENT OF INAPPROPRIATE GUIDANCE TO THE FIELD.

B. CASE STUDIES

THE CONTRACTOR WILL UNDERTAKE CASE STUDIES IN THREE OF THE FOLLOWING FIVE COUNTRIES: PAKISTAN, GAMBIA, MALI, DOMINICAN REPUBLIC, COSTA RICA.

THE COUNTRY STUDIES WILL CARRY OUT THE FOLLOWING TASKS.

1. REVIEW AND EVALUATION OF DATA ANALYSIS UNDERLYING THE PL 488 PROGRAM. THE STUDY WILL IDENTIFY AND EVALUATE THE DATA AND ANALYSES WHICH PROVIDE THE BASIS FOR SELECTION OF PRIORITIES AND PROPOSED PL 488 STRATEGIES, NEGOTIATION INSTRUCTIONS AND THE LOCAL CURRENCY USE AND RELATED SELF-HELP CONDITIONS CONTAINED IN ANNUAL PL 488 AGREEMENTS. PARTICULAR EMPHASIS WILL BE PLACED ON THE APPROACHES USED AND ASSEMBLY, PROCESSING AND ANALYSES OF QUANTITATIVE AND QUALITATIVE INFORMATION. THE STUDY WILL INCLUDE METHODS USED BY MISSIONS TO ASSEMBLE AND MANAGE THE PROCESS, THE ROLES OF VARIOUS ENTITIES AND ADEQUACY OF DATA AND ANALYTICAL TECHNIQUES TO SUPPORT ALTERNATIVE PROGRAM DIRECTIONS. THE STUDY WILL BE PARTICULARLY SENSITIVE TO INNOVATIVE METHODS USED IN MOBILIZING AND DEPLOYING MISSION-PROVIDED ANALYSES, COLLABORATION WITH HOST COUNTRY AND OTHER DONOR INSTITUTIONS AND RESOURCE PEOPLE AND TO METHODS USED TO OVERCOME DATA LIMITATIONS FREQUENTLY ENCOUNTERED IN DEVELOPING COUNTRIES. THE STUDY WILL IDENTIFY AREAS WHERE DATA AND ANALYSIS MIGHT BE STRENGTHENED AND, TO THE EXTENT RESOURCES PERMIT, IT

WILL ASSIST IN STRENGTHENING DATA AND ANALYSIS AND IMPROVING METHODOLOGY.

REVIEW AND EVALUATION OF UNDERLYING DATA AND ANALYSES WILL INCLUDE, AS APPROPRIATE, EXAMINATION OF RELATIVE PRIVATE AND PUBLIC ROLES IN AGRICULTURAL PRODUCTION AND MARKETING, PRICING AT BOTH CONSUMER AND PRODUCER LEVELS AND ADEQUACY OF THE PRICING SYSTEM AND PRICE INCENTIVES TO ACHIEVE HIGHER GROSS OUTPUT RATES FOR KEY AGRICULTURAL COMMODITIES.

2. REVIEW OF NEGOTIATION AND MONITORING PROCESS. THE STUDY WILL IDENTIFY ROLES PLAYED AND PROCESSED BY WHICH:

- AI U.S. POSITIONS WERE DEVELOPED ON DIFFERENT ISSUES;

- BI THE DISCUSSIONS WERE CARRIED OUT WITH HOST GOVERNMENT OFFICIALS AT DIFFERENT LEVELS, AND

- CI SPECIFIC PL 488 SELF-HELP TERMS WERE NEGOTIATED.

IT WILL EXAMINE ALSO, THOUGH IN LESS DETAIL, ROLES AND PROFICIENCIES ON THE HOST GOVERNMENT SIDE. THE STUDY WILL REVIEW PROVISIONS FOR SELF-HELP REPORTING, SELF-HELP REPORTS SUBMITTED AND OTHER METHODS USED BY MISSIONS IN MONITORING SELF-HELP PERFORMANCE. IT WILL REVIEW ACTIONS THAT WERE TAKEN WHEN SELF-HELP CONDITIONS WERE NOT MET. WHEREVER POSSIBLE AND WITHIN THE CONSTRAINTS OF DATA AVAILABILITY, IMPACT INFORMATION WILL BE ASSESSED.

3. REVIEW OF LOCAL CURRENCY APPLICATIONS. THE STUDY WILL IDENTIFY AND EVALUATE:

- AI THE SPECIFIC TERMS AND CONDITIONS FOR APPLICATION OF LOCAL CURRENCY PROCEEDS GENERATED BY SALE OF PL 488-FINANCED COMMODITIES;

- BI PROCEDURES ACTUALLY EMPLOYED IN MANAGING LOCAL CURRENCY, AND

- CI TIMELINESS, ADEQUACY AND, TO THE EXTENT POSSIBLE,

RESULTS OF SPECIFIC LOCAL CURRENCY APPLICATIONS AND REPORTING BY HOST GOVERNMENT. IT WILL ALSO REVIEW ASSIGNMENTS OF RESPONSIBILITY AND ROLES PLAYED IN LOCAL CURRENCY PROGRAMMING, DISBURSEMENT OF FUNDS, AUDIT, REPORTING AND LOCAL CURRENCY MONITORING WITHIN BOTH U.S. MISSIONS AND HOST COUNTRIES.

ISSUES TO BE ADDRESSED, WITH ILLUSTRATIVE QUESTIONS

SEE PP. 25-26 OF PILOT CASE STUDIES REPORT.

III. CASE STUDY APPROACH AND DURATION

EACH CASE STUDY SHALL BEGIN WITH THE COLLECTION AND ANALYSIS OF BACKGROUND INFORMATION ON THE COUNTRY PROGRAM IN WASHINGTON, D. C. THIS WILL INCLUDE DOCUMENTATION REVIEW AND INTERVIEWS WITH KEY AID, USDA, STATE DEPARTMENT AND OMB OFFICIALS INVOLVED IN THE PL 480 PROGRAM IN QUESTION. THIS PHASE WILL TAKE APPROXIMATELY 5 DAYS PER TEAM MEMBER.

AFTER THIS PRE-FIELD ANALYSIS IS COMPLETED, THE STUDY TEAM WILL PROCEED TO THE COUNTRY TO CARRY OUT FIELD INVESTIGATIONS, REVIEWING ADDITIONAL DOCUMENTATION, INTERVIEWING KEY U.S. MISSION AND HOST-GOVERNMENT OFFICIALS AND VISITING APPROPRIATE FIELD SITES. THE FIELD WORK WILL BE CARRIED OUT IN APPROXIMATELY 15 WORKING DAYS PER TEAM MEMBER.

UPON RETURN FROM THE FIELD, THE TEAM WILL REVIEW ITS FINDINGS AND PREPARE A DRAFT COUNTRY CASE REPORT. WHEN ALL THREE CASE STUDIES HAVE BEEN CARRIED OUT, AND THE THREE FINAL CASE REPORTS ARE PREPARED, THE CONTRACTOR'S CORE TECHNICAL STAFF, COLLABORATING WITH THE APPROPRIATE AID OFFICER TEAM MEMBERS, WILL PREPARE A SYNTHESIS REPORT, DRAWING OUT LESSONS LEARNED FROM THE THREE CASES PLUS THE TWO PHASE I PILOT CASES. THE SYNTHESIS WILL PROVIDE RECOMMENDATIONS FOR MAKING DECISIONS ABOUT WHAT KINDS OF SELF-HELP PROVISIONS ARE APPROPRIATE GIVEN A VARIETY OF COUNTRY ENVIRONMENTS, WHAT KINDS OF MECHANISMS ARE APPROPRIATE FOR THE PROGRAMMING AND MONITORING OF LOCAL CURRENCY SALES PROCEEDS, AND APPROPRIATE METHODOLOGIES FOR EVALUATING PROGRAM SUCCESS. A STRATEGY FOR DISSEMINATION OF CONCLUSIONS WILL ALSO BE INCLUDED. PREPARATION OF THE DRAFT SYNTHESIS REPORT WILL TAKE APPROXIMATELY 15 WORKING DAYS.

IV. TEAM COMPOSITION AND LEVEL OF EFFORT

IN CONDUCTING THESE CASE STUDIES, THE CONTRACTOR WILL PROVIDE UP TO THREE SPECIALISTS PER COUNTRY DEPENDING UPON THE COUNTRY IN QUESTION AND THE AVAILABILITY OF AN APPROPRIATE AID OFFICER TO PARTICIPATE AS A TEAM MEMBER. THE BACKGROUNDS OF THESE SPECIALISTS MAY VARY ACCORDING TO THE CASE IN QUESTION, BUT WILL INCLUDE AT A MINIMUM AN ORGANIZATION SPECIALIST, AN AGRICULTURAL

ECONOMIST, AND/OR A FINANCIAL MANAGEMENT SPECIALIST WITH APPROPRIATE LANGUAGE SKILLS. AT LEAST ONE OF THESE SPECIALISTS WILL BE A MEMBER OF THE CONTRACTOR'S CORE TECHNICAL STAFF. TEAMS WILL USUALLY BE COMPOSED OF TWO-THREE MEMBERS.

V. REPORTS

THE TEAM WILL SUBMIT A REPORT ON EACH COUNTRY STUDY AS WELL AS A SYNTHESIS REPORT CONTAINING RECOMMENDATIONS ON HOW AID CAN IMPROVE ITS PROGRAMMING OF PL 480 TITLE I AS WELL AS A STRATEGY FOR DISSEMINATING FINDINGS. THE CASE STUDY REPORTS ARE DUE NO LATER THAN 3 WEEKS AFTER THE

TEAM HAS RETURNED TO THE U.S. A TOTAL DRAFT REPORT WILL BE PRESENTED BY DECEMBER 27, 1985 AND THE FINAL REPORT BY FEBRUARY 15, 1986. TEN COPIES OF ALL REPORTS SHOULD BE SUBMITTED.

2. WE WOULD LIKE TO PROPOSE THE FOLLOWING SCHEDULE AND TEAM COMPOSITION: EVALUATION WOULD TAKE PLACE END OF OCTOBER/BEGINNING NOVEMBER FOR 3 WEEKS. TEAM WOULD CONSIST OF ALICE MORTON, RICHARD NEWBERG AND POSSIBLY AID/OA REPRESENTATIVE. MORTON AND NEWBERG WERE THE TWO PRINCIPALS ON THE PILOT CASE STUDY REPORT. MORE BIOGRAPHIC INFORMATION CAN BE PROVIDED AT USAID REQUEST.

3. PLEASE PROVIDE MISSION CONCURRENCE ON GENERIC SCOPE, SUGGESTED SCHEDULE AND TEAM COMPOSITION. USAID MODIFICATIONS TO SCOPE OF WORK TO ACCOMMODATE COUNTRY-SPECIFIC CIRCUMSTANCES ARE WELCOME. IF PROPOSED SCHEDULE IS NOT CONVENIENT FOR USAID, PLEASE CABLE FVA/PPE, J GILMORE IMMEDIATELY. SHULTZ

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ANNEX B

ZAMBIA PL. 480 TITLE I SELF-HELP MEASURES

FY 1977 - FY 1986

SELF-HELP MEASURE

FY: 77 78 79 80 81 82 83 84 85 86

INTRODUCTORY LANGUAGE

| | |
|---|----------------|
| <p>A. In implementing these self-help measures specific emphasis will be placed on contributing directly to development progress in poor rural areas and enabling the poor to participate actively in increasing agricultural production through small farm agriculture.</p> | <p>X X X X</p> |
| <p>B. The Government of the Republic of Zambia agrees to:</p> | <p>X X X</p> |
| <p>A. The Government of Zambia agrees to undertake self-help measures to improve the production, storage, and distribution of agricultural commodities. The following self-help measures shall be implemented to contribute directly to development progress in poor rural areas and enable the poor to participate in increasing agricultural production through small farm agriculture. NOTE: FY 1983 Agreement omits reference to storage.</p> | <p>X X X</p> |
| <p>A. The Government of the Republic of Zambia agrees to undertake self help measures to improve the production and marketing of agricultural commodities. The following self-help measures shall be implemented to contribute directly to development in underdeveloped rural areas and to enable the underprivileged to participate in increasing agricultural production through small farm agriculture.</p> | <p>X</p> |
| <p>A. The Government of the Republic of Zambia agrees to undertake self-help measures to maintain the movement toward the goals of increased food production and small farmer incomes through improvements in the marketing of agricultural commodities. The following self-help measures shall be implemented to contribute directly to development in under-developed rural areas, and to enable the underprivileged to participate in increasing agricultural production through small farm agriculture.</p> | <p>X X</p> |
| <p>B. In implementing these self-help measures, which complement the overall objectives of the Third National Development Plan (TNDP), greater emphasis will be placed on increasing agricultural production by small scale farmers. NOTE: FY 1984 Agreement substitutes "Government of the Republic of Zambia Expenditure Program" for "Third National Development Plan (TNDP)".</p> | <p>X X X</p> |

B-1

FY: 77 78 79 80 81 82 83 84 85 86

(a) Middle management personnel in the Ministry of Agriculture and Water Development, especially the Department of Agriculture, should continue to be trained in decision making, program implementation, administration, and the technical knowledge necessary to function effectively in government.

(b) Extension workers for village and regional level assignments should continue to be taught basics in agriculture and the diffusion of technology at the farm level.

(c) Research workers and research centers should continue to take advantage of the potentials for international cooperative efforts to compliment and strengthen those areas mentioned in the self-help measures related to research.

(d) Farmers should continue to be included in the extension and education efforts by such methods as village level training meetings, and demonstration of new technologies on locally owned lands.

10. Encourage research programs for the development of improved varieties of food crops and of new uses for food and feed crops and their by-products. These research programs will focus on applying useful technology on small production units so that the small farmers will have the opportunity to reap the research benefits, especially in the following areas:

X

B-3

(a) New stronger, and more diverse strains of corn should be developed to enhance overall corn production and to guard against further production shortfalls.

(b) The oil seeds program will be encouraged for such crops with proven potential as sunflower seeds. Research should be undertaken to find methods to efficiently produce, process, and utilize oil seeds for both edible oil and as a high protein feed for poultry.

11. Provide adequate budget allocations to the agricultural extension service to expand present training opportunities for small scale producers. As part of this effort the Government of the Republic of Zambia will:

XC*

* "C" indicates same or similar measure was included in Commodity Import Program agreement

FY: 77 78 79 80 81 82 83 84 85 86

(a) Increase training opportunities for emergent farmers offered by the Kalulushi Farm College, Chipembi Farm College and the Zambezi Training Farms

(b) Increase the number of two-year extension agents actively involved in support of the emergent farmers in the Kabwe and Mkushi rural districts. Emphasis by these extension agents will be placed on improving and expanding maize production.

- 12. Continue to expand the capacity and capability of the Research and Extension Branches within the Department of Agriculture in the Ministry of Agriculture and Water Development to generate and disseminate improved technology to the small scale farm sector.

xC

The following items will be considered in determining progress toward item 12 above:

- (A) An increase in real budget allocations and expenditures.
- (B) An increase in professional and non-professional staff positions.
- (C) An increase in yield rates after adjusting for other factors.
- (D) An increase in the percentage of professional staff with advanced training (degree and non degree).
- (E) An increase in the in-service training opportunities.

B-4

- 13. Continue to strengthen, by means of increased budgetary resource allocations and other supporting measures:

x

(B) The Research and Extension branches of the Ministry of Agriculture and Water Development.

The 1986 budgets will be increased in real terms above the 1985 levels for each of the above organizations. NOTE: See item 22 for parts (A) and (C).

- 14. Develop a program before 1986 to address the soil acidity problem in Zambia.

xC

21

FY: 77 78 79 80 81 82 83 84 85 86

AGRICULTURAL PLANNING CAPACITY

- | | | | | | | | | | |
|--|---|---|---|---|---|----------------|----------------|----------------|-----|
| 15. In cooperation with appropriate national/international organizations and the Government of the United States of America, namely the United States Department of Agriculture/United States Agency for International Development, conduct an official review of the current supply/distribution and trade data in the Agricultural Sector to determine completeness and validity for its utilization for economic development and related research analysis and projections and for Public Law 480 type programming. Particular emphasis will be given to updating supply/demand and trade data for commodities proposed for Public Law 480 programming. | X | X | X | X | X | X | X | | X |
| 16. Adopt procedures within the Ministry of Agriculture and Water Development to improve the gathering, analysis, and publication of agricultural statistics. In addition, the planning unit of the Ministry will continue to advise on marketing policies, develop marketing courses, and establish a market news service. | | | | | | | | X ^C | |
| 17. The Government of the Republic of Zambia will adopt procedures to improve the Ministry of Agriculture and Water Development's crop forecasting ability by improving the accuracy of the data base and the timeliness of the publication of the forecast. | | | | | | X ^C | X ^C | | X |
| 18. Through the Ministry of Agriculture and Water Development revive a regular market news service. | | | | | | X | X ^C | C | |
| 19. Reinforce the planning unit within the Ministry of Agriculture and Water Development charged with undertaking comprehensive annual and ad hoc reviews of agricultural producer prices and fertilizer subsidies. | | | | | | | X ^C | | |
| 20. The Government of the Republic of Zambia will continue to reinforce the Planning Unit within the Ministry of Agriculture and Water Development charged with undertaking comprehensive annual and ad hoc reviews of agricultural producer prices and maize and fertilizer subsidies. | | | | | | X ^C | X ^C | | X C |

B-5

111

FY: 77 78 79 00 01 02 03 04 05 06

XC

- 21. Develop a program to strengthen the capacity and capabilities of the Central Statistical Office within the National Commission for Development Planning in order that CSO generate the necessary data for sound policy analysis and decisions.

The following items will be considered in determining progress toward item 21 above:

- (A) A reduction in the length of time from the end of a given survey to the issuance of the report of that survey.
- (B) Increase in the number of studies and reports submitted to the Government of the Republic of Zambia.
- (C) Increase in the number of professional staff and survey supervisors.
- (D) An increase in the number of staff with advanced training (degree and nondegree).
- (E) An increase in the number of in-service training opportunities.
- (F) An increase in real budget allocations and expenditures.
- (G) An increase in the number of programmers and systems analysts.
- (H) An increase in the number of publications.

- 22. Continue to strengthen, by means of increased budgetary resource allocations and other supporting measures:

- (A) The Planning Unit of the Ministry of Agriculture and Water Development; and
- (C) The Central Statistics Office of the National Commission for Development Planning/Ministry of Finance.

The 1986 budgets will be increased in real terms above the 1985 levels for each of the above organizations. NOTE: See item 13 for part (B).

109

FY: 77 78 79 80 81 82 83 84 85 86

AGRICULTURAL PRICING AND SUBSIDY POLICY

23. Increase self-sufficiency in basic food crops through appropriate incentives and support to small farmers, including annual review of producer prices and their announcement in time to encourage production.

X X X X X
X

24. Continue recent efforts to adjust agricultural price policies and subsidies to encourage increased domestic production of food crops. As part of this effort, the Government of the Republic of Zambia will continue to:

xC

(A) Maintain the planning unit within the Ministry of Agriculture and Water Development to undertake a comprehensive study of the agricultural price policies of the Government of the Republic of Zambia and their relationship to costs of production, returns to producer, and levels of domestic agricultural production. The study will provide guidance to the Government of the Republic of Zambia during future decisions on pricing policy and subsidy adjustments.

(B) Determine and publish, on a timely basis, producer prices which are related to costs of production and which insure an adequate return on investment.

(C) Adopt a selective approach to subsidization of input costs which will provide emerging small and medium-size farmers with the necessary incentives to increase production of food crops.

(D) Adjust consumer subsidies on basic commodities, including maize, aimed at aligning retail prices more closely to producer prices.

25. (I) Continue to conduct a comprehensive review of maize producer prices and fertilizer subsidies to determine if there is sufficient incentive to reduce the prevailing maize production shortfalls; (II) consider during the course of the review the following factors: (A) Current production prices in the neighboring countries; (B) Self-sufficiency, (C) The cost of production plus a reasonable profit margin to producers and (D) Comparative costs of importation; and (III) Keep AID advised of the findings of the review during the preparation and complete these discussions with AID on agreed upon time schedule. (It is understood that discussions with AID will not include consideration of Ministry recommendations to cabinet).

xC

26. Adopt a selective approach to the subsidization of fertilizer and other input costs in order to provide all categories of farmers with the necessary incentives to increase the production of maize and to reduce subsidies to manageable levels.

xC

10

FY: 77 78 79 80 81 82 83 84 85 86

- 27. Continue with the policy to reduce consumer subsidies on maize and fertilizer by raising the respective consumer prices to align retail prices more closely to producer prices.
- 28. Continue with the policy to reduce progressively the per unit maize subsidy within a period to be agreed with AID by June, 1981.
- 29. Permit commensurate increases in maize producer prices in real terms which will stimulate production, without simultaneously enlarging Zambian budgetary deficits caused by differences between maize consumer and producer prices, utilize local currency attributable to this sales agreement to partially pay for increases in maize producer prices. This payment is to be adjusted on a declining graduated basis in accordance with a schedule to be adopted in consultation with AID on an agreed upon time schedule. The results of the review cited in 25 above will be instructive in this regard.
- 30. Conduct a review of producer prices, marketing and processing for cassava, millet and sorghum in order to commercialize these agricultural commodities.
- 31. In October of 1981, furnish AID with a statement of the progress the Government of the Republic of Zambia has made in carrying out the above measures. (Measures 27 - 30).
- 32. Continue to conduct a comprehensive review of all agricultural producer prices to (A) determine if there is sufficient incentive, especially for small rural farmers, to increase agricultural production, particularly maize, and (B) to implement timely, commensurate producer prices increase based on sound principles of agricultural economics.
- 33. Advise AID of such decisions in June of 1982.
- 34. Continue to make it a practice to announce a comprehensive set of producer price incentives for a range of agricultural commodities (for example: maize, wheat, rice, soybeans, sunflower, milk, meat, honey, fish, sorghum, cassava, millet, cotton, groundnuts, etc; these being illustrative but not comprehensive) early enough in the year to allow farmers to make their investment decisions which will sustain satisfactory levels of agricultural production.

x^C

x^C

x^C

x

x^C

x^C

x

x x

B-8

26

FY: 77 78 79 80 81 82 83 84 85 86

- 35. Continue to implement the phased feasible reduction in the GRZ's maize and fertilizer subsidy requirements in accordance with the principles and subsidy reduction schedules as announced by the Government of the Republic of Zambia. That is, by 1983/84 reduce by 50% the 1980/81 estimated per unit fertilizer subsidy and per unit maize handling subsidy.
- 36. Continue to provide appropriate incentives, especially in pricing structures, to farmers and marketing organizations for the encouragement of increased production in maize and other food crops needed to meet national requirements. The level of incentives should be determined through a careful review of production and marketing costs.
- 37. Advise AID of such decisions by June one (1), 1983. (Items 32, 34 and 36)
- 38. Continue to reduce the subsidies/restrictions present in the sale of fertilizers and of agriculture produce sold to millers or consumers taking into account marketing costs. In this regard the landed cost of agriculture produce and fertilizers will continue to be reckoned as a material factor.
- 39. Follow an economically rational pricing policy by:
 - (A) Continuing to improve local agriculture producer price relationships with due consideration given to the prevailing prices on the world market as well as Zambia's borders. The purpose of such efforts is to insure that sufficient incentives are provided to encourage production by the small scale farmer of those crops in which they have comparative advantage, such as sorghum, groundnuts, cotton, millet and cassava.
 - (B) Instituting regional prices by the 1987/88 crop year for major agricultural commodities for both producers and consumers which will reflect the costs of storage, transportation and handling.
- 40. Encourage efficient resource allocation by:
 - (A) Continuing to adjust the relative consumer price of food products to reflect the real costs by progressively reducing the Government of the Republic of Zambia's subsidies to fertilizer and maize handling. Subsidies are to be eliminated by 1988.

X

XC

X

XC

XC

B-9

13

FY: 77 78 79 80 81 82 83 84 85 86

(B) Continuing the move toward economic efficiency by eliminating subsidies (restitution payments) to cooperatives by 1988 in order that they might become economically viable in their own right.

(C) Encouraging managerial and economic efficiency in agricultural parastatals by removing subsidies by 1988.

xCz*

CREDIT TO SMALL FARMERS

- | | | | | | | |
|--|--|---|---|--|---|----|
| | | X | X | | X | X |
| 41. Provide at least \$2.0 million funding to the Zambian Agricultural Development Bank for the specific purpose of providing credit to small farmers for the purchase of production inputs. In addition, the Government of the Republic of Zambia will support technical assistance efforts for continuous review of credit delivery, repayment criteria and loan supervision, and the drafting/improvement of a credit, staff and physical facilities operations plan for the Agricultural Development Bank. | | | | | | |
| | | | | | | xC |
| 42. Continue to emphasize provision of credit to small farmers through appropriate financial institutions for the purchase of production inputs. | | | | | X | |
| 43. Encouraging the adoption of improved technology by the small farm sector by providing credit at economic rates beginning in 1985 which are aimed at maintaining the initial funds. | | | | | | X |
| 44. Continue to encourage efficiency in resource allocations by maintaining the progress toward the establishment of a positive real interest rate for both savings and loans. | | | | | | xC |
| 45. Complete those studies and analyses necessary to effect the merger to which the GRZ has agreed of the Zambian Agricultural Development Bank and the Agricultural Finance Corporation. The above studies and analyses, including specifically the new organizational structure, charter and operating procedures for issuing and collecting loans, will be made available to USAID/Zambia by July 1, 1986. | | | | | | X |

* "z" indicates same or similar measure included in Zambia Multi-Channel Agricultural Marketing Program agreement.

FY: 77 78 79 80 81 82 83 84 85 86

GRAIN STORAGE

46. Improve plant protection and grain storage facilities to reduce production and storage losses. This effort will include expansion of the storage and handling facilities of the cooperative unions and NAMBoard and the upgrading of extension efforts in grain and storage management.
47. Continue to improve grain facilities to reduce post-harvest losses. This effort will include expansion of the storage and handling facilities of the Provincial Cooperative Unions and NAMBoard.

X X

x^C

X

MARKET LIBERALIZATION

48. Encourage efficiency in marketing by allowing Cooperative Unions to sell agricultural commodities across provincial borders and allowing millers and processors to buy from their preferred sources.

X X

The above agricultural marketing liberalization measure will be implemented within one year of the signature of this agreement.

x^C

49. Encourage efficiency in transportation by eliminating subsidies to road transportation parastatals, and requiring that they charge full cost pricing.

Subsidies to road transportation parastatals will be eliminated completely by December 31, 1987, by means of yearly phased reductions as follows:

Year One -- total reduction of road transportation subsidies in calendar year 1986 by at least one third of the 1985 level;

Year two -- total reduction of road transportation subsidies in calendar year 1987 by at least two-thirds of the 1985 level;

Year three -- transportation parastatals to receive no subsidies in calendar year 1988.

x^C

50. Allow licensed private trading in all agricultural commodities throughout Zambia.

B-11

50

FY: 77 78 79 80 81 82 83 84 85 86

Procedures for licensing private traders will be adopted by the concerned GRZ Ministries and Agencies and the criteria for licensing promulgated to the private sector by December 31, 1985.

This market liberalization measure will be fully implemented, as evidenced by the issuance of licenses, by April 1, 1986.

xCz

- 51. Complete studies of major agricultural parastatals and statutory marketing boards to determine the economic viability or non-viability of each, and to recommend solutions to identified problems.

Studies of at least three of the following parastatals and marketing boards will be completed and made available to USAID/Zambia within one year of signature of this agreement: BOP, National Milling Company, Contract Haulage, Zambia Pork Products, Lintco, Tobacco Board, and the Cold Storage Board.

- 52. Complete a study of NAMBoard to determine the organizational structure needed to perform the role of holder of national security stocks and buyer of last resort.

X

The above study will be completed and made available to USAID/Zambia within one year of signature of this agreement.

X

LOCAL CURRENCY PROGRAMMING:

- 53. In October the Government of the Republic of Zambia will furnish AID with a statement of the progress the Government has made in carrying out the above measures. This Self-Help Report will include a detailed report on local currency attributions.

X

Z

X

- 54. The Government of the Republic of Zambia will utilize the local currency proceeds attributable to this agreement to support mutually agreed agriculture projects and programs; for example, Agriculture Training Institutions, Agriculture Research, Department of Marketing and Cooperatives and other expenditures in the Ministry of Agriculture's recurrent budget. The utilization of the local currency attributions is more fully described in the agreed minutes of the negotiations.

X

- 55. Establish, in conjunction with USAID/Zambia, new procedures for allocating and utilizing the local currency generated under USAID/GRZ assistance agreements.

X

FY: 77 78 79 80 81 82 83 84 85 86

Mutually agreed upon procedures will be adopted within three months of the signature of this agreement.

NOTE: The above items on local currency programming should be read in conjunction with the table "Local Currency Provisions". The latter includes separate language from Section VI of the sales agreement.

X

OTHER

X X X X X

56. Request the assistance of appropriate international organizations to implement studies of its agricultural programs and policy, especially of the marketing system, in order to improve efficiency and to achieve optimum production levels.

57. Examine means of decentralizing administration of rural development to improve inter-ministerial cooperation and local government participation at the local level.

X

58. Expand domestic oilseed crushing capacity to permit self-sufficiency in vegetable oil production.

X

59. Expand and upgrade the distribution of goods and services within Zambia which will directly benefit the rural poor population.

X^C

60. Continue to adhere to the Government of Zambia's Three Investment Plan, 1981 to 1982.

X

61. Appropriately increase the Recurrent Departmental Charges budget allocations in the Ministry of Agriculture and Water Development with the view towards more effectively supporting small farm development.

X X

ANNEX C

LOCAL CURRENCY PROVISIONS

ZAMBIA PI. 480 TITLE I PROGRAM

FY 1977 - FY 1986

FY: 77 78 79 80 81 82 83 84 85 86

ECONOMIC DEVELOPMENT PURPOSES FOR WHICH PROCEEDS ACCRUING TO IMPORTING COUNTRY ARE TO BE USED:

- | | |
|---|----------------------------|
| <p>A. The proceeds accruing to the importing country from the sale of commodities financed under this agreement will be used for financing the self-help measures set forth in the agreement and for the following economic development sectors: agriculture and rural development. NOTE: FY 1977 does not include reference to "rural development" sector.</p> | <p>X X X X</p> |
| <p>A. The proceeds accruing to the Republic of Zambia from the sale of commodities financed under this agreement will be used for financing the self-help measures set forth in the agreement, and for development in the agriculture and rural sectors in a manner designed to increase the access of the poor in the recipient country to an adequate, nutritious and stable food supply.</p> | <p>X X X X X X</p> |
| <p>B. In the use of proceeds for these purposes emphasis will be placed on directly improving the lives of the poorest of the recipient country's people and their capacity to participate in the development of their country.</p> | <p>X X X X X X X X X X</p> |
| <p>C. The Government of the Republic of Zambia will decide jointly with USAID/Zambia the utilization of the local currency attributable to this loan Agreement and meet periodically to review the progress made to date. The priorities are: To support agriculture producer price incentives; to strengthen the agricultural infrastructure through assistance to the marketing system; and to assist with the improvement of agricultural management and technical capabilities.</p> | <p>X</p> |
| <p>C. The Government of the Republic of Zambia will decide jointly with AID the utilization of the local currency attributable to this loan agreement and will meet periodically to review the progress made to date, or to adjust the program as may be required. The priorities are:</p> | |

C-1

FY: 77 78 79 80 81 82 83 84 85 86

1. To support agricultural incentives;
2. To strengthen the agricultural infrastructure through assistance to the marketing system, including cooperatives;
3. To increase the availability of agricultural credit at economic rates by strengthening ZADB, and other agricultural credit institutions through the allocation of local currency generated by this agreement; and
4. To assist with the improvement of agricultural management and technical capabilities.

The specific levels of local currency attribution are not implied by the priorities above. The absorptive capacity for local currency varies by institution.

X X

- C. Within the purposes agreed upon in this Item VI, use of the sales proceeds will be decided upon jointly by representatives of the Government of the Republic of Zambia and of AID, who will meet periodically for that purpose, to review progress made; or, within the terms of this agreement, to adjust the program of uses under this agreement. The priority areas within the uses stated in this Item VI, although not necessarily in rank order based on projected levels of expenditures hereunder, are:

1. To support agricultural incentives;
2. To strengthen the agricultural infrastructure through assistance to the marketing system, including Cooperatives;
3. To increase the availability of agricultural credit at economic rates by strengthening agricultural credit institutions through the attribution of local currency generated by this agreement, and
4. To assist with the improvement of agricultural management and technical capabilities.

X

ANNEX D

DONOR PARTICIPATION IN POLICY REFORM MEASURES IN ZAMBIA

| <u>PROBLEM AREA</u> | <u>POLICY MEASURE</u> | <u>DONOR PARTICIPATION</u> |
|--|---|--|
| Overvalued Exchange Rate | Devaluation (1983) Foreign Exchange Auction (1985) | IMF, IERD IMF, IERD, USAID, UK, CIDA |
| Consumer Price Subsidies | General Price Decontrol | IMF |
| Interest Rate Subsidies | Increase Lending/Deposit Rates | IMF |
| Low Agricultural Producer Prices | Develop Producer Incentives Geared to Border Prices | IERD, USAID, SIDA, CIDA |
| Inefficient Agricultural Marketing | Transfer Marketing to Cooperatives and Private Traders | IERD, USAID, SIDA, FAO |
| Insufficient Agricultural Technology | Increase Funding for Research and Extension | IERD, USAID, SIDA |
| Inadequate Budget Allocations for Agriculture | Phase Out Maize and Fertilizer Subsidies | USAID, IMF, IERD |
| Weak Capacity for Policy Analysis and Planning | Improve Data Analysis, Planning and Implementation Capacity | USAID, IERD, SIDA, CIDA |

ANNEX E

PERSONS CONTACTED

WASHINGTON, D.C.

| | |
|---------------------|--------------|
| Mr. L. Pompa | AID/AFR/SA |
| Ms. G. Frazier | AID/FVA/FFP |
| Ms. D. Rosa | USDA |
| Mr. P. Reiley | USDA/ERS/IED |
| Mr. D. Walker-Riggs | USDA/FAS |
| Mr. R. Peterbaugh | USDA/FAS |
| Ms. C. Delaplane | USDA/FAS |
| Ms. V. O'Donnell | USDA/FAS |
| Mr. D. Pickett | USDA/FAS |

GRZ

| | |
|------------------|--|
| Mr. F. Siame | Senior Undersecretary, Ministry of Finance |
| Mr. Y. Libakeni | Permanent Secretary, Ministry of Cooperatives |
| Mr. F. Mbewe | Director of Cooperatives, Ministry of Cooperatives |
| Mr. M. Lungu | Director, Planning Division, Ministry of Agriculture and Water Development |
| Mr. Kasungu | Economist, Ministry of Finance |
| Mr. P.W. Silavne | Undersecretary, Ministry of Agriculture and Water Development |
| Ms. N. Sialumba | Economist, Ministry of Finance |

USAID/Zambia

| | |
|------------------|--|
| Mr. J. Patterson | Mission Director |
| Mr. L. Dean | Deputy Mission Director |
| Dr. J. Snell | Agricultural Economist |
| Mr. J. Jenks | Regional Food for Peace Officer |
| Mr. W. Cook | Agricultural Officer |
| Mr. V. Chella | Assistant Agricultural Economist |
| Mr. L. Simonda | Assistant Agricultural Development Officer |

Other

| | |
|------------------|--|
| Mr. U. Mbanefo | Representative, IBRD |
| Mr. Chilomo | Research Officer, Zambia Cooperative Federation |
| Mr. H. Swift | EEC Delegate |
| Dr. J. Milimo | Director, Rural Development Studies Bureau, University of Zambia |
| Dr. M. Ndulo | Chairman, Department of Economics, University of Zambia |
| Dr. R. Krenz | Agricultural Economist, ZATPID Project |
| Dr. M. Applegate | Chief of Party, ZATPID Project |
| Dr. E. Loher | Agricultural Adviser, EEC |
| Mr. J. Hartley | Economic Officer, U.S. Embassy |
| Mr. J. Hicks | AID Representative, Malawi |
| Mr. J. O'Rourke | Food For Peace Officer, USAID/Kenya |

ANNEX F

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ANNEX G

AGREEMENT ON PROCEDURES FOR ALLOCATION
AND USE OF LOCAL CURRENCIES GENERATED UNDER
USAID FINANCED ASSISTANCE PROGRAMS

WHEREAS counterpart funds are generated in Zambia by virtue of various assistance programs financed by the Government of the United States, acting through the Agency for International Development (hereinafter referred to as USAID), including Food-Aid Programs, Commodity Import Programs, and other grant programs;

WHEREAS USAID and the Government of the Republic of Zambia (G.R.Z) are desirous of setting up mutually agreed-upon procedures for allocating, disbursing and accounting for the use of such counterpart funds;

WHEREAS the amounts of such counterpart funds generated each year under USAID financed assistance programs are expected to increase over the 1985--1990 period from present levels, which will necessitate flexible and responsive procedures for allocation and use of counterpart funds;

WHEREFORE, the parties hereto agree as follows:

PART I--GENERAL

1. This Agreement, as detailed below, sets out agreed procedures for the allocation and disbursement of, and accounting for counterpart funds generated in accordance with the terms of various USAID-financed assistance programs in Zambia. The provisions of this Agreement will apply to the allocation and use of all counterpart funds generated under Agreements entered into by USAID and the G.R.Z. after the effective date of this Agreement (unless otherwise provided for in the applicable Agreement), and to counterpart funds generated under Agreements in effect but not specifically allocated at the time this Agreement is signed, unless otherwise agreed by the parties. The reporting and accounting requirements of this Agreement will be applied, to the maximum extent applicable, to counterpart funds generated and specifically allocated prior to the effective date of this Agreement.

2. All counterpart funds within the scope of this Agreement will be deposited by the G.R.Z. in the special account No. 841, entitled "1983 Maize Grant" in the Bank of Zambia in accordance with the terms and conditions of the Agreement under which the funds are generated. Insofar as counterpart funds generations

from more than one Agreement are to be deposited into the same special account, the G.R.Z. will maintain separate records reflecting clearly and unequivocally the sources of funds deposited into the special account by Agreement number, and by depositor.

3. It is the responsibility of the G.R.Z. Ministry of Finance to ensure that all counterpart funds are deposited in accordance with the governing Agreements, and in accordance with the timetables for deposit of counterpart funds specified in those Agreements.

PART II--ALLOCATIONS FOR AGREED PROJECTS/ACTIVITIES

4. Counterpart funds generated under USAID financed assistance programs to be used for economic development purposes will only be allocated for use by mutual agreement of the parties based on the submission and review of specific project or activity proposals. In cases in which the parties have agreed to general uses to be made of the counterpart funds as part of the Agreement under which the funds are generated, or by means of some other programming document(s), the proposals for specific use of the funds must fall within those agreed general uses, unless otherwise agreed by the parties.

5. The organization or agency which is to be responsible for carrying out a project/activity using counterpart funds and for managing those funds shall submit to USAID/Zambia a completed project/activity description (Annex A) fully describing the project/activity, including the project/activity rationale, its estimated cost and duration, and operational modalities. The proposal will also be accompanied by a Special Provisional Warrant form, for G.R.Z. budgetary purposes. Project/Activity descriptions will reflect concurrence(s) in the proposal by the applicable Ministry(ies) or Office(s) in charge of the originator's activities, and concurrence from the Ministry of Finance. For the purposes of this Agreement, the following Ministries/Offices will provide concurrence on proposals submitted by the following organizations and agencies:

a) Ministry of Agriculture and Water Development:

ZADB
 USAID/GRZ ZATPID Project No 611-0075
 USAID/GRZ ZAMARE Project No 611-0201
 Allocations to MAWD itself;

b) Zambia Cooperative Federation (ZCF):

Primary Societies
 Cooperatives
 Allocations to ZCF itself, and its subsidiaries;

c) Office of Contingency Planning:

Voluntary Agencies

WFP

UN Organizations

Allocations to Contingency Planning itself;

d) Ministry of Finance:

Direct budgetary support.

Other Ministries and/or Offices, as may be agreed upon subsequently, will provide concurrence for proposals for use of counterpart funds by other organizations or agencies not mentioned above.

6. Upon receipt of a project/activity summary from an organization or agency for the use of counterpart funds, the Ministry of Finance will, within fifteen (15) days, either transmit the proposal to USAID/Zambia for approval/non-approval, or return that project/activity summary to the originating office detailing the reasons for non-concurrence in the project/activity.

7. USAID/Zambia will review proposals submitted and will notify the Ministry of Finance, by letter, within fifteen (15) days, of approval or non-approval of the project/activity, with a copy to the proposal's originator.

8. Upon receipt of notification from USAID/Zambia of project/activity approval, the Ministry of Finance will within seven (7) days release the funds from the special account to the organization or agency responsible for implementing the project/activity. Other than for purposes of disbursing funds from the special account for such trust funds maintained by USAID/Zambia, no disbursement of funds shall be effected through any other mechanism other than the one described in this Agreement.

9. In the event that an USAID-financed assistance Agreement specifies that a certain amount or percentage of the counterpart funds generated under the terms of that assistance Agreement will be released to USAID/Zambia for such purposes as may be needed to support the bilateral Mission and its activities in Zambia (trust funds), the funds specified in that Agreement will be promptly released to USAID/Zambia upon written request to the Ministry of Finance.

PART III--EXPENDITURES OF FUNDS

10. Once counterpart funds are released to an organization or agency for an approved project/activity, the implementing agency will need no further authorization to expend those funds

in accordance with the approved budget for the project/activity. Expenditures by the implementing agency will be made in accordance with established G.R.Z. procedures or the established procedures of the implementing agency if it is a non-G.R.Z. entity. In the event that funds are made available to organizations which are not entities of the G.R.Z., the agreement between the G.R.Z. and that organization (the project/activity summary) will contain appropriate language to ensure that the funds provided will be used in accordance with this Agreement, and the Agreement under which the counterpart funds were generated.

11. The users of counterpart funds may keep those funds in appropriate account(s) in the bank or financial institution of their choice.

12. Any interest that accrues to organizations or agencies implementing projects/activities using counterpart funds as a result of the terms of deposit of those funds will be expended for the same general purposes as the original counterpart funds, and the accounting thereof will be reflected in the bi-annual reports prepared by the implementing organization or agency.

13. Unless otherwise agreed by USAID and the G.R.Z., any funds remaining uncommitted by an implementing agency by the project/activity completion date specified in their approved proposal will be refunded within thirty (30) days to the special account.

PART VI--REPORTS AND ACCOUNTING

14. The Ministry of Finance will submit to USAID/Zambia, on a monthly basis, copies of bank statements, and evidence of all deposits and disbursements with regard to all counterpart funds managed by it. In addition, the Ministry of Finance will submit to USAID, on a bi-annual basis, beginning with the date of effectiveness of this agreement, Summary Financial Status Reports (Annex C) detailing all deposits to, and allocations and disbursements from the special account.

15. The G.R.Z. will ensure that organizations and agencies implementing projects/activities financed from counterpart funds special accounts prepare and submit bi-annual comprehensive reports detailing and accounting for the expenditure and use of such funds provided to them. These reports will be prepared in accordance with the format(s) contained in Annex (B) hereto and will be submitted to the Ministry of Finance with a copy to USAID/Zambia. The G.R.Z. agrees that the implementing agreements (project/activity

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summaries) with all organizations that are not agencies of the G.R.Z. will include provisions requiring the implementing agency to submit these bi-annual reports.

16. The G.R.Z. agrees that USAID, or its designated agents, shall have the right at all reasonable times to audit and inspect all documentation and records pertaining to the allocation, use, and expenditure of, and accounting for counterpart funds, and to inspect activities financed from such funds. The G.R.Z. will ensure that these rights of audit and inspection are fully understood by all G.R.Z. agencies implementing projects/activities financed from counterpart funds and that these rights are agreed to and included in all agreements with non-G.R.Z. implementing agencies allocated counterpart funding.

17. In the case of any expenditure of counterpart funds which is not supported by valid documentation in accordance with this Agreement, or which is not made or used for agreed purposes under this Agreement or the applicable project/activity summary, the G.R.Z. agrees, upon the request of USAID, to promptly redeposit into the appropriate special account from non-USAID sources an amount equal to the amount of funds which have been misused or whose use has not been properly documented; such amount to be used thereafter for agreed-upon development purposes in accordance with this Agreement.

18. For the purposes of ensuring that non-G.R.Z. organizations have in place adequate financial management and accounting procedures which will enable these organizations to manage and account for counterpart funds released to them in accordance with this Agreement, and the Agreement under the terms of which the funds were originally generated, the Ministry of Finance and USAID may jointly agree for the G.R.Z. to contract with private accounting firms to review those organization(s)' management and accounting procedures to determine the adequacy of those controls, or for other purposes relating to the accounting for and management of counterpart funds as may be agreed to by USAID and the Ministry of Finance, which contracts will be financed from counterpart funds resources.

19. The Ministry of Finance will designate specific officials within that Ministry (a counterpart funds Secretariat) to be responsible for all monitoring of the special account, and other counterpart funds issues, and for providing the accountability detailed in this Agreement.

PART VI--FINAL PROVISIONS

20. USAID and the Ministry of Finance will meet periodically as needed to discuss matters pertinent to this Agreement. The parties agree to appoint coordinators for counterpart funds matters.

21. No provision of this Agreement will be construed as modifying or superceding any of the terms and conditions of any assistance Agreement which requires the generation of counterpart funds. In the event of a conflict between the terms of this Agreement and the terms of an Agreement which requires the generation and deposit of counterpart funds into a special account, the terms of the latter Agreement shall prevail.

22. This Agreement is effective as of the date of last signature hereto.

23. This Agreement may be terminated by either party at any time upon sixty (60) days written notice. In the event this Agreement is terminated pursuant to this clause, the provisions hereof will continue nevertheless to apply with respect to counterpart funds generated, deposited, or disbursed from the special account prior to the effective date of termination, unless otherwise agreed by the parties.

IN WITNESS WHEREOF, the parties, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the date of last signature below.

THE REPUBLIC OF ZAMBIA

THE UNITED STATES OF AMERICA

BY:

BY:

TITLE:

TITLE: USAID DIRECTOR

DATE:

DATE:

ANNEX A

COUNTERPART FUNDS PROJECT/ACTIVITY DESCRIPTION

Project/Activity Title

Description of Project/Activity:

Rationale for Project/Activity:

Estimated Project/Activity Cost:

Project/Activity Duration: (to include date of last expenditure of funds)

Operational Modalities: (a description of which office/department/board/organization will control the funds; in which accounts the funds will reside; what the funds will be used for; procedures for expenditures; etc)

Reporting on Useages of Funds: (agreement by the parent Ministry or Office that the office in charge of the activity will submit bi-annual comprehensive reports accounting for funds made available to them, to the Ministry of Finance with a copy to USAID/Zambia)

Accountability: (statements indicating that the office in charge of the activity agrees to keep the Ministry of Finance and USAID/Zambia appraised of the progress of implementation of this activity, and that the office in charge of the project/activity agrees that USAID/Zambia retains the right to inspect and audit all records and documentation pertaining to this activity at any reasonable time.)

Office in Charge of Activity:

GRZ Parent Ministry/Office Directly Responsible for Activity:

The assistance described herein is hereby requested from USAID counterpart funds.

For (Office in Charge of Activity)

_____ title _____

_____ date _____

Seen and Approved
for (Parent Ministry/Office)

_____ title _____

_____ date _____

Authorised
For Ministry of Finance

_____ title _____

_____ date _____

Maximum length: 2 pages

Budget: (attached)

Special Provisional Warrant: (attached)

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ANNEX B

BI-ANNUAL REPORT ON THE EXPENDITURE AND USE OF COUNTERPART FUNDS

IMPLEMENTING AGENCY:

PROJECT TITLE OR IDENTIFICATION:

REPORT COVERING THE PERIOD:

I. ALLOCATIONS OF FUNDS:

| | | | | |
|--------------------------|---|-------|-------|-----------------------|
| --Original Allocation: | K | _____ | _____ | (date funds received) |
| --Subsequent Allocation: | K | _____ | _____ | (date funds received) |

--Total allocations: K _____

--Bank and Account No. where funds are kept: _____

II. EXPENDITURES OF FUNDS:

| | | | | |
|------------------------------------|---|-------|-------------|--------|
| --Disbursements as of last period: | K | _____ | | |
| --Disbursements this period: | K | _____ | | |
| --Total disbursements: | K | _____ | as of _____ | (date) |
| --Undisbursed balance: | K | _____ | as of _____ | (date) |

III. DETAILS OF DISBURSEMENTS THIS PERIOD: (listing attached)

III. SIGNATURE OF AUTHORIZED OFFICIAL

NAME:
TITLE:
DATE:

ANNEX H

SOIL ACIDITY AND LIMING

The 1981 CIP Loan Paper prepared in CY 1980 reviewed the status of soil fertility research. The team classified the level of research on fertilizer as adequate and well ahead of most other developing countries in Africa. "Crop responses to NPK and S have been identified" (Zambia FY 1981 CIP Loan, p. 64). It was noted that boron on cotton is necessary on some soils. It was noted also that lack of involvement of the fertilizer distribution system in agronomic research on fertilizer was a serious deficiency. (N.B. This was drafted in August 1980 while NAMBoard had a complete monopoly on fertilizer distribution. Later cooperatives were allowed to retail fertilizer). The analysis noted "crop response to applications of lime is significant at the lower soil pH levels, and at these levels the crop response to lime can exceed the response to NPK. Although limestone deposits have been identified in all of the provinces, Zambia does not have a lime industry. A plan for developing a lime quarry and distribution network for agricultural use could be a highly successful USAID agriculture project."

Some data available on response of maize, cotton and groundnuts to lime were presented in the 1981 report in support of the conclusions on effects of lime application. The comment was made that:

"Nitrogen, phosphate and potash plus sulfur and some boron are receiving all the promotional activities. There is not a liming industry, although it was reported that good calcium carbonate deposits are available in each of the provinces."

^{1/} While fertilizer response research at medium level application rates were reported, functions at higher level were unavailable. Similar conclusions were reached in the 1978 Agriculture Sector Assessment prepared by Dean Tuthill, et. al. for AID.

Response of Maize, Seed Cotton
and Groundnuts to Lime

| | | | | |
|----|---------------|--|------------------------|----------------|
| A) | Lime Kg/ha | Maize - yield 90 kg bags/ha (PH 4.5) | | |
| | | <u>Monze</u> | <u>Magoye</u> | <u>Misamfu</u> |
| | 0 | 26 | 5 | 8 |
| | 1000 | 47 | 28 | 19 |
| | | Seed cotton - yield KG/ha (PH 4.6) | | |
| | | <u>1968/69</u> | <u>1969/70</u> | |
| B) | 0 700 | 923 1622 | 982 1253 (residual) | |
| | | Groundnuts - Makulu Red - Yield Kg/ha (PH 4.7) | | |
| | | <u>Magoye</u> | | |
| C) | 0 2000 | 1123 2023 | | |

Source: 1981 CIP. p.169

If these data are anywhere near accurate, the return to liming would be very high especially if done on a scale large enough to achieve major scale economies in handling lime. The data on the above table show returns of nearly 2 tons of maize per ton of lime, a large scale method of application that would mean the equivalent of about \$10 of maize for \$1 of liming cost. Value of marginal returns on seed cotton and groundnuts for each dollar spent for lime appears to be even better. This contrasts sharply with the generally disappointing returns to fertilizer (1981 CIP PAAD PP 64,65, 168, 169). While the acidity problem is not the total answer to the meagre response to fertilizer in many areas, this data indicate it clearly is a contributing factor.

The 1981 CIP goes on to point to data and analytical deficiencies for management of the fertilizer supply and distribution. "Accurate base data are not available for managing a successful fertilizer marketing organization. Data are needed for understanding the farmer and his markets, sales forecasting, efficiency of applications and to identify constraints. Information is available in the present system but not in a ready-to-use form. The CIP team recommends that the in depth study include an analysis of the documentation procedures and outline a system of reporting essential base data." (1981 CIP p.65)

1/ The team proposed support for a fertilizer study which however was not carried out because of the high estimated cost. Ultimately an FAO study was commissioned and completed in 1985.

ANNEX I

GOVERNMENT PLANS

Plan Periods

| | |
|-----------|---|
| 1964-1965 | Emergency Plans |
| 1965-1966 | Transitional Plan |
| 1966-1970 | First National Plan Period |
| 1971 | Consolidation |
| 1972-1976 | Second National Plan Period |
| 1977-1978 | Interim Plan Period |
| 1979 | Delay start of Second Plan |
| 1980-1984 | Second Plan Period |
| 1985 | Extension of Second Plan Period since TNDP was not yet ready |
| 1986-1990 | Prospective TNDP period: apparently may still be delayed one year |

Source: TNDP Act 1979 p.iii and verbal information on current status of TNDP and likely scheduling.

The stated objectives of the first plan were to "minimize the inherited imbalance between the urban and rural sectors, develop production in agriculture to increase rural incomes and reduce the country's dependence on copper exports". The stated objective of the Second National Development Plan included "improving rural standards of living, creating employment opportunities in rural areas in order to counteract the drift of population to urban areas, increasing the contribution of agriculture to GDP, and developing self-sufficiency in staple foods to create a self-reliant and progressive rural society."

Growth in Agriculture

Production of major commodities during the first plan period was a major disappointment. However, growth during the second plan period (1971-1976) leading up to the initiation of PL 480 Title I was impressive measured by marketings (000 MT).

Agricultural Marketing in Thousand MT

| | <u>1965</u> | <u>1971</u> | <u>1976</u> |
|-----------------------|-------------|-------------|-------------|
| Maize | 273 | 340 | 750 |
| Rice (paddy) | - | 0.2 | 2.1 |
| Groundnuts | 7.5 | 6.8 | 9.5 |
| Sugarcane | - | 331 | 780 |
| Fruits | 2.4 | 5.6 | 6.4 |
| Vegetables | 13.0 | 24.1 | 30.0 |
| Seed Cotton | 2.1 | 1.7 | 3.9 |
| Wheat | - | 0.0 | 3.9 |
| Sunflower | - | 0.01 | 16.1 |
| Soybeans | - | 0.0 | 1.0 |
| Beef | 12.4 | 13.2 | 15.9 |
| Pork | 0.7 | 1.6 | 3.5 |
| Poultry (dressed) | 1.2 | 6.7 | 21.5 |
| Eggs (million eggs) | 23 | 77 | 181 |
| Milk (million litres) | 20 | 16 | 12.7 |
| Tobacco | 9.1 | 6.3 | 6.5 |

Source: TNDP p. 140

During the FNDP, significant growth accrued only for sugarcane, fruits and vegetables, pork and poultry products (largely import substitutions). In the second plan period, marketed output doubled for maize, sugarcane and cotton. Wheat, sunflower and soybeans were introduced as new crops and began to show substantial production. Livestock production, especially pork and poultry, continued an impressive growth rate. Milk continued the decline of the first period.

In the SNDP agricultural production grew at a 5-6% annual rate with the commercial sector growing at 9.5% and the subsistence sector at 1.1%. The agriculture share of GDP increased from 13.7% to 14.2%. However, contrary to intrasectoral objectives of enhancing the subsistence section, it declined from 11.1% to 8.7% of GDP while the commercial sector grew from 2.6% to 5.5% of GDP. Traditional farmers did make notable progress in some areas. Their share of cotton grew to 90% (while raw cotton outputs increased by 125%) and the area in maize in traditional areas increased from 40% to 50% of the total, (data from a TNDP paper of October, 1979, Chapter VIII.)

The TNDP was delayed because of the precipitous decline in copper prices, rise in oil prices and international economic difficulties. It was duly noted that, while planning had been weak, no implementation and implementation monitoring was a more serious obstacle to achievement of objectives. While the public sector was to continue to "occupy the heights", the private sector must play a greater role in the transition from "capitalism to socialism". Further, a shift in investment pattern must be made to favor "agriculture, industry and mining". That is more emphasis on the productive sectors and less on the social sectors (foreward to the TNDP by the President).

The 1976-1979 period was one of sluggish growth and serious foreign exxchange and domestic financial difficulties arising from the disruption in Zambian supply routes (to the sea), the oil crisis,, world recession and collapse of copper prices. In this situation the principal preoccupation of the GRZ at the end of the SNDP, the interim 2 years (1977-1978) and at the time the TNDP was being written (1979) continued to be with balance of payments and internal financial problems. The terms of trade had dropped from 94 in 1966 (1969 = 100) to 36 in 1976 (TNDP p.8). However, in preparation of the TNDP, the GRZ began to look beyond the crisis. Beginning in 1974 government expenditure to the productive sectors had begun to drop precipitously (from 24% in 1979 to 12% in 1976), while social sector increased from 14 to 18%. The period from 1965 to 1976 had been one of assumption by governments of an increasing role in the economy. A major part of the industry and commerce had been nationalized. In the 1968 reforms the government acquired control of 26 major companies in wholesale, retail, industry and transport followed by acquisition of majority company control of mining companies and partial control over several new industries and financial institutions. In 1969 further reform gave the government increasing control over mining and ultimately, after 1973, it became complete.

In 1972 retail trade was reserved solely for Zambians. Parastatals were rapidly created. In 1975, in another watershed decision all land freeholds were abolished and all vacant or underdeveloped land reverted to the State.

In 1978 the financial losses achieved such serious proportions that assistance was sought from the IMF, other multinational and bilateral donors. It was decided as the TNDP was being written that the economic malaise is far deeper than that attributed to collapse of copper prices and a reorientation of the country's economic strategy and social and economic priorities is called for (TNDP May 1979, pp. 17-19).

The TNDP document proceeds from this to state the objectives of the TNDP which stress the use of improved planning to attain socialism, including consolidation of government control.

While the existing conditions warrant the existence of private sector and call for economic incentives, this must be with a framework of the humanistic society and the main thrust must be strengthening the commanding public sector role (ibid p. 23).

At the same time the establishment of agriculture and the rural population and employment as primary targets is strongly stated.

The 1980 annual plan strategy for agriculture stresses improved planning.

In agriculture strengthening:

- o Extension service especially for small farmers
- o Medium- and small-scale irrigation to permit year round production
- o Develop agricultural research on plant and animal diseases. (Under the agricultural sector chapter multi-disciplinary teams emphasized dealing with cereals, tillage, soil fertility, oilseeds, legumes, plant protection, vegetables).
- o Adequate credit for all farmers
- o Studies leading to opening large scale production in all areas (the latter apparently refers to state farms). (1980 Annual Plan, pp. 13-15, 19, 20.) Extension is to place more emphasis on small scale producers and the Lima program (a 1/4 ha production unit).

However, parastatals continue to receive a major part of the total agricultural budget, (ibid pp. 17, 21, 22).

1981 Annual Plan reported GDP growth in 1980 of 0.9%. Though improved over earlier year declines this was still far short of the 4% target. Agriculture and manufacturing were the principal growth sectors, (agriculture + 8.5% and manufacturing + 4.6%).

The BOP was considerably worse because of the worsening trade balance (a sharp increase in imports with little changed in exports). The total investment in 1980 was K521 million of which parastatals accounted for K293 million, government K194 million and private sector only K34 million, (1981 Annual Plan pp. 3-11).

Under the sectoral plans of the 1981 general plan, the following are emphasized:

- "(a) Large scale state farms (2 per province with 20,000 ha each. Details on each are contained in the report).
- "(b) Rural reconstruction centers labelled cooperatives.
- "(c) Zambia National Service production units reinvigorated.
- "(d) Producer cooperatives - collective supply of inputs and marketing of services.
- "(e) Farmers cooperating in production by sharing production services.
- "(f) Large commercial farming-improved incentives include input subsidies, eliminate duties on farm machinery, regular review of producer crop prices to insure incentives while being conscious of consumer prices (ibid pp. 14-15).

Under agriculture sector plans:

- o Reduce levels of parastatal subsidies both on production and processing.
- o More credit especially for small farmers. It was reported that the ADB had been established and will be operational in 1982.
- o Agricultural research: Long-term crop breeding to increase yields (30% increase in research budget; K800,000, K2,000,000 to be used in conjunction with USAID project).
- o Extension emphasizing better use of inputs and production practice, K6 million budgeted with K2.5 million of this for training).
- o Improved marketing strategy, using CIDA and NAMBoard funds. Following the decision to decentralize marketing and introduce provincial marketing unions, it was considered necessary to allocate K1.6 million to old and new cooperative unions to take over responsibility from NAMBoard. This is in addition to K3.1 million allocated to the Department of Marketing and Cooperatives for ongoing projects.

The annual plan includes detailed descriptions of the land planned for state farms. An interesting aspect is the widespread existence of soil acidity problems and recognized need for liming of these lands to be productive.

1982 Annual Plan

The GDP declined by 1.8% in 1981 due largely to continued economic difficulties in the mining sector. GDP in 1981 was only 94% of the 1977 level; terms of trade (1970 = 100) here to an all time low of 31 as import prices rose by 20% and export prices declined by 2% (1982 Annual Plan p. 11).

Inefficiency of the parastatals was recognized and early in 1982 the President announced several steps to cope with this situation. These included provision of three public sector undertakings: (i) Zambia National Tender Board, (ii) Legal Service Corporation, and (iii) Zambia National Audit Services. The objective is for these three institutions to assist parastatals and become more efficient (ibid pp. 11, 12).

Major agriculture approaches include:

- (a) Strengthening extension services
- (b) An increase in area tilled
- (c) Timely supply of inputs
- (d) Appropriate produce price and incentive adjustments
- (e) Further development of state farms and other production units
- (f) Lima program, etc., to publicize targets and improvement methods.

Emphasis continues on small farms, with adequate credit and inputs and adequate incentives for all farmers.

The Agriculture Sector

Party and Government considers the agricultural sector should have top priority as the cornerstone of a strong and self sustaining economy. Rural priority and food shortages are identified as principal manifestations of underdevelopment in the sector. Major approaches:

- o Stimulate rural poor to produce their own food plus a surplus
- o Stimulate and support agricultural exports

- o Maintain fair and economic prices to stimulate agricultural production
- o Divert financial resources to improve extension, inputs, marketing, credit and storage facilities

State farms, as a means of achieving humanistic objectives, have high priority. Several donors were reported to be interested in support of these programs (e.g., Iraq, Bulgaria, Japan Yugoslavia, Africa Development Bank, Italy, USSR, Czechoslovakia and Romania).

- o NAMBoard will hand over some of its marketing and input functions to cooperative unions.
- o The GRZ will continue to offer early delivery bonus for maize.
- o Farm credit will be improved.
- o Oxen tillage by ox training and supply of equipment.
- o Continued expansion of extension and training efforts.
- o Increased budget for research focusing on crops and problems of small farmers. Adaptive Research Planning teams to follow-up on surveys:
- o planning and Central Statistical Office to improve data.
- o planning Division will begin analysis for the Fourth plan.
- o Planning activities include liming, oilseeds production and processing, market information for unofficials marketing matters, cassava, groundnuts, sweet potatoes, beans, other crops, livestock.
- o Small allocations are made for storage and transport in provincial cooperation unions (1982 Plan, p. 11-65).