

A.I.D. Project Number : 613-0233.00

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PROGRAM GRANT AGREEMENT
AMENDMENT NUMBER 1

Between

THE REPUBLIC OF ZIMBABWE ("Grantee")

and

THE UNITED STATES OF AMERICA

acting through

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

FOR GRAIN MARKETING REFORM SUPPORT

DATED: 27 July 1993

Appropriation No. : 72-113/41014
Budget Plan Code : GSS3-93-31613-KG39
Obligation Document No. : PA-613-0233-G-00-3054
Amount : US\$5,000,000.00
RCN : G322300

GRAIN MARKETING REFORM SUPPORT
A.I.D. Project No. 613-0233

PROGRAM GRANT AGREEMENT AMENDMENT NUMBER 1

AMENDMENT Number 1 dated July 27, 1993, between the United States of America acting through the Agency for International Development ("A.I.D."), and the Republic of Zimbabwe ("Grantee"):

WHEREAS, the Grantee and A.I.D. entered into a Program Grant Agreement dated August 30, 1991 ("Agreement");

WHEREAS, the Grantee and A.I.D. desire to amend the Agreement to provide additional resources under the Agreement;

NOW THEREFORE, the Parties hereto hereby agree that the Agreement shall be amended as follows:

1. Article 1 is modified by deleting the Article 1 in its entirety and substituting in lieu thereof the following:

Article 1: The Grant

For the purpose of assisting Zimbabwe in the implementation of its program for policy reform in the agriculture marketing sector, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee not to exceed ten million United States Dollars (U.S. \$10,000,000) the "Grant". It is planned that the Grant will be made available to the Grantee in two Program Tranches with a single disbursement for each upon satisfaction of the Conditions Precedent to Disbursement as set forth in this Agreement. The activities under this Grant are further described in Annex A, the Amplified Program Description.

2. Article 2, Section 2.2., is modified by deleting "September 30, 1992" and substituting in lieu thereof "September 30, 1994".

3. Article 5, Section 5.1, is modified by deleting the section title, "Conditions Precedent to Disbursement" and substituting in lieu thereof the section title, "Conditions Precedent to Disbursement of the First Program Tranche."

4. Article 5 is modified to add Section 5.2, to read as follows:

Section 5.2 Conditions Precedent to Disbursement of the Second Program Tranche

Prior to disbursement of the Second Program Tranche of the U.S. dollar Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

5.2.1 A statement reconfirming that the information provided under the terms of Sections 5.1.1, 5.1.2, and 5.1.3 remains valid for the funds provided as the Second Program Tranche of assistance.

5.2.2 A statement and evidence that the Government at the cabinet level formally approves the redefinition of Zones A and B of the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country in Zone B, while maintaining floor and ceiling prices through the Grain Marketing Board's continuing role of residual buyer and seller in Zone B. GMB will remain the sole seller of maize to designated Zone A firms."

5. Article 6, Section 6.2., is modified by deleting the section in its entirety and substituting in lieu thereof:

"Unless A.I.D. otherwise agrees in writing, the Grantee will undertake to fully implement the Cabinet level approval referenced in Sections 5.1.6. and 5.2.2 of this Agreement through the enactment of all necessary enabling legislation, including regulations, procedures and notices within a period of one year from the date of A.I.D.'s confirmation of the Grantee having satisfied Sections 5.1.6 and 5.2.2 of this Agreement or, in any event, prior to disbursement by A.I.D. of any future non-project assistance in support of the Grantee's Grain Marketing Program, whichever event shall first occur."

6. Article 8, Section 8.3 is modified by deleting the words "Ministry of Finance, Economic Planning and Development" and substituting in lieu thereof the words "Ministry of Finance".

7. Annex A, Amplified Program Description, is modified by deleting it in its entirety and substituting in lieu thereof the attached, amended "Annex A".

Except as amended herein, the Agreement between the Republic of Zimbabwe and A.I.D. dated August 30, 1991, remains in full force and effect.

IN WITNESS WHEREOF, the Republic of Zimbabwe and the United States of America, each acting through its duly authorized representative, have caused this amendment to be signed in their names and delivered as of the day and date first above written.

UNITED STATES OF AMERICA

REPUBLIC OF ZIMBABWE

By: E. Gibson Lanpher
E. Gibson Lanpher
Ambassador
United States of America

By: Elisha N. Mushayakarara
Elisha N. Mushayakarara
Senior Secretary
Ministry of Finance

Date: 7/27/93

Date: 27 / 7 / 93

By: Ted D. Morse
Ted D. Morse
Director, USAID/Zimbabwe
United States Agency for
International Development

Date: 27 July 1993

SUBJECT: Amendment No. 1 to Program Grant Agreement,
Zimbabwe Grain Marketing Reform Support Program No.
613-0233

Clearances:

CPDIS: P.K. Buckles	_____	Date: _____
GDO : R.E. Armstrong	<u>Draft</u>	Date: <u>June 3, 1993</u>
PO : C Chihera	<u>Draft</u>	Date: <u>June 3, 1993</u>
PDO: J. Harmon	<u>Draft</u>	Date: <u>May 26, 1993</u>
RLA : D. Keene	<u>Draft</u>	Date: <u>May 26, 1993/26 JUL</u>
CONT : M. Lewellen	<u>Draft</u>	Date: <u>June 3, 1993</u>

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Amplified Program Description

As used in this Annex, the "Agreement" refers to the Program Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning of reference as in the Agreement. This Annex may be modified through issuance of Program Implementation Letters.

1. PROGRAM STRATEGY

1.1. GOVERNMENT OF ZIMBABWE (GOZ) PLANS AND POLICIES

The Government goals in the agricultural sector during the current structural adjustment exercise are described in general terms in the Economic Framework Paper presented in Paris in April 1991. These are to be accomplished by 1994/95 and in essence, their achievement goals will require attention to the following strategic objectives in the grain marketing sub-sector over the long term:

- The Grain Marketing Board (GMB) to operate as a commercial organization alongside other marketing channels;
- Elimination of GMB trading account deficits;
- Reduction in marketing margins thereby improving the returns to farmers and/or lowering the costs of grain to consumers;
- Provision of ready access to grain to all potential consumers;
- Provision of ready access to grain markets to all major producers; and
- Establishment of a competitive grain marketing system with private participation.

1.2. USAID STRATEGY

This Grant supports the GOZ grain marketing reform policies with non-project assistance. The Mission's proposed first-year program was based on a two-pronged strategy that is still of relevance and is expected to yield both short term and long term results. The conditions which were met for

disbursement of US\$5 million under the FY 1991 program, and the condition which will be met under Amendment No 1 for disbursement of FY 1993 funding, are specific actions necessary for grain market liberalization over the long term, but which will also achieve specific and real returns in the short term. The proposed program will support GOZ efforts in achieving the following short term objectives:

- Reduction in the GMB trading account deficits and promotion of a more commercial orientation in GMB trading operations; and
- Movement toward a competitive grain marketing system with broadened private sector participation -- particularly in smallholder farming areas and in outlying farming regions more distant from major industrial processing agents.

To achieve the above objectives, specific reform measures were included in the Fiscal Year 1991 (first year) program to accomplish the following:

- o To reduce the amount of grain moving from GMB depots into the cities and back out to rural areas in the form of commercial maize meal.

The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it is needed. The savings in transport and processing costs should make cheaper locally milled meal available to rural consumers who currently must buy more expensive refined commercial maize meal. This should also reduce the costs of transporting grain onward to main depots, handling and storing the grain, and transporting expensively packaged commercial meal or food aid back into deficit areas. Economic studies have estimated that this meal could be produced at a 12 to 15% lower cost than the previous (before June 1) price of subsidized commercial roller meal.

- o To make more grain and straight-run meal available to consumers and traders in urban areas.

By increasing access of individuals to grain from GMB depots, it is anticipated that more private sector participants, particularly traders and small scale millers, will process and sell straight-run meal to low-income urban and peri-urban consumers. The large scale mills are currently not making straight-run meal available to consumers. The re-introduction of straight-run meal, which in surveys has shown to be the meal of choice of a large portion of low income consumers, should result in lower staple meal prices for the poor.

- o In the short-run, to expand the scope for intra-rural trade, and, in the long-run, to encourage rural informal trade such that it replaces the GMB's function of wholesaling where the GMB is not competitive in providing such services.

Allowing collection points to resell grain to any buyer should open up GMB-owned stocks to rural consumers, traders, and small-scale millers instead of funneling supplies directly to urban centers. In the long run, it should provide viable alternative market outlets for producers and reliable supplies for rural consumers at lower cost than commercial maize meal.

2. PROGRAM FRAMEWORK

2.1. PROGRAM GOAL

The program goal is to contribute toward the improvement of the welfare of rural consumers by supporting a Government of Zimbabwe initiative to move grain marketing towards a competitive, lower cost system by reducing market controls and allowing expanded private participation in the grain trading system. The following assumptions apply to achievement of the goal:

- a. The Government will come to grips with the redistribution of land in a way that does not reduce investment, financing and, ultimately, agricultural productivity.
- b. Adverse public opinion of private traders does not significantly restrict or retard expansion of private participation in grain trade.
- c. The distribution of grain from surplus areas into grain deficit communal areas must continue to be accomplished by either the public or the private sectors.
- d. Market reform is accompanied by GOZ initiatives that alleviate major non-policy as well as policy barriers to private sector entry and investment in grain trading, storage, transport, and rural processing.
- e. The GOZ follows through with its plan to cut the GMB subsidy from Z\$59 million in 1990/91 to Z\$12 million in 1993/94, and to zero in 1994/95.
- g. Weather conditions permit normal crop yields.

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2.2. PROGRAM PURPOSE

The program purpose is to support specific policy and regulatory reforms which will: (a) increase access to grain in deficit areas; and (b) reduce the contribution of domestic grain trading losses to the national budget deficit. At the end of the proposed program (five years from signing of the Program Agreement), it is expected that the following will be evident:

- The Grain Marketing Board will be operating with greater autonomy.
- New or enhanced private sector marketing channels will begin to meet producer and commercial consumer requirements.
- There will be increased access to grain in semi-arid and rural areas.
- Government deficits derived from GMB operating costs will be reduced.
- There will be a demonstration of the value of increased reliance on the market system to allocate resources in grain marketing in particular and agricultural marketing in general.

In addition to the assumptions stated earlier, accomplishment of the project purpose assumes the following:

- a. City, or other governmental administrative unit or sub-unit, by-laws are amended to legalize informal milling or they are not enforced.
- b. The development of reliable informal trade will improve grain availability in rural areas.
- c. Improved grain availability and access will reduce the number of hunger-prone households.
- d. The reduction in the number of hunger-prone households will reduce the size and costs of drought relief and supplemental feeding programs.
- e. Most rural hunger-prone consumers are within 100 km. of a grain sale point.
- f. The GMB incurs no new domestic grain trading losses.

2.3. PROGRAM OUTPUTS

The expected outputs of the program will be policy changes on the part of the Government. Outputs are detailed below, for both the First Program Tranche (Fiscal Year 1991) and the Second Program Tranche (Fiscal Year 1993).

First Program Tranche (Fiscal Year 1991)

Specifically, Government removal of several policy and regulatory-related barriers to entry into informal grain distribution and processing, as encompassed under the First Program Tranche (provided in Fiscal Year 1991) Conditionality led to existence of the following current environment.

- a. An autonomous Board of Directors is functioning for the Grain Marketing Board.
- b. There is open sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag, and depot managers and relevant participants in the grain marketing system are aware of that change in policy.
- c. Buyers are reselling grain through any channel in Natural Regions IV and V, and depot managers and participants in the grain marketing system are aware of the change in policy.
- d. Grain is being sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and the public has been appropriately informed.
- e. A plan has been drafted and approved for development of a medium range strategy for liberalizing national grain markets and promoting the development of a strong, competitive marketing system with expanded private participation and improved access to food by vulnerable groups.

Second Program Tranche (Fiscal Year 1993)

The expected output of the Second Program Tranche, funded in Fiscal Year 1993, will be a further policy change on the part of the Government, summarized as:

Maize prices and trade throughout the country are effectively deregulated in Zone B, while floor and ceiling prices are maintained through the Grain Marketing Board's continued role of residual buyer and seller. GMB will remain the sole seller of maize to designated firms in Zone A.

In addition to conditions precedent to program disbursements for the First and Second Program Tranches, it is anticipated that future conditionality will be included under this program in support of the Government of Zimbabwe's maize marketing liberalization strategy. This future conditionality will be developed in consultations between the Government of Zimbabwe and USAID.

There are two key assumptions for accomplishment of the program outputs:
(1) The GMB, once empowered to act "autonomously", will accept that power and make independent, cost-efficient operational decisions on grain marketing; and (2) policy changes will be uniformly and effectively implemented.

2.4. PROGRAM ELEMENTS

2.4.1. Conditionality

The results of research, analysis, and dialogue to date suggest several policy areas where A.I.D. can support the GOZ efforts to develop a multi-channel grain marketing system that allows for greater private sector participation. A number of policy areas have been identified for support for gradual grain market reform. More extensive changes, noted in the draft "Maize Pricing and Market Liberalization" program, prepared by the Ministry of lands, Agriculture and Water Development will provide greater benefits over the long run.

The following are program conditions that have been agreed upon with the Government, by Fiscal Year of the program:

First Program Tranche (Fiscal Year 1991)

(a) Government formally establishes an autonomous Board of Directors at the Grain Marketing Board.

The Government of Zimbabwe was asked to take the actions necessary for the establishment of an autonomous Board of Directors of the GMB. As part of this process, the GMB examined and completed an analysis of its current operations with the objective of identifying actions necessary to reduce its operational deficits and guide the Board toward a more commercial orientation.

This condition partially has been met with a 1991 Amendment to the Grain Marketing Act, which provides for an independent Board of Directors for the GMB. This Amendment does not, however, state what specific actions the Board of Directors would be able to take without Government's approval. These areas of autonomy have subsequently been detailed in documentation

presented to USAID. The GMB Board of Directors has autonomy in the following areas:

- Salaries and hiring and firing of non-executive personnel (below Assistant General Manager level), subject to existing labor and other applicable laws;
- Distribution and procurement, subject to existing laws concerning GOZ Tender Board and foreign exchange allocation; and
- Export activities not in conflict with the National interest.

(b) Government formally allows sale of grain from GMB depots to any buyer at whatever quantity is demanded greater than one bag and ensures that information is disseminated to the public and GMB managers.

Government was asked to take the actions necessary to authorize the GMB to sell grain in any quantity over one bag (the current minimum) to any buyers, including informal traders. The GMB was asked to widely disseminate this and other information pertaining to the rules governing grain purchase and resale. The dissemination of this information was targeted to local GMB staff as well as the general public. The aim is to create incentives for small scale traders and millers to buy the grain from GMB depots and process it closer to the rural areas where it was needed.

To open sales from depots is, in fact, legal at present. The Grain Marketing Act (CAP 113, 1966) states that anyone will be permitted to acquire and sell or resell controlled products (including maize) without reference to the Board provided that the controlled product does not leave Area "B" (the communal areas). If they do leave Area "B", its destination must be the GMB. Thus, current legislation neither constrains free marketing in the Communal Lands (defined as Zone B in the GMB Act) nor restricts the purchase of maize from the GMB by buyers in these areas. In fact, the past action to reduce the minimum sale quantity from one ton to one bag (90 kg net) was intended to encourage maize sales in the Communal Lands.

Despite the fact that the rules are clearly stated in GMB publications, they have been subject to a wide variety of interpretations, both within GMB and in rural areas. The action now required to be taken is wide dissemination of information on this policy by both the GMB and the MLARR; the GMB and MLARR must publish and widely distribute the information that the GMB sells grain at depots (e.g., posters at depots, announcements in the newspaper and over the radio). A public promotion plan was developed but had to be postponed due to grain shortages resulting from the 1991/1992 drought. However, implementation of this promotional plan is currently being undertaken.

- (c) Government, at the Cabinet level, formally approves the policy that any buyer is allowed to resell grain through any channel in Natural Regions IV and V, without paying any portion of revenues back to the GMB.

The present legislation permits free trade and marketing in Zone B (defined as largely Communal Lands in Natural Regions IV and V). The contract between the GMB and Approved Buyers no longer specifically prohibits resale of maize purchased by the Approved Buyers. Consequently, the Approved Buyer provides an outlet for marketable surpluses and is no longer precluded from performing the function of satisfying non-GMB demand for maize in these areas.

Cabinet removed movement controls in Natural Region's IV and V. This is as a policy action since the goal is a change in stated policy, with routine implementation accomplished following the announcement.

The relaxation of the contractual restriction prohibiting the Approved Buyers and/or Traders to resell in Natural Regions IV and V removed the regulatory constraint, allowing them to perform both functions; namely, to provide an outlet for surplus maize and to satisfy the non-GMB demand for maize in Natural Regions IV and V.

- (d) Government formally allows grain to be sold at selected GMB collection points and/or other non-depot distribution points to any buyer, and ensures that this information is disseminated to the public.

Expanding the function of selected rural collection points and/or other non-depot distribution points was required of the GMB in 1991 to provide grading and selling facilities at such points. However, due to the subsequent expansion of private trading in rural areas, selling at collection points is no longer necessary as the GMB is only one source of sales in these areas.

- (e) Government submits, in form and substance satisfactory to A.I.D., a plan for development, completion, and dissemination of a medium range strategy for rationalization of national grain marketing and the development of a strong, competitive grain marketing system which permits and encourages private sector participation.

A specific condition for disbursement of the US\$5 million was a commitment by the Government through the MLARR to development of a medium term

(three-year) strategy for rationalization of national grain marketing and the progressive development of private grain marketing channels. Disbursement of funds was based on submission, in form and substance satisfactory to A.I.D., of a plan for development of the medium term strategy.

A.I.D., the GOZ, and other interested participants have already entered into an active policy dialogue, and these efforts have resulted in the formulation of a draft "Maize Pricing and Market Liberalization" strategy, which is under review by the Government of Zimbabwe. This medium-term liberalization strategy is envisaged to unfold in three phases, with the end point set for the 1995/1996 marketing season. This plan is currently being finalized by the GOZ.

Second Program Tranche (Fiscal Year 1993)

Government, at the Cabinet level, formally approves the redefinition of Zones A and B of the Grain Marketing Act, such that Zone A refers to the factory gates of named maize buyers, while Zone B refers to all other parts of the country. This would effectively deregulate maize prices and trade throughout the country in Zone B, while maintaining floor and ceiling prices through the Grain Marketing Board's continuing role as residual buyer and seller in Zone B. GMB will remain the sole seller of maize to Zone A firms.

2.4.2. Foreign Exchange

In addition to US\$5 million provided under the First Program Tranche in Fiscal Year 1991, a total of US\$5 million is provided under Amendment No. 1 to the program in Fiscal Year 1993 for the Second Program Tranche, to be provided by A.I.D. as a single sector cash grant disbursement in support of the proposed policy reform. The US\$5 million will be disbursed on satisfaction of the Second Program Tranche condition, as described above. The funds will be disbursed into a non-commingled Special Dollar Account to be released therefrom in support of the market determined foreign exchange allocation system -- the centerpiece of Zimbabwe's economic reform program. When fully operational in 1995, the new market based foreign exchange allocation system will apply to all imports except for a small negative list. The system will thus allow a market determined allocation of the economy's foreign exchange resources among the most efficient users and simultaneously ensure a market determined exchange rate that will provide an adequate incentive to exporters.

The US\$5 million will not be tied to U.S. imports. It will be subject to review against a list of importers who received foreign exchange allocations to purchase goods, through the OGIL, ERS and other sources of foreign exchange, which were sourced in the United States. Upon receipt and satisfactory review of the list and verification against a "negative list" of ineligible commodities, USAID will approve the draw-down of dollar funds from the Special Dollar Account established in the Reserve Bank of Zimbabwe (or other bank in Zimbabwe or the United States, as may be agreed upon in writing), in accordance with the procedure outlined below:

- (1) A.I.D. and the GOZ sign, and amend as appropriate, a Program Grant Agreement which contains conditions precedent to dollar disbursement that are based on GOZ implementation of agreed upon policy reforms. The conditionality is set forth in substantive terms with the understanding that elaborations and clarifications, within the substantive context, may be undertaken by the Mission through Program Implementation Letters.
- (2) Upon GOZ satisfaction of the conditions (in form and substance satisfactory to A.I.D.), USAID prepares, in consultation with the GOZ, a Financing Request. The Financing Request is signed by an authorized representative of the GOZ and is approved by the Mission Director.
- (3) The Financing Request is sent to A.I.D./Washington and requests that a Direct Reimbursement Authority be established for the US\$5 million in Non-Project Assistance funds.
- (4) Upon receipt of the Direct Reimbursement Authority, the USAID/Zimbabwe Controller certifies for payment the voucher prepared by the USAID/Zimbabwe General Development Office and approved by the Project Officer. The voucher authorizes the Regional Accounting Management Center (RAMC) in Paris to issue a U.S. dollar check to a Special Dollar Account (a separate interest bearing Special Dollar Account specifically established for deposit of the USAID dollar funds under the proposed program) in the Reserve Bank of Zimbabwe or other bank in Zimbabwe or the United States, as may be agreed upon by USAID in writing.
- (5) Upon receipt of the check, the USAID Controller hand-carries the check to the Treasury of Zimbabwe, which issues a receipt. USAID/Zimbabwe delivers a copy of the receipt to the Ministry of Finance. Immediately upon deposit of the U.S. dollar check into the Special Dollar Account established at the Reserve Bank of Zimbabwe (or other bank, as may be agreed upon by USAID in writing), the bank sends a receipt containing the check number, amount, and date of deposit to the USAID Controller.

- (6) The Government of Zimbabwe will not draw-down funds from the Special Dollar Account without prior USAID/Zimbabwe concurrence. The Reserve Bank (or other approved bank) will provide monthly bank statements to USAID/Zimbabwe on the funds on deposit in this Special Dollar Account, including interest earned.
- (7) The Government may request draw-downs from the Special Dollar Account upon confirmation by USAID/Zimbabwe, as described herein, that GOZ resources equivalent to or greater than the amount of the Special Dollar Account dollar disbursement requested have been allocated for U.S. imports. To ensure that funds provided under the proposed program can be tracked, the Government of Zimbabwe will be required to provide to USAID/Zimbabwe a list of importers who purchased and received in Zimbabwe goods sourced in the United States (with imports arriving within a time period specified by transaction eligibility dates to be advised in a project Implementation Letter, in accordance with Article 8 of this Agreement).

The GOZ will need to confirm that imports reported to USAID/Zimbabwe came from the United States by providing a detailed list. The list will provide information on the importers and goods imported, along with evidence that the goods arrived in country within transaction eligibility dates advised in an Implementation Letter. After review of the list of goods imported against a negative list of prohibited or restricted commodities for A.I.D. funding, USAID will approve the draw-down of the U.S. dollar funds in the Special Dollar Account up to the amount allocated for eligible U.S. sourced goods, not to exceed the total amount of funds available under the Grant. Interest earned on funds in the Special Dollar Account will be approved for draw-down in the same manner described above.

- (8) Upon notification of A.I.D. approval of each draw-down of the U.S. dollar funds, the Government of Zimbabwe will disburse an amount of local currency equivalent to the U.S. dollar draw-down amount (exchanged at the maximum rate not unlawful in Zimbabwe on the date of the approval of the draw-down of funds) into a Separate Local Currency Account in accordance with the procedures outlined in this Agreement.
- (9) The GOZ agrees to permit a USAID audit of the Special Dollar Account if so requested by USAID/Zimbabwe.

The tracking system described above will maintain the operational focus of the non-project assistance grant on the implementation of reforms within the

grain marketing sector -- and not on the use of U.S. dollar resources, which are considered an incentive, as distinct from an input, for purposes of this program. USAID estimates that draw-downs will be completed within four months of the U.S. dollar deposit in the Special Dollar Account.

C. Local Currency

The U.S. dollars provided under this program, given that they will be used for private sector imports, will result in generations of local currency in an equivalent amount. Accordingly, the Government of Zimbabwe agrees to deposit an amount of local currency equivalent to the U.S. dollar draw-down amount into a non-comingled Separate Local Currency Account within 20 days after USAID approves each draw-down of dollar funds from the Special Dollar Account established as described above.

USAID/Zimbabwe and the GOZ will jointly program the local currency deposited in the required Separate Local Currency Account. It is planned that two broad purposes will be considered for the local currency: (a) a Trust Fund for USAID in-country administrative costs (not to exceed 10 percent of the generated funds); and (b) GOZ budget line item support for the program objectives, which, illustratively, may include: counterpart requirements for other donor-funded projects; support for credit guarantees and/or for credit provided to encourage private sector storage, milling, and grain trade development; and support for the Social Fund to assist vulnerable groups under the Economic Reform Program. Local currency in the Separate Local Currency Account will not be used for police training or for military or paramilitary purposes.

With regard to management of the local currency, the Ministry of Finance (MOF) will provide the USAID Controller's Office with quarterly financial reports and reconciled bank statements. The reports will track the deposits of the local currency into the Separate Local Currency Account and withdrawals from that account by category used, for: (a) the Trust Fund; and (b) GOZ budgetary support line items. Reporting of interest earned on the funds remaining in the Separate Local Currency Account will also be included in the reports.

The Mission and the GOZ have entered into a separate agreement on the approved uses of funds allocated to the Trust Fund. USAID will report periodically to the GOZ on the uses of the Trust Funds.