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OFFICIAL PROJECT
DOCUMENT

AID GRANT No. 611-K-601

GRANT AGREEMENT

(ZAMBIA PROGRAM GRANT)

BETWEEN THE

REPUBLIC OF ZAMBIA

AND THE

UNITED STATES OF AMERICA

DATED: JULY 17, 1984

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COMMODITY IMPORT GRANT AGREEMENT

Grant Number: 611-K-601

Date: July 17, 1984

Between

The REPUBLIC OF ZAMBIA ("Grantee")

And

The UNITED STATES OF AMERICA, acting through the
AGENCY FOR INTERNATIONAL DEVELOPMENT ("AID")

ARTICLE 1:

The Grant

To finance the foreign exchange costs of certain commodities and commodity-related services, as such services are defined by AID Regulation 1. ("Eligible Items") necessary to promote the economic stability of the Republic of Zambia, the United States, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Government of the Republic of Zambia under the terms of this Agreement, an amount not to exceed Fifteen Million United States ("U.S.") Dollars (\$15,000,000) (the "Grant").

ARTICLE 2:

Conditions Precedent to Disbursement

SECTION 2.1. Condition Precedent. Prior to the first disbursement under this Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID: a statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 8.2, together with a specimen signature of each person certified as to its authenticity.

SECTION 2.2. Conditions Precedent to Disbursement for Fertilizer and Fertilizer Raw Materials. Prior to the first disbursement under the Grant for fertilizer or fertilizer raw materials, or the issuance by AID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(a) A procurement plan for fertilizer and fertilizer raw materials financed under this Grant, including (1) the procedures by which all such procurement will be carried out, (2) the criteria for determining importer eligibility, and (3) the mechanism for publicizing procurement and making awards;

(b) Evidence that Nitrogen Chemicals of Zambia has timely access to all raw fertilizer and other related materials needed for the finished product that are not financed under the AID Commodity Import Program.

SECTION 2.3. Condition Precedent to Disbursement for Agriculture Spare Parts. Prior to the first disbursement under the Grant for agriculture spare parts, or to the issuance by AID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID: a procurement plan for all agriculture spare parts financed under this Grant, including (1) the procedures by which all such procurement will be carried out, (2) the criteria for determining importer eligibility, and (3) the mechanism for publicizing procurement and making awards.

SECTION 2.4. Notification. When AID has determined that the conditions precedent specified above have been met, it will promptly notify the Grantee by Implementation Letter issued pursuant to Section 8.1 of this Agreement.

SECTION 2.5. Terminal Dates for Meeting Conditions Precedent.

(a) If the condition specified in Section 2.1 has not been met within ninety (90) days from the date of this Agreement, or such later date as AID may specify in writing, AID, at its option, may terminate this Agreement by written notice to the Grantee.

(b) If all of the conditions specified in either Section 2.2 or 2.3 have not been met within 180 days from the date of this agreement, or such later date as AID may agree in writing, AID, at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this agreement by written notice to the Grantee.

ARTICLE 3:

Procurement, Eligibility, and Utilization of Commodities

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

SECTION 3.2. Eligible Items.

(a) The commodities eligible for financing under this Grant shall be those mutually agreed upon by the Parties for use in the agricultural sector and be those specified in the A.I.D. Commodity Eligibility Listing as set forth in Implementation Letters issued to the Grantee in accordance with Section 8.1 of this Agreement. Commodity-related services as defined in AID Regulation 1 are eligible for financing under this Grant. Eligible items will be subject to the requirements and Special Provisions of Parts I, II and III of the AID Commodity Eligibility Listing which will be transmitted under Implementation Letter. Other commodities or services shall become eligible for financing only with the written agreement of AID. AID may decline to finance any specific commodity or commodity-related services when in its judgment such financing would be inconsistent with the purposes of the Grant or of the Foreign Assistance Act of 1961, as amended.

(b) AID reserves the right in exceptional situations to delete commodity categories or items within commodity categories described by Schedule B codes on the Commodity Eligibility Listing. Such right will be exercised at a point in time no later than commodity prevalidation by AID (Form 11 approval) or, if no commodity prevalidation is required, no later than the date on which an irrevocable Letter of Credit is confirmed by a U.S. bank in favor of the supplier.

(c) If no prevalidation is required and payment is not by Letter of Credit, AID will exercise this right no later than the date on which it expends funds made available to the Grantee, under this Agreement for the financing of the commodity. In any event, however, the Grantee will be notified through the AID Mission in its country of any decision by AID to exercise this right pursuant to a determination that financing the commodity would adversely affect AID or foreign policy objectives of the United States or could jeopardize the safety or health of people in the importing country.

SECTION 3.3 Procurement Source. All Eligible Items shall have their source and origin in Code 000 of the AID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such Eligible Items, except for charges related to ocean transportation in accordance with Section 3.10 of this Agreement or, except as AID may specify in Implementation Letters or as it may otherwise agree in writing.

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

SECTION 3.5 Procurement for Public Sector. With respect to procurement under this Grant by or for the Grantee, its departments and instrumentalities, the provisions of Section 201.22 of AID Regulation 1 regarding formal competitive bid procedures will apply unless AID otherwise agrees in writing.

SECTION 3.6. Procurement by Private Sector. Procurement by private importers will be subject to the negotiated procurement procedures of Section 201.23 of AID Regulation 1, except as AID may otherwise agree in writing or the importer elects procurement through the formal competitive procedures of Section 201.22.

SECTION 3.7 Special Procurement Rules.

(a) None of the proceeds of this Grant may be used to finance the purchase, sale, long-term lease, exchange or guaranty of a sale of motor vehicles unless such motor vehicles are manufactured in the United States, nor may any of the proceeds be used to finance commodities to be used in the palm oil, citrus, or sugar industries, except as AID may otherwise agree in writing.

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

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

SECTION 3.8. Financing Physical Facilities. Not more than One Hundred Thousand U.S. dollars (\$100,000) from the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alteration of a physical facility or related physical facilities without prior AID approval, additional to the approvals required by AID Regulation 1, except as AID may otherwise agree in writing. "Related physical facilities" shall mean those facilities which, taking into account such factors as functional interdependence, geographic proximity, and ownership, constitute a single enterprise in the judgement of AID.

SECTION 3.9. Utilization of Commodities.

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

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports of entry in coastal states through which they transit and through points of entry in Zambia; such commodities are removed from customs and/or bonded warehouse within ninety (90) calendar days from the date the commodities are unloaded from the transportation medium at the point of discharge in Zambia, unless the importer is hindered by force majeure or AID otherwise agrees in writing; and

(ii) the commodities are consumed or used by the importer not later than one (1) year from the date the commodities are removed from customs, unless, due to force majeure, or special market conditions, or other circumstances, AID otherwise agrees in writing.

(b) Grantee will assure that commodities financed under this Grant will not be re-exported in the same or substantially the same form, unless specifically authorized by AID.

SECTION 3.10. Shipping.

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

(b) Unless otherwise authorized and except as provided below, AID will finance only those transportation costs incurred on ocean vessels under flag registry of a country included in the Geographic Code authorized in Section 3.3 of the Agreement. If, at the time shipment is to be made, AID determines in writing that no transportation is available on ocean vessels under US registry, transportation on ocean vessels under flag registry of countries included in AID Geographic Code 941 is permitted; and if, at the time shipment is to be made, AID determines in writing that no transportation is available on ocean vessels under Code 941 flag registry, transportation on ocean vessels under flag registry included in AID Geographic Code 899 is permitted. Unless AID otherwise agrees in writing the total of such transportation costs may not exceed Three Million U.S. dollars (US\$3,000,000).

(c) Unless AID determines that privately owned United States flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carrier, dry cargo liners and tankers) financed by AID which may be transported on ocean vessels will be transported on privately owned United States flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by AID and transported to the Republic of Zambia on dry cargo liners shall be paid to or for the benefit of privately owned United States flag commercial vessels. Compliance with the requirements of (1) and (2) of this Sub-section must be achieved with respect to both cargo transported from U.S. ports and cargo transported from non-U.S. ports, computed separately.

SECTION 3.11. Insurance. Marine insurance on commodities financed by AID under this Grant may also be financed under this Grant provided that such insurance is placed in a country included in the Geographic Code authorized in Section 3.3 of this Agreement, in accordance with the applicable provisions of AID Regulation 1.

ARTICLE 4:

Disbursement

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

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

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

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

SECTION 4.5. Date of Disbursement. Disbursements by AID will be deemed to occur on the date on which AID makes a disbursement to the Grantee or its designee, or to a bank, contractor or supplier pursuant to a letter of commitment or other form of disbursement authorization.

ARTICLE 5:General Covenants

SECTION 5.1. Continuing Responsibilities. The Grantee and AID shall cooperate fully to assure that the purposes of the Grant will be accomplished. To this end, the Grantee and AID shall from time to time, at the request of either Party, exchange views through their representatives with regard to the Grantee's economic development and its progress in achieving the objectives of its economic stabilization program, including the level of current expenditures and its foreign exchange position, and the performance by the Grantee of its obligations under this Agreement, the performance of consultants and suppliers under the Grant, and other matters relating to this Agreement.

SECTION 5.2. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in Zambia. To the extent that any commodity procurement transaction financed hereunder is not exempt from identifiable taxes, tariffs, duties and other levies imposed under laws in effect within the Republic of Zambia, the same shall not be paid with funds provided under this Grant.

SECTION 5.3. Reports and Records. In addition to the requirements in AID Regulation 1, the Grantee will:

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

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

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

SECTION 5.4. Completeness of Information. The Grantee confirms:

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

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

SECTION 5.5. Other Payments. Grantee affirms that no payments have been or will be received by an official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION 5.6. Minimum Size of Transaction. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than Ten Thousand U.S. dollars (\$10,000), except as AID may otherwise agree in writing.

SECTION 5.7. Use of Local Currency.

(a) Grantee will establish and maintain a Special Account in the Bank of Zambia and deposit therein currency of the Government of the Republic of Zambia in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of the Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by AID and Grantee, and as otherwise specified pursuant to this Agreement, provided that not more than one (1) per cent of the funds in the Special Account shall be made available to AID to meet its requirements.

(b) Except as AID may otherwise agree in writing, deposits to the Special Account for agriculture spare parts shall become due and payable at the time request is made for issuance of Letters of Credit or Direct Letters of Commitment. Deposits to the Special Account for fertilizer and fertilizer raw materials shall be due and payable in quarterly equal installments, the first installment to be due eighteen months from the date of issuance of the first Direct Letter of Commitment and the final installment to be due twelve months later. Grantee shall make

all deposits at the highest official rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Government of the Republic of Zambia.

(c) The Government of the Republic of Zambia agrees that the Support Measures contained in Annex 1 of this Agreement are to be implemented in a phased, orderly manner. The Government of the Republic of Zambia also agrees that the local currency generated from this Agreement will not be released from the Special Account until AID has accepted, in writing, a Plan, including a phasing schedule, for the implementation of the Support Measures. The Government of the Republic of Zambia will submit an annual report and will hold periodic meetings with AID to review the progress toward fulfilling the Plan or to amend the Plan as needed due to changing circumstances. Any amendment to the Plan must be agreed to, in writing, by AID.

(d) The Grantee shall provide AID with a quarterly detailed accounting of the use of such local currency. The format for such reports will be specified in an Implementation Letter.

(e) Any unencumbered balance of funds which remain in the Special Account upon termination of assistance hereunder shall be disbursed for such purposes as may, subject to applicable law, be agreed to between Grantee and AID.

ARTICLE 6:

Special Covenants

SECTION 6.1. Support Measures. The Grantee agrees that, except as AID may otherwise agree in writing, it will adhere to the support measures set forth in Annex 1 to the Grant Agreement.

SECTION 6.2. Tied Aid Credit Program. Notwithstanding any other provision on this agreement, and pursuant to Section 645 of the Trade and Development Enhancement Act of 1983 ("Act"), Public Law 98-181, AID may; direct that all or a portion of the funds made available in Article 1 of this Agreement be used to establish a Tied Aid Credit Program ("Program") with the Grantee on terms and conditions which are consistent with both the provisions of the Act and the Program description in Annex 2 of this Agreement. Funds under the Program will be used to provide contributions in connection with the financing of eligible transactions, which are described in the Program description. All funds provided under the Program shall be for the account of

the Grantee and shall be subject to the financial terms described in Article 1 of this Agreement. Until such time and unless the funds made available in this Agreement are used under the Program as contributions in connection with the financing of eligible transactions, those funds remain available to the Grantee to finance the purchase of commodities and commodity-related services as prescribed in Sections 3.1 through 3.11 of this Agreement.

ARTICLE 7:

Termination: Remedies

SECTION 7.1. Termination. This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

SECTION 7.2. Refunds.

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

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

(c) Any interest or other earnings on Grant funds disbursed by AID to the Grantee under this Agreement prior to the authorized use of such funds for the Grant will be returned to AID in U.S. dollars by the Grantee.

SECTION 7.3. Nonwaiver of Remedies. No delay in exercising or omitting to exercise any right, power, or remedy accruing to AID under this Agreement will be construed as a waiver of such rights, powers, or remedies.

ARTICLE 8:Miscellaneous

SECTION 8.1. Implementation Letters. From time to time, for the information and guidance of both Parties, AID will issue Implementation Letters describing the procedures applicable to the implementation of this Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of the Minister of Finance and AID will be presented by the individual holding or acting in the position of AID Representative, Lusaka, Zambia, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to AID which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Grantee:

Mail address:

Permanent Secretary
Ministry of Finance
P. O. Box 50062
LUSAKA, Zambia

Alternative address
for cables

Finance Lusaka

To AID:

Mail address:

AID Representative
P. O. Box 32481
LUSAKA, Zambia

Alternative address
for cables

ZA 40810
AID Representative

With copy for Director,
REDSO/ESA:

Mail address:

Director, REDSO/ESA
P. O. Box 30261
NAIROBI, Kenya

All such communications will be in English unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving of notice.

SECTION 8.4. Information and Marking. The Grantee will give the appropriate publicity to the Grant as a program to which the United States has contributed, and mark goods financed by AID as described in Implementation Letters.

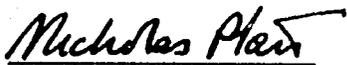
IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives have caused this Agreement to be signed, in duplicate originals, in their names and delivered as of the day and year first above written.

REPUBLIC OF ZAMBIA

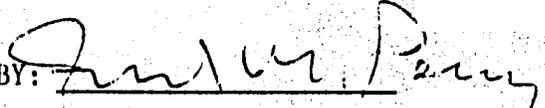
UNITED STATES OF AMERICA

BY: 

LUKE MWANANSHIKU
MINISTER OF FINANCE

BY: 

NICHOLAS PLATT
AMBASSADOR

BY: 

FRED M. PERRY
ACTING AID REPRESENTATIVE

ANNEX 1

SUPPORT MEASURES

In implementing these support 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 and increasing small farmer income.

During the period of this agreement and until all local currency generated by this Grant have been utilized as agreed upon by the Government of the Republic of Zambia and the United States Government's Agency for International Development, either party may request reopening discussions to develop new support measures or revise the local currency allocated to a particular support measure.

The Government of the Republic of Zambia will:

1. 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.

2. Encourage efficient resource allocation by:

(A) Continuing to adjust the relative consumer price of food products to reflect 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.

(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.

(D) 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.

3. Continue to expand the capacity and capabilities of the Planning Unit within the Ministry of Agriculture and Water Development to analyze policy issues critical to the development of the agricultural economy, with particular emphasis on the small farm sector.

As evidence of progress, The Planning Unit will continue with studies jointly agreed to by AID and the Government of the Republic of Zambia. Examples of such studies could be:

- (a) To analyze the costs and benefits of introducing regional and seasonal differentiated prices for agricultural commodities based on storage, transportation and handling costs;
- (b) To develop a plan to address the agricultural credit situation;
- (c) To analyze the effect of the current policy framework on agricultural export incentives;
- (d) To analyze how the Government of the Republic of Zambia can encourage competition and efficiency in the agricultural sector (particularly in marketing);
- (e) To assess the effectiveness of the agricultural research activities in developing technology for small scale farmers;
- (f) To assess the effectiveness of the agricultural extension service in delivering services to the small scale farmer;
- (g) To determine regional agricultural production patterns and the effect of resource availability on these production patterns.

The Government of the Republic of Zambia will keep AID informed, within a reasonable length of time following completion and presentation of each study of what actions, if any, it will take concerning the conclusion and recommendations contained in any AID financed study. (Conducted as a part of the ZATPID project.)

4. 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.

5. Continue to expand the capacity and capabilities 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 farm sector.

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

7. Continue to encourage efficiency in resource allocation by maintaining the progress toward the establishment of a positive real interest rate for both savings and loans.

8. Use local currency generations from the sale of commodities imported by this Agreement to support the implementations of points 1. through 7. above.

Specifically, the local currency generations may be applied to the following activities:

(a) Incentive Programs:

- i) Distributions of improved seeds to small scale farmers;
- ii) Discount for early fertilizer purchases by small scale farmers;
- iii) Increases in extension programs directed toward small scale farmers;
- iv) Support to the Zambian Cooperative Federation through
 - Cooperative Credit Scheme
 - Capital projects for Cooperatives
 - Short term financing for operations
 - Small farm equipment manufacturing;
- v) Support to Zambia Agricultural Development Bank (Subject to successful completion of Support Measure 3.b. above.)

(b) On-going Programs;

i) Planning Unit of the Ministry of Agriculture and Water Development,

Staff
Training
Supplies
Capital projects

ii) Central Statistical Office of the National Commission for Development Planning

Staff
Training
Survey activities
Supplies

iii) Research

Staff
Training
Supplies
Capital projects

iv) Extension

Staff
Training
Supplies
Capital projects

(c) Other Activities

i) Support for Agricultural Educational Institutions

Staff
Training
Supplies
Capital projects

ii) Support to other Training Institutions with an agricultural orientation

Staff
Training
Supplies
Capital projects

The actual allocation of funds above will be reached by the Parties to the Agreement and will subsequently be covered by an Implementation Letter.

ANNEX 2

TIED AID CREDIT PROGRAM

PURPOSE

The Tied Credit Program ("Program") has been established to provide grants for eligible transactions where the grants will be used in connection with the importation of U.S. exports.

Grants made available under the Program may be used when the Grantee or any public or private entity issues an international tender for the purchase of commodities to be imported into Zambia in response to which a U.S. supplier submits a bid which offers the lowest price for the commodities, but a non-U.S. supplier submits the lowest overall bid because concessional financing terms are being offered in support of the non-U.S. bid. In each transaction, funds under the Program are available, to be used to equalize the concessional financing terms of the U.S. bid with those offered by the non-U.S. bid.

ELIGIBLE TRANSACTIONS.

Except as the Parties may otherwise agree in writing:

(1) Grants are available only to match concessional credit terms offered by or arranged for in support of a tender of a non-U.S. supplier in an international tender competition in which a U.S. supplier, as defined in AID Handbook 1, has submitted a bid.

(2) Concessional credit is defined as credit that has a grant element, as defined by the Development Assistance Committee of the Organization for Economic Cooperation and Development, greater than zero. However, the grant element of an official export credit extended on credit terms that are in accordance with the credit norms of the OECD arrangements shall be considered as zero for purposes of determining the applicability of the Program.

(3) Funds shall not be available under the Program in cases in which the concessional financing in support of a non-U.S. supplier has a grant element that meets the minimum threshold for designation as official development assistance, after adjustment for price differences between the U.S. supplier and the non-U.S. supplier.

(4) Funds shall not be available under the Program to finance price differences between the U.S. supplier and the non-U.S. supplier.

(5) The purchaser of the U.S. exports may be a public or private entity.

(6) The international tender, in order to be an eligible transaction, must allow for a clear determination of the lowest responsive bidder on the basis of fixed price.

(7) A U.S. supplier or firm, as defined in AID Handbook 1, must be the lowest responsive bidder but for the concessional financing terms of the non-U.S. bid.

(8) The international tender must be for the purchase of eligible items, as defined in Section 3.2 through 3.11 of the Grant Agreement between the Government of the Republic of Zambia and the United States of America, dated July 17, 1984, AID Grant No. 611-K-601.

AMOUNT OF FUNDING.

The amount of funding available under the Program for each transaction shall not exceed the sum required to provide for the difference between the discounted present value (DPV) of the U.S. financing package and that of the non-U.S. supplier. The computation of the DPVs shall be made using the Development Assistance Committee, Organization for Economic Cooperation and Development annual discount rate of 10 percent for repayments that are made on an annual basis.