PDBAC 250

PAAD | **PROGRAM ASSISTANCE APPROVAL DOCUMENT**

CATEGORY: Commodity Financing Positive List

DATE: September 5, 1978

OYB CHANGE NO.:

OYB INCREASE:

TO BE TAKEN FROM:

TO: Goler Butcher, AA/AFR

FROM: John W. Koehring, Director, AFR/DR

APPROPRIATION – ALLOTMENT:

APPROVAL REQUESTED FOR COMMITMENT OF: $5,400,000

TYPE FUNDING: X LOAN GRANT

LOCAL CURRENCY ARRANGEMENT: INFORMAL X FORMAL NONE

ESTIMATED DELIVERY PERIOD: 18 months

TRANSACTION ELIGIBILITY DATE:

COMMODITIES FINANCED:
Trucks, and component parts, storage, food handling and processing equipment, and packaging materials (See Annex I of Project Paper for itemized list of eligible commodities).

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PERMITTED SOURCE		ESTIMATED SOURCE	
U.S. only:	Code 000	U.S.:	$5,400,000
Limited F.W.:	$5,400,000	Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	

SUMMARY DESCRIPTION

This loan is designed to assist in the recovery of the Agricultural Sector in Zaire by financing the foreign exchange costs of imports necessary for the marketing and distribution of foodstuffs from the rural sector to urban consumption centers. The items eligible for financing will be limited to those found in the commodities enumerated in Annex I attached to the project paper (the "Positive List)".

The loan funds will be made available by the Government of Zaire only to marketing agents and firms in the private sector, selected from a list jointly agreed to by the Government and the A.I.D. Mission. As a condition of eligibility, each marketing agency or firm will be required to submit in writing: a) a financial plan outlining the scope and amounts of additional local currency investments which will be made in improving or enlarging the firms' marketing operations; b) a written commitment to utilize loan proceeds for imports in conformity with loan objectives and details on the intended use of the items; and c) a written agreement permitting GOZ/AID end-users' surveys on the utilization of loan proceeds by recipients.

A loan to the Government of Zaire is hereby authorized in the amount of $5,400,000 from FY 1978 Supporting Assistance funds for financing items from the commodity list enumerated in Annex I, subject to the following terms and conditions:

CLEARANCES:

REG DP: James Govan
REG GC: Edward Dragon
AA/DC: AFR/CAWA, Frank Scordato
AA/CONT: SER/COM, Peter Hagen (draft) 9/6/78
AA/MR: AFR/DR, Graham Thompson
AA/PPC: SER/FM, J.O'Neil (phone) 9/3/78
DAA/AFR, Haven North

ACTION: APPROVED DISAPPROVED

AUTHORIZED SIGNATURE   DATE

Assistant Administrator, Bureau for Africa
TITLE

CLASSIFICATION

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1. Interest and Terms of Repayment: The Borrower shall repay the loan to A.I.D. in United States Dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years from such date. Borrower shall pay to A.I.D. in United States Dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the loan and on due and unpaid interest.

2. Procurement will be restricted to A.I.D. Geographic Code 000.

3. Evidence acceptable to A.I.D. of continued negotiations in good faith by the GOZ on a standby agreement with the IMF.

4. Evidence acceptable to A.I.D. of continued progress in implementing the economic and management reforms agreed to by the GOZ in the communique issued at the Brussels conference of June 1978.

5. Evidence acceptable to A.I.D. that specific Government actions are being implemented to resolve those problems identified in the Project Paper as overriding constraints to the improved efficiency of the agricultural marketing sector in Zaire.

6. Agreement by the Government to the terms and conditions of eligibility of recipients of loan proceeds.

7. Agreement for periodic consultations between the GOZ and A.I.D. in the implementation of the loan and end-user surveys on the utilization of loan proceeds.

8. Loan funds may not be used for the purpose of promoting or augmenting, directly or indirectly, any military or paramilitary operations in Zaire.

9. Commodities procured under this loan may not be used in the production of palm oil, sugar or citrus products.

10. Such other terms and conditions as A.I.D. may deem advisable.

SEP 11 1978

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

JWKoehring

FROM : AFR/DR, John W. Koehring

SUBJECT: Agricultural Market Support Loan - Zaire (660-K-025)

PROBLEM:

Your approval is required to execute a loan of $5,400,000 from the Security Supporting Assistance appropriation to Zaire (GOZ) for agricultural market support (Loan No. 660-K-025)

Discussion:

A. Project Description:

The proposed loan will assist the GOZ by providing additional foreign exchange resources for the purchase of equipment and supplies needed to rebuild the agricultural marketing infrastructure in Zaire. Items imported under this loan will permit an expansion in the marketing of foodstuffs from small farm production areas to urban consumption centers, thereby reducing the need to utilize scarce foreign exchange for food imports. Categories of commodities to be financed are limited to agricultural equipment and supplies to assist in transport, storage and distribution of basic foodstuffs. Commodities will include trucks, spare parts, storage handling and processing equipment, and component parts. No agricultural chemicals or spraying equipment will be financed by the loan.

In conjunction with the administrative and policy reform measures to be taken by the Government under its Agricultural Recovery Program of which key elements are spelled out below, such as an increased share of the public investment budget allocated to the agricultural sector, the items financed under the loan will provide a larger and more efficient storage and food handling capacity, and upgrade the capability of the truck hauling fleet to transport foodstuffs from the rural areas to the main consumption centers.

It is also intended that, coincident with the drawdown of the loan, the GOZ will take measures necessary to provide economic incentives, including higher producer prices, and to encourage increased agricultural production, particularly for those crops produced by small rural farmers,

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i.e., corn, rice and manioc. Together with such measures, the improvements in the agricultural infrastructure in Zaire financed under the loan will contribute to alleviating the balance of payments crisis by reducing the loss and spoilage of foodstuffs and lower transport costs which, in turn, will decrease urban food costs, increase agricultural production and alleviate one of the important constraints to the development of the rural sector in Zaire.

B. Financial Summary:

The loan will provide $5,400,000 of Security Supporting Assistance funds. The loan funds will be used to finance private sector imports only of commodities noted in the Project Paper, Annex I, Commodity List.

Prior to disbursement of these loan funds, the GOZ and private sector importers will have to agree to the terms and conditions noted in the PAAD.

C. Socio-Economic, Technical and Environmental Description

The project will provide, through the GOZ, foreign exchange to qualified private sector agricultural marketing agents. These agents will have to have approved financial and operational plans which include expenditures of local currency for goods and services to improve their firm's operating efficiency before they can draw down funds. In addition, these agents' operations will be subject to AID end-user surveys. If an agent fails to use the loan funds for the intended purposes of the project, the GOZ may be required by AID to make a suitable restitution.

Thus, although these non-project loan funds will be channeled to private sector agricultural marketing agents, we fully anticipate the loan funds will support the objectives of relieving some of the difficult constraints facing Zaire's agricultural marketing sub-sector. This can only serve to raise incomes of small farmers who are unable and, under present conditions, unwilling to make the additional investments for increasing production.

There are no significant technical issues involved in the proposed loan. USAID/Zaire has proven experience in implementing CIP loans and anticipates no problems in implementing the loan.

The Christopher Committee on Human Rights has voiced no objection to the proposed loan. An Initial Environmental Examination was undertaken and a negative determination is recommended.

D. Committee Action and Congressional Notification

The Project Committee reviewed the subject project on August 17, 1978. Subsequent to that meeting, and following the general recommendations from that meeting, Mission representative Edward Krowitz, assisted by AFR/DR, redrafted the Project Paper. The revised paper was reviewed by the Project Committee on September 6, 1978 and the Committee recommended that the project be authorized by AA/AFR.

The project was not included in the FY 1978 Congressional Presentation. Consequently, an Advice of Program Change was submitted to Congress. The fifteen day waiting period expired on September 5, 1978.

The individuals responsible at the AID Mission in Zaire for implementation of the project will be the Chief of the Agriculture Division and the Supply Advisor. The AID/W backstopping officer in the Africa Bureau will be Joseph Carroll, AFR/DR/CAWARAP. Mr. Viragh will be the main technical backstopping officer for the project for SER/COM.

RECOMMENDATION:

That you sign the attached PAAD, thereby authorizing the proposed loan, and that you approve the Negative Determination recommended in Annex II, "Initial Environmental Examination" in the attached Project Paper.

ATTACHMENT:
1. PAAD
2. Pro[illegible]t Paper

AFR/DR/SDP	:JNixon [illegible]	Date:	[illegible]
AFR/CAWA	:FScordato [illegible]	Date:	[illegible]
AFR/DP	:JCovan [illegible]	Date:	9/8/78
GC/AFR	:EDragon	Date:	
USAID/Zaire	:EKrowitz (draft)	Date:	9/6/78
DAA/AFR	:WHNorth	Date:	[illegible]

DRAFT:AFR/DR/CAWARAP:GThompson:mjb:9/7/78:29066

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AGRICULTURAL MARKET SUPPORT LOAN - FY 78

ZAIRE

I. Summary of the Proposed Loan

An AID loan of $5.4 million from FY 78 Supporting Assistance (SA) funds is proposed to the Government of Zaire (GOZ). This porposed loan will assist the GOZ by providing additional foreign exchange resources for the purchase of equipment and supplies needed in helping to rebuild the agriculture marketing infrastructure in Zaire. The items imported under this loan will allow an expansion in the marketing of foodstuffs from small farm production areas to urban consumption centers, thereby reducing the need to utilize scarce foreign exchange for food imports. Categories of commodities financed are limited to agricultural equipment and supplies to assist in transport, storage and distribution of basic foodstuffs. Commodities will include trucks, spare parts, storage handling and processing equipment, and component parts. No agricultural chemicals or spraying equipment will be financed by the loan.

As noted the loan will provide foreign exchange to finance imports of supplies and equipment to assist in the recovery of the agricultural sector in Zaire. Since 1974, the country has suffered a worsening balance of payments problem, caused by a drop in mineral export receipts due to the sharp drop in world demand for its chief export, copper, and the continued high level of demand for imported goods. The continued long-term decline of its production of agricultural products has deepened the foreign exchange crisis and caused severe food shortages in urban areas. As agricultural production declined, food imports went up dramatically and agricultural exports declined. The general lack of foreign exchange has also led to disinvestment in the agricultural sector, exacerbating the problem still further.

The disruption of copper production caused by the recent incursion into Zaire's copper mining region has accentuated the decline in the country's foreign receipts.

As exports declined, the GOZ failed to curb foreign demand for imported goods, and did not reallocate resources to potential export sectors such as agriculture to overcome trade imbalances. As noted, the stagnation in agricultural production has also reduced supplies of domestic foodstuffs, as well as reducing exports of agricultural products which, in the past, have accounted for up to 40 percent of export receipts.

At the recently convened meeting of donor representatives in Brussels in June 1978, the Government agreed to undertake a series of financial and economic reforms to deal with the economic crisis. In accordance with the commitments made by the Government, IMF recruited economic advisors have been installed in supervisory positions at the central bank, and additional experts are expected to be appointed in the near future to the Ministry of Finance and the Customs Services. The Government has entered negotiations with the International Monetary Fund for a renewal of the Second Standby Agreement to provide short-term balance of payments assistance, which will include as conditions provisions for reductions in the Government's budget deficits and new effective economic austerity measures. The GOZ has also indicated its intention of devoting more of its domestic resources to development activities, particularly for the agricultural sector.

The proposed loan is designed to provide financing for the purchase of capital equipment items, such as trucks, storage and grain handling facilities and other items, to improve the efficiency of transporting, storage, and marketing of foodstuffs at the secondary storage and collection points in the rural areas. The transport, storage and grain handling items financed under this loan will increase the supply of domestically produced foodstuffs in the cities, thus decreasing the need to use scarce foreign exchange for food purchases.

It is also intended that, coincident with the drawdown of this loan, the GOZ will take measures necessary to provide economic incentives, including higher producer prices, to encourage increased agricultural production, particularly for these crops produced by small rural farmers: corn, rice and manioc. Together with that measure, the improvements in agricultural infrastructure in Zaire financed under this loan will contribute to alleviating the balance of payments crisis by reducing the loss and spoilage of foodstuffs and lowering transport costs thereby decreasing urban food costs, increasing agricultural production and alleviating one of the important constraints to the development of the rural sector in Zaire.

The proposed loan will have a term of 40 years from the date of the first disbursement, including a grace period of not to exceed 10 years. The interest, payable under the loan, will be at a rate of 2 percent per annum during the grace period and 3 percent per annum thereafter.

II. Loan Analysis

A. General Economic Overview

Over the past four years, Zaire has suffered a serious balance of payments deficit, caused by a sharp decline in copper prices and worldwide demand for copper, exacerbated by a continued rise in the prices of imports following the sharp increase in oil prices in 1973. Appropriate domestic monetary and fiscal policies have not been followed and large government budgetary deficits, as well as a money supply increasing at a rate of 40 percent per annum, have caused a rate of inflation averaging over 50 percent per year for the last two years. Expansionary domestic and import substitution policies have increased demand for imported consumption goods and raw materials, thereby increasing the pressure on shrinking foreign exchange resources. Resources allocation policies have neglected the rural agricultural sector which, during the period immediately following Independence, had supplied up to 40 percent of the country's exports. The deterioration in the rural transport network, the nationalization of the plantation sector, and the discouragement of private sector investment further pushed the economy's dependence towards a limited number of mineral exports which are vulnerable to sharp worldwide price fluctuations. The recent events in Shaba Province, the major copper producing center in Zaire, for a short while curtailed copper production. For the current year 1978, it is estimated that the country's overall deficit will reach approximately $463 million, while its level of imports will be only one half of the level imported in 1972 in real terms.

The present political leadership of the country has, since 1965, aimed at rapid economic growth while decreasing the influence of foreign economic interests over key economic sectors. In 1968-73, GDP grew by about 7 percent per annum while the rest of the investment was as high as 23.5 percent. The highest growth rates occured in manufacturing, construction and services (including government), and, to some extent, in mining and power generation activities. The agricultural sector grew at an average annual rate of 2.5 percent, lower than that of population.

Data on the distribution of overall investment by economic sectors are not available. Indications from government investment data, and from the projects approved by the Investment Committee, are that a large share of investment went into mining, manufacturing and power. The bulk of investment took place in urban areas and regions of Kinshasa, Bas-Zaire and Shaba, where incomes were higher and growing faster than elsewhere in the country.

The high rate of output growth in 1968-73 did not reduce the country's dependence on mineral exports (particularly of copper) for securing its financial resources. New manufacturing industries have been mostly substituting imports of consumer goods. However, they generated new demand for imported raw materials, so that the import dependence of the economy remained unchanged or increased. As protection from foreign competition was assured through tax exemptions, quantitative import restrictions, and low tax rates on imported capital or intermediate goods, the growth of industry did not significantly expand the tax base. Mineral exports accounted for about 85 percent, with copper and cobalt exports alone amounting to 70 percent of total exports in 1968-73. About 40 percent of government revenues were derived, on the average, from export taxes of which nearly 85 percent were paid by Gecamines, the Government-owned mining company. Considerable short-term copper price fluctuations in the world markets increased the uncertainties regarding export earnings and government revenues and added to the difficulties of the country's economic management.

In contrast to the relatively rapid rate of growth prior to 1974, gross domestic product has dropped for the past three consecutive years. Beginning in 1975 gross output fell by five percent in 1975, a further three percent in 1976, little or no growth in 1977, and will likely fall this year, mainly due to the economy's overdependence on one export item, copper, and the sharp drop in copper prices starting in the third quarter of 1974, the disruptive effects of Zairianization measures, the cutback in mineral production due to the Shaba incursion and the shortages of essential imported goods caused by the lack of foreign exchange. All sectors of Zaire's economy have been adversely affected by high levels of government spending for non-productive purposes and large budgetary deficits with consequent high domestic inflation which have caused serious budgetary and balance of payments problems and a decline in economic growth, particularly in the agricultural sector. A first stabilization program was adopted by the Government in 1976 in consultation with the IMF and a second program was adopted in April 1977. Per capita income, in real terms remains low, estimated at about $140,for the country as a whole, and cash income in rural areas is considerably less.

Since 1965, the Government policies have been directed at rapid growth of the modern sectors, specifically of manufacturing, mining and related activities. Investment policies gave priority to these sectors in the allocation of public resources. Wage and bank credit allocation policies have also been geared to this objective and encouraged the growth of the modern sectors. The exchange rate policies and reliance on copper exports tended, in recent years, to distort factor prices and hampered the emergence of a competitive and export-oriented industry. The Government also intervened in the resource allocation process by directly determining prices for a number of agricultural and manufactured commodities. This policy discouraged private investment and productivity in agriculture. Fiscal policy, mainly tax rebates, attracted private foreign and domestic investment to mining and manufacturing industries (located in urban centers), but not to agriculture.

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The stagnation and decline in agricultural production, particularly in plantations, induced a process of rural emigration, on the one hand, and a return to subsistence farming on the other. This neglect of the agriculture sector was facilitated by the strong export demand for copper and the high price for the commodity. Copper prices doubled between 1972 and the second quarter of 1974.

Copper production rose 25% during this same period. As the single largest earner of foreign exchange (accounting for 60% of export proceeds), the prosperity of the copper industry has been a determining factor in the overall prosperity of the economy.

Thus, although the rate of economic growth was relatively high, its pattern seems to have aggravated the imbalance in the economy. Economic growth occurred essentially in the modern sector and affected only the regions of the country which were relatively better off. The dependence of the economy on a limited number of mineral exports continued during the period and its vulnerability to world price fluctuations increased as the growing urban population and industrial investment were oriented solely to the domestic market and depended increasingly on imports. Since continuation of past growth rates would be impossible with this growth pattern (unless copper prices continued at their unusually high levels), a restructuring of growth patterns and a restriction on consumption and revisions in investment patterns would become necessary.

1. Balance of Payments

As the single largest earner of foreign exchange (accounting for 60% of total export proceeds) the prosperity of the copper industry has been a determining factor in the overall prosperity of the economy. High copper prices and increasing production ended during the latter half of 1974, when copper prices, which had doubled from the 1967-68 level, started to weaken. With the sharp decline in copper prices beginning in the third quarter of 1974, severe economic dislocations were felt on the economy due to the heavy reliance on a single export product, and the neglect of other sectors such as agriculture during this period. Copper prices dropped by more than 50% in 1975 from their 1974 high. Total export receipts dropped by almost one-third by the end of CY 1975. The adverse affect on the balance of payments of the increase in the prices of essential import items, notably petroleum products, caused a deterioration in Zaire's terms of trade by almost one-third during 1975. The overall balance of payments deficit in that year reached $335 million as compared to a deficit of $220 million in 1974. Despite the same

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nominal level of imports in dollar terms, imports in real terms in 1975 were reduced one-half, due to the sharp price increase. To finance this trade gap, Zaire drew down exchange reserves and borrowed abroad. Debt service payments as a percentage of export receipts climbed from 9% in 1973 to 24% in 1975. External debt, which stood at $1.7 billion at the end of 1973, increased by $900 million in one year. Arrearages on the debt payments of principal and interest amounted to $1.4 billion in 1975.

With its foreign exchange virtually exhausted, and large amounts of short-term credit falling due, the Government, in March 1976, introduced a Stabilization Program supported by a Standby Arrangement with the International Monetary Fund (IMF) of SDR 41 million. Zaire was able to make use of additional Fund resources under the Compensatory Financing Facility (SDR $56 million) and under the Oil Facility (SDR $33 million). However, as actually carried out by the GOZ, the 1976 Stabilization Program failed to prevent a further deterioration of the overall economic and financial situation in Zaire. Domestic production continued to decline, inflation accelerated, and a large arrearage on debt service payments continued to accumulate.

Under the Stabilization Agreement, the Government depreciated its currency by 42%, a ceiling of 20% was put on wage increases, and total credit growth was limited to 22%. Some improvement was achieved in the external accounts, as the current trade deficit was reduced by one-half from Z 656 million to a 237 million deficit. However, the Stabilization Program floundered because of the Government's inability to control expenditures and to limit domestic demand. The overall treasury deficit increased to the equivalent of 39% of expenditures, or about Z 313 million, as compared to a performance goal of Z 60 million. Budget revenues, which had been expected to rise 40%, increased only 13%, due to the country's dependence on copper and imports duties as the chief source of government revenues. Arrearages on debt payments increased SDR 77 million in contrast to the intended target goal of SDR 60 million.

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STANDBY TARGETS AND PERFORMANCE
UNDER 1976 IMF STANDBY AGREEMENT

Domestic Sector	Target	Actual
Budget Revenues		
(Z millions)	620	486
(percent increase over prior year)	(40)	(13)
Budget Expenditures (Z millions)	680	800
Government Deficit (Z millions)	60	313
Domestic Credit Expansion		
(% growth)	22	47
External Sector		
Balance of Payments Deficit		
(SDR mil)	26	135
($ mil)	(30)	(156)
Reduction in Debt Payments		
($ mil)	70	-89 (increase)

A second program was adopted on April 25, 1977, supported by a one-year Standby Agreement with the Fund in the amount of SDR 45 million of which only SDR 5 million was actually drawn. In addition, a second purchase under the Compensatory Financing Facility (SDR 28 million) brought IMF financial assistance during the 1975-77 period to about SDR 200 million. The 1977 program also failed to achieve its objective, mainly because of the failure of the Zairian authorities to implement policy stabilization measures and because the economy's continued dependence on copper and the continued weakness in the international copper market.

The new stabilization program aimed at curtailing domestic demand and demand for imports through a ceiling on government budgetary expenditures, a freeze on government salary increases and private sector wages, and suspending indexing of copper workers' wages. These measures were expected to reduce real wages by 15%. The Government also agreed to reduce the fiscal deficit from Z 313 million in 1976 to Z 160 million by the end of 1977. The performance standby criteria also included a limit on expansion of bank credit to 24% in 1977, in contrast to a 1976 figure of 47%. These measures, together with an expected $250 million commercial bank Eurodollar loan, were expected to reduce the balance of payments deficit to a figure of SDR 50 million, including a reduction in debt arrearages by at least $100 million in 1977 from a total arrearages figure of more than $400 million in 1976.

The performance evaluation by the IMF revealed a substantial departure from the Standby Agreement, thereby triggering a suspension in IMF assistance. The overall budgetary deficit in 1977 amounted to Z 250 million, equivalent to about 50% of Government revenues in that year. Government wage payments in 1977 amounted to Z 350 million or 55% higher than budget estimates. As a result of this expansion in the budgetary deficit, money supply and import demand increased, the overall balance of payments deficit widened to about Z 300 million in that year and, as before, was financed entirely by accumulated payments arrears toward foreign suppliers and creditors.

Difficulties in adhering to agreed-upon targets were, in large part, due to the rapid and continued growth of Government expenditures and the lack of rigorous control over department budgets and expenditures. The Fund staff concluded that, in order to achieve a reasonable improvement in the Government's economic management of the economy, the Bank of Zaire would have to exercise more effective control over repatriation of export receipts, promptly amortize external payment arrearages and tightly control foreign exchange expenditures, giving priority to essential imports and the expansion of export-related industries. The Government has given its agreement for the IMF to provide foreign experts who would be placed in the Central Bank, Customs and Ministry of Finance with authority to implement the budgetary and foreign exchange reforms considered essential to the country's economic recovery.

2. Economic Prospects

Even before the May 1978 events in Shaba Province, it was clear that large quantities of long-term development assistance would be necessary to support an economic recovery program in Zaire. The damage inflicted on copper production facilities is not precisely known at this time. However, the disruption in the country's major export-producing sector will only add to the financial burden required in restructuring the economy and providing assistance for an economic recovery program. Without both stabilization assistance and long-term development support, the balance of payments deficit would become too large for the country to undertake both reform and recovery efforts at the same time.

It was also cleare before the events in Shaba Province that significant amounts of long-term development assistance, coupled with serious economic policy reform by the GOZ, would be necessary to bring about a sustained economic recovery in Zaire. The extent to the disruption caused by the Shaba invasion to the mining sector and to the economy as a whole is not precisely known. The Gecamines complex at Kolwezi, which accounts for 75% of Zaire's copper production and 90% of its cobalt production, incurred limited physical damage and was closed only briefly as a result of the invasion. However, most of the expatriate staff have departed Zaire. While it appears that a significant number would be willing to return, their future status is unclear. The GOZ is reassessing the number and role of expatriates required in the Gecamines operation. Near normal production levels have been achieved under Zairian management (the GOZ claims that mining operations are running at 89% of capacity). However, there is concern that this is only a temporary phenomenon which will end if major machinery breakdowns occur due to lack of preventive maintenance and/or an emergency situation occurs. Moreover, a significant amount of the equipment at Kolwezi is old and may have to be replaced if current production capacity is to be maintained. Gecamines' problems must be resolved if Zaire is to achieve solvency. However, the current balance of payments situation makes it unlikely that substantial investment will be made without external balance of payment support. Indeed, without both emergency stabilization assistance and long-term development support, the balance of payments deficit would become too large for the country to undertake both stabilization and development efforts at the same time. Further, long-term development prospects are dismal, even with a healthy Gecamines, if fundamental policy reforms are not undertaken by the GOZ.

The difficulties facing Zaire in 1978 are compounded by long-term economic stagnation caused by economic mismanagement and neglect of key economic sectors such as agriculture. 1977 was the third consecutive year in which there was a downturn in production. Domestic production was no higher in real terms than the level of 1970. Inflation continued during the first six months of 1978 at a rate slightly less than last year's 70%. As a result, domestic savings and the level of domestic investments were below the level necessary to prevent a decrease in domestic production. In addition to an estimated $250 million in yearly project pipeline disbursements, World Bank estimates place the balance of payments support required to finance a level of imports in 1978 equal in real terms in the order of $200-300 million in additional financing. In addition to financing minimal import requirements, Zaire has approximately $700 million in debt service arrearages in 1977 and another $500 million due in 1978.

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foreign exchange receipts over the next three years are not likely to provide financing sufficient to purchase the raw materials required to utilize existing productive capacity and finance essential imported consumption requirements. For example, in order to reach the 1972 import levels for 1980 in real terms, the external assistance requirement above export and project pipeline disbursement of $220 million would require some $400 million in 1979 and about $900 million in 1980. These assumptions preclude an increase in exchange reserves or payments on external arrearages and income transfers. Debt-service obligations alone would amount to about $500 million per year in each of these two years and would represent about one-third of the country's projected foreign exchange earnings. See Tables I and II, following, for Balance of Payments Projections.

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TABLE I

ZAIRE SUMMARY BALANCE OF PAYMENTS, 1970-76
(in millions of dollars)

	1970	1971	1972	1973	1974	1975	1976
Trade Balance	217	13	-61	61	-95	-188	-13
Exports, F.O.B.	800	695	691	1,037	1,346	853	1,016
Imports, F.O.B.	-583	-682	-752	-976	-1,441	-1,041	1,029
Services (net)	-259	-257	-305	-367	-571	-503	-381
Unrequited transfers (net)	-21	120	6	26	3	35	57
Current Account Balance	-63	-124	-360	-280	-663	-656	-337
Monetary capital (net)	42	52	328	338	417	89	228
Application of SDRs	15	13	13	-	-	-	-
Errors and omissions (net)	-2	13	11	11	25	30	-47
Overall Balance	-8	-46	-8	-69	-220	-537	-156
Financed by:							
—Reserve movements (net)	-8	-46	-8	69	-93	-173	-67
—Accumulation of arrears (net)	-	-	-	-	-	-329	-89
—Profits from sales of officially held gold	-	-	-	-	-127	-30	-

Source: American Embassy, World Bank and IMF staff studies and projections.

Table I A
Zaire's Balance of Payments Estimates - 1977-78
(In million of dollars)

	Preliminary 1977	Estimates 1978
Exports	1130	1035
Imports	1043	1150
	97	(115)
Services (net)	-154	-295
Transfers (net)	-106	- 89
Monetary Capital	-50	12
Application of SDRs		24
Errors & Omissions		
Overall Balance	(213)	(463)
Financed by Reserve Movements	-70	-113
Accumulation of Arrears*	-143	-350

*Estimated Cumulative Arrearages
1975 to 1978 - (-911)

It is estimated that in addition to an estimated $240 million in yearly project pipeline disbursements, the balance of payments support required to finance a level of imports in 1973 approximately equal in real terms to the 1977 level, is in the order of $200-300 million. However, foreign exchange receipts over the next three years are not likely to provide financing sufficient to purchase the investment equipment required to utilize existing productive capacity and finance essential imported consumption requirements.

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3. Debt Service Prospects

Zaire now ranks fifth in external government borrowing outstanding among LDCs with approximately $3 billion of private and government obligations outstanding. The debt service ratio through 1980 exceeds 25% of the prospective export receipts. To alleviate the burden of these payments on the economy, Zaire's major government creditors organized the "Paris Club" to hold discussions on Zaire's external debt in 1976, following the country's agreement with the IMF on a Standby Agreement. In June 1976, eleven creditors agreed to reschedule outstanding arrears on interest in 1975 and 1976, as well as payments on principal falling due in the second half of 1976. The creditors agreed on this rescheduling program on the condition that Zaire would seek a comparable rescheduling arrangement on its private debts with commercial banks. A second rescheduling agreement arranged in June and December 1977, resulted in the rescheduling of 85% of principal and interest payments coming due in 1977. According to preliminary data, Zaire debt service payments in 1978 were expected to total $254 million. Major creditors are the United States (28%), France (22%), Italy (13%), and Belgium (12%).

Creditors agreed to meet in April 1978 to study the debt rescheduling problem, but postponed the meeting, due to difficulties in negotiating an IMF standby and failure to conclude a comparable agreement with private debt creditors. The creditors agreed on this rescheduling program on the condition that Zaire would seek comparable rescheduling arrangements on its private debts with the commercial banks. Public debts to Paris Club memebers owed, but not being paid in 1978 are estimated at $254 million. If these are formally rescheduled, Zaire's obligation for this year would be reduced. Further Paris Club meetings to consider rescheduling of the Government's debt service are contingent upon continued good faith negotiations by the Government of Zaire with the IMF in negotiating a new Standby Agreement and in adhering to the economic reform measures agreed to at the June 1978 meeting of donor representatives at Brussels.

4. Private Bank Debt

Prior to the Shaba incursion a consortium of private banks, headed by Citibank, had offered to refinance a substantial portion of Zaire's private debts through a five-year period. Zaire, however, would have had to become current on its arrears, now estimated at $196 million, and be in compliance with an IMF Standby Agreement. The GOZ has only about $85 million in a special Bank of International Settlements (BIS) account earmarked to be used to erase the arrears to these banks.

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Because of its stingent financial position and the difficulty of raising $196 million, the Government is likely to postpone signing of this agreement and utilize the BIS account funds to continue serving interest and principal payments on its private debt to consortium members, while attempting to negotiate better terms and a longer refinancing period with the private banks. Whatever arrangements are finally agreed to between the Government of Zaire and its creditors, debt service payments on the country's foreign public and private debt will weigh heavily on the ability of the Government to devote its export surplus to development purposes. Generous and long-term rescheduling of its debts is a basic necessity in order for Zaire to start utilizing its foreign exchange for rebuilding the infrastructure and productive facilities which have been allowed to run down over the past decade. However, a serious and sustained effort must be demonstrated by Government to donor governments and international creditors that the leadership of the country is allocating available resources in the most efficient manner possible for its economic welfare before Zaire can expect to receive large amounts of external assistance on generous terms or long-term rescheduling of debt payments.

5. Other Donor Assistance

Zaire receives bilateral and multilateral assistance from more than 10 donor organizations. It is estimated that pipeline project disbursements from all sources amount to approximately $200 to $250 million annually. Belgium provides the largest share of this amount ($110 million in 1977), primarily in the fields of education, agriculture and technical expert assistance to government ministeries. France, which is also active in these same areas, and, in addition, is a source of large commercial loan assistance, provides an estimated $30 million per year, with West Germany and Canada following with approximately $5 to $10 million expenditures per year (Canada's contributions are rising towards the $20 million per year level). Multinational assistance is primarily from the IBRD, which programs approximately $100 million per year from the International Development Association (IDA) but has difficulty in obligating more than one-half that amount. The EEC has programmed over $130 million for the three years ending in 1980, of which only two-thirds has been obligated. The recent Brussels Conference on emergency assistance to Zaire resulted in pledges of food aid, spare parts, and medicines of approximately $120 million, of which approximately $30 million (from Beligum and EEC) were additional new aid commitments.

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B. Agricultural Sector

1. Sector Description

Only 1% of Zaire's total area is cultivated; 45% is covered by equatorial forests and the balance comprises savanna, mountains, lakes, rivers and marshes. About three quarters of Zaire's population derives its livelihood from agriculture and much of the remainder is indirectly dependent on it for employment. In 1975 agriculture's contribution to GDP was about 15%. About one half of agricultural production is marketed and the other half consumed directly by producer families. These proportions reflect the dual nature of the agricultural sector. On the one hand, there are between three and four million traditional small family farms, whose combined production account for about 57% of total agricultural output. These families grow food crops for subsistence, mainly cassava, maize, plantain and rice, and small amounts of cash crops, usually coffee or cotton. On the other hand, there are the commercial farm organizations, ranging from small and often poorly managed plantations, working at low levels of efficiency, to large, coporation-operated plantations which include ranches extending over large land areas. The first commerical plantations date back to the beginning of the century and were designed primarily for industrial scale export crops, mainly oil palm, coffee and rubber, and, to a lesser extent, cacao and tea. The plantation sector remains of great importance for the Zairian economy, because of its foreign exchange earnings and because it provides substantial employment.

Many adverse conditions in Zaire, starting with the political turmoil of the 1960s and followed by the nationalization policies, the lack of spare parts and other essential imports and the deterioration of transport facilities, compounded by unfavorable price policies and inadequate wages and social services for plantation workers, have discouraged the upkeep of existing plantations, the replanting of old plantations and the renewal of factory and other equipment. The result has been a pronounced decline in all export crops except coffee.

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Traditional agriculture comprises some three to four million farming units and 70 to 75 percent of the population. Under the traditional system the tenure of land is held by the tribe, and, given the relative abundance of land in most regions, the tribal chiefs, or their representatives, rarely have to allocate fields to indivudal families. Because of the practice of shifting cultivation, a farmer will be allocated as many as five or six different plots, each averaging 0.4 hectares. A farmer will cultivate a given plot for four years and then shift to another.

a. Production Constraints

The farming population is generally found responsive to economic incentives, including prices. The responsiveness of the farmer to price incentive varies with the type of crops cultivated, accessibility to large consumption centers, the ease with which farmers can arrange sales at muturally agreeable prices, and availability of marketing and transport facilities. For a combination of these reasons, not all of which are clearly known, nor each factor's contribution, the regions of Bas Zaire, Kasai and Northwestern Zaire have demonstrated a quick response to expanded farm production when these other essential factors have been present. On the other hand, for perennial crops, the gestation period of investment is long and, for that reason, changes in production and supply in response to price changes are slow to evolve.

The division of a farm work allocates crop cultivation and marketing to women, while men do the cleaning, soil preparation and associated heavy work. It is not yet known to what extent this division of responsibilities would constrict large-scale production efforts by small farm units. The problem of a labor shortage may be pardoxical while large scale urban employment is widespread throughout the cities. However, the continued migration from rural areas to the cities, and the strict division of farm work according to sex, may pose some limit on increased agricultural production in the long term without additional inputs to increase existing labor productivity such as small scale farm tools, small hand plows, new planting materials and fertilizers. However, sufficient unutilized land and labor exists on the farm level that this does not present itself as an immediate short-term constraint to increasing food production in Zaire. It is expected that this problem will be among those examined in the context of the Agricultural Sector Studies which are expected to begin at the end of 1978.

The monetization of the traditional agricultural sector has probably declined in Zaire since Independence. Between the late 1950s and the early 1970s, commercial sales of an average subsistence sector farm family decreased from $40 to $30 per year (expressed in 1970 dollars). However, the amount of cash sales still plays an important element in the agricultural economy. Half of marketed crops, both food and cash crops, originate on small traditional farms. Sixty percent of the marketed value of livestock, fish and forestry products also come from this sector. Total annual income of a family in the traditional sector was estimated in 1975 at about $130 and, at present, about $140.

Although productivity in the traditional sector appears exceedingly low, it can increase very sharply when the minimum factors now missing are in place. These include adequate producer prices, sufficient alternative marketing outlets so that competitive prices are offered the farmer, adequate storage facilities at secondary collection points, transport facilities and the positive encouragement of governmental entities for the unrestrained and smooth movement of commerce. It would also follow that the farmer enjoy sales proceeds without being subject to whimsical reactions from military or civilian local authorities and special taxes or coercion when he receives the fruits of increased production efforts. The extent of this factor is restraining farm production is unknown at this time. However, ample opportunity exists for raising farm income. A traditional farmer who has one hectare in oil palm in the Kikwit area could raise family income by 20 to 25 percent with a labor input of 60 to 70 days. The reasons for subsistence farmers not taking advantage of such opportunities for increasing income will be explored in one aspect of the Agricultural Sector Studies. The low level of income in the traditional sector, together with declining employment opportunities in the plantation sector account, in large part, for the rapid migration to the cities. The low incomes and decline in food production has seriously affected the well being of the farmers. About one-third of the rural population suffersfrom deficiencies in caloric intake and a grave shortage of protein is characteristic of most of the population of the country.

The decline in agricultural production since Independence has been even greater for cash crops such as palm products, rubber, forestry products, cotton and fish. Production of cocoa, groundnuts, sugar, maize and meat has been maintained at the absolute level of 1959. Coffee, tea and rice production has increased compared to that of 1959, although in rather modest proportions. Traditional crops, the most important of which is cassava, seem to have increased in line with the population.

A multiplicity of factors explains the trend in production of various commodities. First, unsettled conditions in the 1960s did not affect all parts of the country equally. Disruptions, ranging from the collapse of transport facilities to the dispersal of cooperative organizations, proved more difficult to reverse in some regions and the production of crops cultivated in these areas could not regain their earlier level. Second, the deterioration of transport services affected various commodities differently, e.g., production and trade of more perishable commodities suffered more severely from the breakdown in the transport system. It is reported that one to two years delay in the marketing of a coffee crop is not unusual in some regions. Products which would be more perishable than coffee beans could not be produced under these conditions. Also, increases in transport costs affected more severely the bulkier products, such as timber. Third, special efforts were made for some commodities by external aid agencies, e.g., the tea products financed and supervised by the European Development Fund. Finally, Government pricing policies had different effects on commodities which are exclusively for export, and on those in part destined to domestic consumption. In both cases, the incentive to the producer was lessened by low producer prices established by the government. But, in the case of purely export crops, the exporter who obtained the prevailing world market price could offer greater non-price incentives to the producers (by providing transport, storage, credit, etc.), than could be offered by the wholesaler in the domestic market, facing a controlled low price. In the case of palm products, the producer price policy would probably not have been as detrimental, if the processors were not required to market half of their output domestically at a price about half of the world market prices. In the case of coffee and cotton, the existence of commodity offices may have helped the recovery in recent years by organizing the marketing of these commodities.

Primary storage at the producer level takes place in traditional storage bins or in farmers' houses. The system of central village storage of seeds, as it existed prior to 1960 in the provinces, has largely collapsed. Consequently, losses and damage to crops are high. Produce purchased in bags from producers is taken to unimproved storage centers where fumigation facilities are lacking and losses can range from 10 to 30 percent or higher. Modern storage facilities are found only at the corn mills. By the time the grain reaches the mill, its quality has seriously deteriorated, as shown by the low milling returns obtained. Local maize, for example, yields only 80 percent flour, compared with 92 percent for imported maize.

2. Agriculture Sector Constraints

There is little doubt that the traditional farmer as well as the large-scale plantation owner will increase output, the necessary physical infrastructure is in place : storage and transport facilities, and adequate financial returns offered. More favorable prices to farmers, and higher profit margins to intermediary marketing agents, would go a long way in encouraging increased production and food supplies in the cities. This improvement, however, must be accompanied by more fundemental reforms in the Government's policies for agriculture - an increase in budget resources devoted to the agricultural sector as well as increased investments in roads, transport equipment, marketing facilities, plant materials and small food processing equipment. Only with new investments and changes in the ratio of prices received for output versus the availability and costs facing the producer and distributor, can the country achieve a greater increase in food supplies and agricultural exports.

The achievement of such an objective requires a greater Government commitment to overcoming the past administrative obstacles which have caused the stagnation in agricultural production, and which are further elaborated below.

It would also require a greater coordination of government policies in fiscal trade, price and budget matters. It would require a revised agricultural development plan and stronger government actions to carry out proposals than has heretofore been demonstrated. The Government's Agricultural Recovery Program,presented to donor representatives at the Consultative Sub-Group meeting in Kinshasa in March 1978, did not provide a clear direction for encouraging agriculture. The Investment Program presented was not consistent with the Program's overall emphasis on encouraging production of basic food crops. Increased government budget investments for agriculture were not implemented. Long-term recommendations did not provide guidance for immediate government actions. A coherent set of guidelines for steps the Government should take has yet to be outlined. Despite this, there are steps which could be taken to eliminate administrative obstacles and provide financial incentives which, together with increased investment resources, could help achieve rapid improvement in the sector.

Government policies toward agricultural development have been marked by less initiative and encouragement than in other sectors of the economy. A ten-year program, aiming essentially at self-sufficiency in basic food crops by the 1980s, was elaborated in 1970. But the program was never provided with the means for its implementation and no other program replaced it. In the absence, therefore, of an overall program, policies were pursued in a general atmosphere of indifference, without much regard to their effects on the economy or the stated objectives of the leadership.

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In March 1978, the Government presented its three-year plan (1978-1981) for the rehabilitation of the agricultural sector. The main objectives of the new agricultural policy are to increase agricultural production in order to (i) satisfy national needs for basic foodstuffs; (ii) provide raw materials for domestic agro-industries; (iii) increase exports; and (iv) increase farmer income and improve living standards of farm families. A number of policy changes were suggested: modifications and in some cases, where justified, abolishing State marketing boards, increased government investment budget for agriculture and a list of proposals for donor aid to agricultural projects. Some policies have been implemented. Seven marketing boards were abolished in June of this year. However, the recommended increase in the public investment budget for agriculture has not been acted upon, nor has there been any sign of more coordinated government policies or programs toward agriculture.

Agricultural production has been adversely affected by government policies in at least three fields: investment programs, commodity pricing and marketing. Very little investment took place in the plantations since Independence, while at the same time, the Government was not carrying out any large program to improve transport and marketing facilities. This infrastructure was designed originally to serve the plantation, but the physical availability of transport affected the traditional sector by attracting activities close to the communication axes as well as by encouraging production for the markets. Little transport investment has been made since Independence in support of agriculture.

A. Budgetary Resources

Agriculture has also suffered from the low level of public investment in the sector. From 1970-1974 agriculture's share of the recurrent budget fluctuated between 2% and 3% while its share of the public investment budget varied between 2% and 4%. Even if allowance is made for expenditures through the Department of Education and Presidency, Government expenditures in agriculture would be on average less than 5% of total Government expenditure. Expenditures in agriculture financed directly by external sources, and not included in the budget, seem to be substantial and probably of the same order of magnitude as the budgeted expenditures.

Since 1976, the Government has expressed its intention to give a higher priority to agricultural development, but has not translated these statements into additional financial support necessary to carry out the minimum service functions in agriculture. Low budgetary allocations have restricted the amount of qualified agricultural personnel, and have prevented paying salary levels required to attract competent personnel. The Department of Agriculture has some 7,500 established positions, with 440 professional agronomists and veterinarians and some 4,200 "officers". The latter are normally supposed to assure extension work. Most of the professional staff work in Kinshasa or in regional capitals. However, these numbers fall far short of the personnel required for the sector as a whole and, for the most part, lack the professional training needed to provide technical guidance for the small farmer. Professional education facilities for training higher qualified technical personnel are already available at agricultural campuses at the Kisangani, Yanganki, Bergamisa and Lubumbashi campuses of the National University (UNZA). But the institutions lack the staff and equipment necessary to adequately train the existing student body. Greater reliance on expatriate staff is required until a trained Zairian staff is ready to assume these functions. Unfortunately, the salaries of the existing staff, both Zairian and expatriate, have not been paid for over three months. Attracting additionally qualified staff will be impossible without the Government fulfilling its obligations to the existing staff. In addition, the curriculum at the various educational institutions must be revamped and the practical aspects stressed, such as increased emphasis on farm management, accounting and agricultural vocational training.

Although many of the changes suggested by the weaknesses are institutional, and would become fully effective only in the long term, the major means for improving the weak and inefficient nature of the agricultural services in Zaire is provision of a higher share of the Government budget to agriculture to improve the low wages and salaries of present agricultural training schools, to provide these schools with the qualified professional staff, and to provide the logistical support - suitable equipment, means of transport, etc., - which so often prevents the existing staff from carrying out its responsibilities. These measures would have a quick and direct impact on improving the utilization of existing resources devoted to agriculture.

3. Administrative and Organization

An additional constraint in the effective utilization of existing agricultural potential in the country is the divided responsibility and poor coordination among the government departments and offices responsible for the agricultural sector. Five government agencies are directly involved in the agricultural sector: (a) the Office of the President is responsible for agricultural research and for the operations of the presidential domain; (2) the Department of Agriculture is responsible for the "management" of the sector - extension, veterinary, research, forestry and fishery services and studies; it also assures supervision of the commodity offices; (c) the Department of National Economy, through its Price Commission, fixes producer and retail prices for agricultural commodities; (d) the Department of Education establishes and runs educational facilities for training professional agriculturists; and (e) the Department of Rural Development has responsibilities for providing agricultural inputs - seeds, fertilizers, small tools and farm equipment to small farmers.

The Department of Rural Development was only recently created and was given additional responsibilities for expanding agricultural production. These functions have not been adequately spelled out in details, nor the division of its responsibilities and the other institutions dealing with agriculture. The kind of services which it is to provide the rural population is not sufficiently well defined, nor the kind of projects it is to undertake. A clearer definition of the role of Rural Development is required to prevent the duplication of efforts and administrative entanglements which has hindered the effectiveness of government's agricultural services in the past. This includes a clear distinction of responsibilities of the Department from those of the Department of Agriculture and the allocation of budgetary and personnel resources to fulfill its responsibilities. If these resources are not made available, the Department will encounter similiar difficulties in its operations as the Department of Agriculture.

C. Pricing

Since 1967, the Government has fixed producer prices and wholesale and retail prices for agricultural products sold in the domestic market in Zaire. In addition, the prices and margins allowed distributors have also been set by the Government. These official prices have usually been below actual market prices and, because of worldwide increases in all international commodity prices, high domestic rates of price inflation and general shortage of all supplies in the domestic market, the farmer and the distributor have faced an administratively imposed ceiling on cash incomes, and a deterioration in their terms of trade.

These policies were designed to protect the consumer and lower the high cost of foods for the rapidly increasing urban population. However, due to shortages in supply, and a rising effective demand on cash incomes in the cities, the official prices are usually not effective at the retail level, and basic foodstuffs are usually sold at prices far exceeding the official price. At the producer level, however, and also at the wholesale level (ex-Kinshasa), the low official prices are enforced. The sporadic, and often inconsistent, nature of the attempts at enforcement of the unrealistic government control of prices discourage producers from engaging in commercial marketing efforts or from attempting to satisfy a large unmet urban demand for food from domestic sources.

The Department of National Economy, through a committee where the Department of Agriculture and relevant commodity agencies are represented, establishes minimum producer prices for major agricultural commodities for export (palm products, coffee, tea, rubber and pyrethrum) and for domestic sales (rice and corn, manioc, cotton and peanuts). Wholesale prices for livestock, rice and sugar are also fixed and controlled. All producer prices remained unchanged from 1967 to 1972, while retail prices in Kinshasa almost doubled. Increases in corn and peanut prices were authorized in 1972. Other price increases were granted in 1973, 1976 and, more recently, in June of 1978. However, the increases are usually late in coming and soon become out of line with rapidly increasing level of domestic prices and fluctations in commodity prices in the international markets.

In general, the guaranteed minimum producer prices function as minimum prices, except in special circumstances. Minimum producer prices generally apply at the point of first delivery and the producer secures this minimum price net of transport costs. The price regulations are enforced by the processors, or wholesalers, who themselves often face controlled prices, or by the marketing offices (for cotton and coffee). In the case of export crops, the exporter sells at world market prices, but, even in this case, the producers do not seem to obtain any higher price than the one fixed by the Government. In a given region the number of exporters or wholesalers is limited and often one firm or commodity office, is the only buyer.

In some instances, producer prices have gone above the minimum levels, e.g., during the manioc crop failure in 1970-71. Since 1975-76, the official farm price for corn has had little or no influence on actual market prices for corn because of the acute shortages in corn supplies: merchants compete for the farmers' production and, at least for the present time, farm level prices offer considerable production incentives.

One feature of corn price policy is somewhat effective. Prices at the mill level are enforced for large mills. Because no allowance is made for storage costs, there is no incentive for these large mills to store, and corn and corn meal move through the marketing systems as rapidly as possible, increasing seasonal price fluctuations. Processing margins have not been adjusted for inflation and do not cover costs.

Failure to allow for the real costs of transport limits large mills to corn produced nearby or to imports. These policies favor small, unregulated mills and have led to the closing of some large mills.

The Government's price policies have resulted in low prices received by farmers in relation to the costs of many farm goods, including material input prices. Farm incomes fell and the amount of food production for cash sales also declined. These policies have discouraged new investments and discouraged output and the export of agricultural products. This has also contributed to the decline in rural sector investment and employment, the high rate of rural migration and the subsequent rise in food imports: food imports represent about one-fifth of domestically-financed imports. This situation not only strains the balance of payments but it also worsens rural poverty. Of particular concern are the mounting imports of food grains. Imports of corn are at around 100,000 tons per year and imports of rice are at about half of that level. Meat imports have been running at some 12,000 tons per year and fish about twice that amount. Imports of malt represent the equivalent of some 40,000 tons of barley annually. Corn, wheat and meat imports doubled between 1969 and 1973; those of rice almost trebled. Most of these imports could have been supplied from domestic production.

In conjunction with a more effective working free market system, the policy of guaranteed minimum producer prices may provide a welcome floor for minimum farm income. However, this combined with other Government constraints on the marketing of food products (the system of low producer prices, which do not take account of actual market demand and supply situations and remain unrevised for long periods of time, the control on wholesale margins and the discouragement of an effective marketing mechanism to assure the producer receives the best possible policies of his output) have, in effect, cancelled any positive incentive effects from this policy.

D. Marketing

i. Public Sector

Until 1973, there were three commodity offices, or para-statal marketing organizations for cotton, coffee and livestock. Early in 1974, seven more offices were set up for grains, oils, rubber, sugar and timber. In mid-1978, seven of these offices, were abolished for grains, oilseeds, coffee, cotton, livestock, sugar, etc. These institutions were often ineffective in providing a channel for the marketing of surplus production. They also failed to provide encouragement to the private marketing system or foster widespread competition among private traders which would, in itself, promote producer and consumer interests. The National Cereals Office (ONACER) was established in 1974 to stabilize corn prices, as well as produce corn itself and furnish technical assistance to corn producers. In fact, ONACER has intervened in corn marketing in only very minor ways. Its purchases amounted to no more than 3% to 4% of the total grain quantities moving through commercial channels. Without either financial or technical resources to perform its legislated functions, it licensed private traders to carry out maize marketing. In Kasai Oriental, after buying 264 tons of maize in 1974 and 40 tons in 1975, ONACER closed its office in the region. Thus, in fact, farmers sell their maize to private traders, licensed or not. ONACER was abolished by the Government in June 1978.

Marketing of agricultural products is being implemented on a case by case basis. The major responsibility is assigned to National Office for Basic Foodstuffs (ONPV). However, this office inherits the basic institutional weaknesses which caused previous failures, i.e., inexperienced inefficient management, inadequate financial structures and lack of qualified staff and equipment to carry out marketing and distribution functions. Rather than reflect individual organizational shortcomings, the lack of resources is a reflection of the basic institutional, administrative and financial weakness of the Government. These conditions are unlikely to be changed within the near future. Therefore, the role of these marketing boards should be limited to creating incentives for the private sector so that the numbers of marketing and distribution outlets provides adequate competition for lower prices to the urban consumers and sufficient alternatives for the evacuation of surplus production at the farm level.

ii. Private Sector

The marketing system for agricultural products has been the domain of small-scale traders operating at both retail and wholesale levels. But, recently, the larger multi-product merchants have dominated and, the private marketing system is characterized by high profit margins brought on by high risk, including high transport costs, and significant losses in handling and storage through climatic influences, insect and rodent damage as well as theft. Marketing margins vary widely in response to competitive factors, regional differences and the effectiveness of government regulations. Distribution and marketing costs reportedly run as high as 60 to 70% of the retail price. Other estimates place these costs at 40 to 50% of the retail price for corn transported by truck. More detailed information based on actual studies for individual commodies are needed, as well as guidelines indicating the effectiveness of existing marketing channels and measures required to improve the marketing sectors. Studies to provide this information are expected to begin later in the year under the Agricultural Sector Studies project. These studies will provide the basis for policy recommendations to the Government on further administrative measures which may be needed to improve the marketing of foodstuffs in Zaire. They will also provide information on which the A.I.D. Mission can evaluate the need for further assistance in this sector.

In the interim, however, there are many steps which could be taken to improve the efficiency of the marketing system in Zaire in a relatively short period of time which could quickly increase the amount of foodstuffs marketed in commercial channels. Some of these have been mentioned in relation to pricing policies. Others are in the process of changing. The Zairinization and nationalization decrees of 1973/74, which led to the disruption and near collapse of the private marketing sector, are being reversed. These measures led to the elimination of the small traders, usually non-Zairians, who accounted for a substantial portion of the rural marketing system. While these policies have been changed to an important extent, there is need for the Government to indicate to the private sector that it is expected to play a predominant role in marketing and that widespread competition among traders will be encouraged in order to promote consumer and producer interests.

E. Capital Equipment Shortages:

Of equal importance to administrative measures is the lack of vital equipment, such as trucks, and spare parts, and food handling and storage equipment. The long-term shortage of foreign exchange has severely reduced the amount of road hauling equipment. Procedures for allocating foreign exchange for inputs vital to agriculture are slow and inefficient, compounding delays and aggravating the real physical shortages of equipment. Measures must be taken to increase the domestically financed share of vital capital equipment for agriculture to reflect the high priority of this sector in the government's overall economic development plans. In view of the critical nature of Zaire's balance of payments crisis, the low prices for its predominant export product, the disruption to production facilities caused by recent events in Shaba Province, and the high percent of debt service payments in the future, the amount of resources which can be reallocated to investment in the agricultural sector is limited, and additional outside assistance will be needed in coordination with the Government's efforts at administrative and policy reforms to revive the agricultural sector.

3. The Road Transport Network

The transport network consists of approximately 9,000 miles of waterways, 3,000 miles of railways and 84,000 miles of road and tracks. The system is complex and difficult to operate. It often requires a great number of trans-shipments and a high degree of coordination between modes. It has suffered from lack of maintenance and repair, as well as a loss of expatriate technical and managerial personnel. Losses of goods through spoilage and theft run high. Bad road conditions shorten the working life of vehicles - accidents and breakdowns are common, repair facilities are limited, and spare parts are expensive and difficult to obtain. The typical amortization period for trucks is five years or less. The combination of these characteristics results in real transport costs running considerably higher than pre-independence levels. In reconstructing the transport network, primary emphasis has so far been given to major truck roads.

Only about 2,000 km of roads are paved; the remainder have either earth or gravel surface. About 200 km of new roads have been built since Independence. Major efforts, in large parts supported by foreign assistance, have been undertaken for improving, rehabilitating and maintaining the existing road network. Under prodding of the international donor community, additional budgetary funds and personnel resources have been committed to stemming the net deterioration in the road system. The administration of road building and repair has been reformed. The program of road construction and rehabilitation has been revised to give higher priority to the development of a feeder road network more responsive to the needs of moving agricultural produce to market, i.e., less paved roads, higher maintenance and rehabilitation of the existing network and repair of main roads to gravel standards when justified. Despite these efforts, the lack of adequate road transport network will pose a serious constraint to the development of the agricultural marketing sector in Zaire.

4. The Road Haulage Industry

In 1972, fifty-four thousand trucks were registered in Zaire, with almost half located in Kinshasa and one-third in Shaba Province and Haut-Zaire region. The age of the vehicle fleet is not available. It is estimated that from 1973 to 1975 approximately 5,000 trucks were imported yearly, for an average depreciation rate of 10% yearly, while the actual rate of wear is about double that amount. In 1976, less than 3,000 trucks were imported. The inadequacy of the fleet is aggravated by the shortage of spare parts and the difficulties encountered in importing vehicle parts. Officials have estimated that annual truck imports for agricultural requirements are in the range of 3,000 trucks annually in order to transport the estimated 3.3 million tons of agricultural products to consumption centers. In 1972 less than 20 million tons of road traffic were generated by the larger road transport companies, which is below pre-Independence levels. Although complete traffic figures are lacking for the more recent period, the volume of services performed by the major companies has declined since 1972 and traffic on minor roads serving agricultural areas is still below its 1959 level.

There are a small number of large transport firms operating over 100 vehicles each, and a large number of small operators, dispersed throughout the country, but concentrated principally in the larger towns. There are, in addition, transport companies with truck fleets of between 15 to 50 vehicles, but the greater part of the industry comprises the small private trader who provides localized services, sometimes with only one or two vehicles. The smaller companies operate in the remote regions, on gravel and unpaved road networks usually avoided by the larger companies. The additional financial assistance proposed under the program for the Agricultural Marketing Sector is proposed to encourage these small companies who provide services to the rural small farmer.

As in other areas of the economy, the Government imposes price and operational restrictions on road transport companies, which require these companies to charge in accordance with a system of fixed rates. This system specifies a base price to which coefficients are applied, depending on specific geographic areas, to reflect higher costs arising from the nature of the regions and the condition of the road system. The base rate and coefficient factors are determined by a transport committee composed of representatives of the Transportation Department, road transport companies and shippers. Exceptions to these regulated prices are permitted for short non-scheduled trips. These rates can be negotiated freely. Usually it is only the larger companies which are regulated and the smaller ones escape regulation. In practice, existing restrictions and price regulations are widely ignored and not enforced.

C. Proposed Loan

1. U.S. Policy Objectives

T e United States assistance program to Zaire is based on national policy objectives of providing, within appropriate limits, sufficient economic support to the Government to enable the country to play a moderating role in southern African affairs. In Fiscal Year 1978 the economic aid program is financed under the Supporting Assistance appropriation. In Fiscal Year 1979, in accordance with U.S. national policy objectives, the A.I.D. program is to be financed under the Development Assistance category, with the program specifically aiding the disadvantaged poor in the rural areas. This proposed loan reflects the changing nature of the country program in Zaire. It provides additional foreign exchange for balance of payments support specifically designed to aid the small farmer through providing greater access to commercial markets for basic foodstuffs. These additional supplies should also reduce the need for Zaire to finance commercial food imports.

2. Present U.S. Assistance Program

The A.I.D. program level in Zaire has increased substantially in recent years, beginning in FY 1976 as it became apparent that Zaire was faced with a serious economic crisis. The bulk of the A.I.D. program in Zaire in FY 1976 and 1977 represented commodity import program (CIP) loans for balance of payments support, although the program also contained a small but growing element of project assistance. In the planned FY 1978 and 1979 programs, project assistance is expanding and is oriented toward specific project supporting activities in the agricultural sector. Projects are directed to development problems, chiefly agriculture and health. A PL 480 Title I Sales Program was started in FY 1976. This program generates considerable local currency to be used in self-help and other local development activities.

3. Proposed Loan Assistance

Proceeds of this assistance will be available to the Government of Zaire to finance storage, marketing, transport equipment needed by distributors and marketing agents who serve rural small farmers in major food producing areas where production of the three-man food crops of Zaire are concentrated: manioc, corn and rice. Storage facilities and handling and packaging equipment will reduce losses from crop spoilage and facilitate the handling of an increased volume of production. Packing materials will also preclude losses and permit longer hauls for individual shipments. Truck supplies under this loan will be used to supplement the present fleet which is inadequate, even at low levels of agricultural production, to meet the food marketing requirements of the urban consumption centers. Annex I provides a list of eligible items to be financed under the loan. Should some of these commodities (jute fiber and fabrics) not be available from U.S. source/origin, under Code 000, a waiver of the regulation will be requested for procurement from selected free world countries under Code 941. These exceptions, if required, are not expected to amount to more than $500,000.

a. Selection of Loan Recipients

Loan disbursements will be made to selected small distributor and marketing agents actively engaged in the marketing of one of the major food crops previously cited. Geographic areas of concentration will be in those zones where production of these crops predominate, Bas-Zaire, Bandundu, the Kasai, and the North Shaba region. Enterprises to be selected will be restricted to the private sector and will be smaller firms with vehicle fleets of 50 trucks or less.

Selection of the firms to be aided will be based on marketing studies and specific evaluation of market firms by two organizations with staff and experience to make these evaluations. The Small Business Office (OPEZ), which, with UNDP financed assistance, seeks to train private sector management staffs of small enterprises, and the agricultural evaluation staff of the Industrial Development Bank of Zaire (SOFIDE).

The Industrial Development Bank of Zaire (SOFIDE) was established in 1970 to support the development of enterprises-Zaire. The World Bank has provided SOFIDE with $35 million under four lines of credit. IFC and several local and international institutions participate in SOFIDE's share capital and/or have made loans to the company. An Agriculture Department within SOFIDE started operations in May 1976 with the assistance of a three-man FAO team. By the end of 1976 the Department had received more than 150 requests for loans of which 12, totalling about Z 2 million, were under active consideration. It is expected that SOFIDE's Agricultural Department will play an increasingly important role in assisting agricultural enterprises. In addition to OPEZ, it is expected that SOFIDE will be capable of providing the economic evaluations and marketing agents to be assisted under the loan.

OPEZ is responsible for providing management training and assistance for development of executive entreprenural capabilities among small enterprises in the private sector. Under the UN a small three-man expatriate staff for development programs assists OPEZ in its training functions and in carrying out marketing studies of the business sector. The AID Mission will contract with these organizations to evaluate potential enterprises to be selected as well as in evaluating the end use and utilization of loan proceeds.

Firms selected for assistance under this loan will be expected to provide firm commitments of additional investments from their own resources to expand capacity or improve operation. These added investments will be one of the factors determining eligibility under the loan and the commitments of additional investments will be a precondition for the agent to be selected for loan assistance.

b. Loan Implementation Procedures

The standard commodity financing procedures, as set forth in AID Regulation I, will apply for commodities and related services procured under the proposed loan. An implementation plan is being drawn up by the Department of Plan and U.S.A.I.D. for defining importer eligibility and the mechanism for publicizing procurement. Key elements of the implementation will become a condition precedent to the disbursement of this loan.

The categories of imports eligible under this loan will be limited to transportation and marketing equipment and other commodities required for the marketing, storage and preservation of food crops. The list of commodities will be provided as an attachment to the Commodity Procurement Instructions as determined by GOZ and USAID. In view of the modest size of the proposed loan and the large foreign exchange development needs, the minimum value of each individual transaction shouldn't be less than $5,000. The terminal date for the required disbursement authorization will be set at 18 months from the Loan Agreement date. The terminal disbursement date will be 24 months from the date of the Loan Agreement.

Administrative responsibility for the proposed loan will reside with USAID/Kinshasa. Immediate responsibility for the implementation of the loan will rest with the USAID Supply Management Advisor and the Chief of the Agriculture Division of the AID Mission. The Loan Agreement will provide that loan proceeds may be used to finance the services of an U.S. firm, or firms, to assist the GOZ in preparation and issuance of IFBs, analysis of bids and awards of contracts, the execution of supply contracts, shipping arrangements, etc.

Importers will follow the usual method of financing imports through the letter of credit system and obtaining authority from the Bank of Zaire for foreign exchange through filing usual applications at local commercial banks. The applications will be supported by a pro-forma invoice or formal bid award from the proposed transaction together with the standard import declarations required under normal import procedures.

Under the CIP implementation procedures followed in Zaire with existing USAID programs, the importer deposits in the appropriate local commercial banks the local currency equivalent of the exchange value of the import transaction. The specific attribution of these currencies will be set forth in the Loan Agreement as mutually agreed upon by AID and the authorities of the Government of Zaire. These counterpart funds will be used, to the extent possible, within identified sub-regions for financing the support and development of agricultural marketing facilities.

4. Impact on U.S. Balance of Payment

All commodities procured under the loan will be limited to Geographic Code 000, except when waivers are requested, and it is anticipated that at least 90% of the loan will be spent in the U.S. In view of the critical foreign exchange needs of Zaire, the loan will permit a continuation of the highest priority import transactions which support this activity.

The market in Zaire for imported agricultural marketing and transport equipment is estimated at about $12 million per year in the 1977-78 period (see Table below). The share of U.S.-origin goods is put a between $9 to $13 million. The proposed loan amount could easily and readily be utilized for this sector.

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ZAIRE - THE MARKET FOR AGRICULTURAL MARKETING EQUIPMENT, 1974, 1975, 1976, 1977, 1978 (in Thousands of U.S. Dollars

	1974	1975	1976	1977	1978
Production	9,467	1,935	1,500	5,000	10,000
Imports					
US Commerce Department Statistics	10,314	16,609	n/a		
Zaire Customs Department Statistics	13,935	10,626	8,578		
Average	12,075	13,618	8,758	9,440	10,400
Exports	—	—	—	—	—
Market Size	21,542	15,553	10,078	14,444	24,000

SOURCE: American Embassy airgram

The extreme shortage of foreign exchange makes the source-origin of imports of little importance in Zaire. Of primary concern is the availability of foreign exchange to pay for the imports.

Due to balance of payments difficulties, capital equipment imports in recent years have not kept up with the rate of depreciating equipment and normal operating needs of the economy. Thus, the normal market share for imports tied to foreign exchange loans is not an obstacle to timely utilization of the loan. In fact, there is a significant pent up demand for agricultural equipment due to the foreign exchange shortages of recent years.

5. Performance Criteria

The USAID Mission believes it desirable,and of the utmost importance for the attainment of development goals and U.S. objectives in

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Zaire, to attach specific economic performance indicators and other conditions precedent to disbursement of the loan.

1. Evidence satisfactory to A.I.D. of continued negotiations in good faith by the GOZ on a Standby Agreement with the IMF.

2. Evidence acceptable to A.I.D. of continued progress in implementing the economic and management reforms agreed to by the Government in the communique issued at the Brussel's Conference of June 1978.

3. Evidence acceptable to A.I.D. that specific government actions are being implemented to resolve those problems identifiable as over-riding constraints to the improved efficiency of the agricultural marketing sector Zaire identified in the loan paper.

4. Prior agreement with the Government and the individual private sector borrowers as to the specific case of loan proceeds. In addition, each lown recipient will provide a financial plan and commitments of additional investments which will be made in furtherance of the objectives of this loan.

5. General Agreement with the Government on end-use surveys and utilization of loan proceeds as may be specified by A.I.D. under this loan.

III. Recommendations

A. It is recommended that you authorize a $5.4 million loan to the Government of Zaire subject to the following terms:

   1. Repayment to AID in U.S. dollars within forty (40) years after first disbursement including a grace period of not to exceed 10 years.

   2. Interest payable to AID in U.S. dollars at two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

   3. Procurement with loan funds shall be limited to AID Geographic Code 000.

   4. Fulfillment of those terms and conditions enumerated within this document, particularly those conditions enumerated above and such other conditions as AID may from time to time deem advisable.

B. It is further recommended that you approve the Negative Determination contained in the Initial Environmental Examination (Annex II).

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ANNEX I

PROPOSED ZAIRE AGRICULTURAL MARKET SUPPORT LOAN - LIST OF ELIGIBLE ITEMS

U.S. Department of Commerce Schedule B Codes	Commodity Items
304.0100 thru 305.0140	Jute fiber (vegetable fiber and yarn)
316.7500	Jute Cordage
347.7600	Jute fabrics (narrow fabrics nonelastic)
385.4620 thru 385.7660	Textile bags, lables and lacings
640.1520 thru 640.9040	Metallic Containers
652.9110 thru 652.9700	Buildings, prefab, and portable buildings, etc.
661.3510 thru 661.9870	Packaging, wrapping & filling machines
662.3410 thru 662.3440	Weighing machinery and scales
666.2000 thru 662.2576	Food handling & processing equipment
690.0510 thru 692.7000	Transport equipment

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ANNEX II

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Zaire

Project Title: Zaire Commodity Import Loan

Funding: FY(s) 78 $ 5.4 million

Period of Project: The terminal date for requesting disbursement authorization is 18 months from the date of the loan agreement. The terminal disbursement date is 24 months from the loan agreement date.

IEE Prepared by: Edward Krowitz

Environmental Action Recommended: Negative Determination

Concurrence: Norman L. Sweet, Director, USAID/Zaire

Date: 9/11/78

Assistant Administrator Decision:

APPROVED

DISAPPROVED

DATE

ANNEX II

Examination of Nature, Scope and Magnitude of Environmental Impacts

I. Description of Project

In recent years, Zaire's copper-oriented economy has deteriorated sharply as a result of the fall and continuing depressed level of world market copper prices and continued mismanagement of the economy. The Government has recently undertaken a number of significant austerity measures and has launched a major recovery program to diversity and stabilize the economy. This program emphasizes the agricultural sector.

The proposed commodity import loan will assist the GOZ by providing additional foreign exchange resources for the purchase of equipment and supplies needed in rebuilding the commercial agricultural marketing infrastructure in Zaire. The provision of these items will enable an expansion in the marketing of foodstuffs from small farm production areas to urban consumption centers, thereby reducing the need to utilize scarce foreign exchange for fcom imports. Categories of commodities financed will include agricultural and industrial equipment for the private sector to assist in transport, storage and distribution of basic foodstuffs. Commodities will include trucks, spare parts, storage, handling and processing equipment, and component parts.

II. Recommended Environmental Action

A.I.D. Regulation 16, Section 215.2 provides that certain classes of activities will not normally require the filing of an Environmental Impact Statement or the preparation of an Environmental Assessment. Among the specified classes of activities so designated are contributions to international organizations or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects. In these circumstances we believe that an Environmental Assessment or an Environmental Impact Statement is not required. Therefore, we recommend that a Negative Determination be made.

ANNEX III

5C(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?

   N.A. See answer to question No. B, 2, a.

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

   No. To all points

4. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the International Communist movement?

   Yes

5. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

   We are not aware of any such case.

6. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

   No, it is discharging its obligations.

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7. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?

No

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

(a) No
(b) No

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

No

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

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

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

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

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

N.A.

12. FAA Sec. 620(q); App. Sec. 504. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?

12(a) On 5/24/76, the administrator determined, in accordance with Section 620(q) of the FAA and delegation of authority issued thereunder, that it is in the national interest of the U.S. to provide assistance to Zaire.

(b) No

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

Yes. In the Annual Report for FY 1977 on the implementation of this provision, the Administrator concluded that considerations under Section 620(s) do not rule out furnishing assistance.

* Revised

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

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

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

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

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

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

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

B. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria

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

b. FAA Sec. 201(b)(5), (7) & (8); Sec. 208; [illegible]. Describe extent to which country is:

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

* Revised

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

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

(4) (a) Allocating available budgetary resources to development.

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

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

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

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

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

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? — No
Is program in accordance with policy of this Section? — Yes

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

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N.A. This assistance is to be a loan.

5C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans); and Security Supporting Assistance funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)

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

(a) FY 78 Congressional Notification submitted.

(b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes

(b) Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required to implement the program.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

N.A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

N.A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional

N.A.

development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

7. FAA Sec. 601 (a): (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices;(e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) Loan will finance import of commodities with long-term objective of increasing Zaire's ability to engage in international trade.

(b) Under AID Regulation I procedures, private initiative and competition will be fostered.

(c) No direct impact.

(d) No direct impact.

(e) Loan will promote efficiency through imports of needed commodities.

(f) No direct impact.

8. FAA Sec. 601 (b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Regulation I assumes there will be maximum private participation in transactions financed under the loan.

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

No contractual or other services are being financed under the loan.

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

No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions? — Not applicable.

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

(1) (103) for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agriculture research, is full account taken of needs of small farmers; — Not applicable

(2) (104) for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; — Not applicable

(3) (105) for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; — Not applicable

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(4) (106) for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: | Not applicable

(a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; | Not applicable

(b) to help alleviate energy problems; | Not applicable

(c) research into, and evaluation of, economic development processes and techniques; | Not applicable

(d) reconstruction after natural or manmade disaster; | Not applicable

(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc. assistance; | Not applicable

(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development. | Not applicable

(5) (107) by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries | Not applicable

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)? | Not applicable

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g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness? — N.A.

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

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S. — N.A.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan. — N.A.

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

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development? — N.A.

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e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

N.A.

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N.A.

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

See Sections I and II of PAAD.

4. Additional Criteria for Alliance for Progress

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

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

N.A.

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

N.A.

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STANDARD ITEM CHECKLIST

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?	Yes
4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	No agricultural commodities to be financed with this loan.
5. FAA Sec 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Yes
6. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,	Not applicable

Projects Inputs

AID

Total life of project AID inputs will be made in the following categories:

(1)	Technical Assistance	$2,637,000
(2)	Participant Training	674,000
(3)	Commodities	124,000
(4)	Local Costs	330,000
	Total	$3,765,000

GOB

GOB inputs will include:

(1) General staff support and services

(2) Assignment of technical counterparts to U. S. staff

(3) Inter-/intra-ministry assistance and cooperation, and

(4) Institutional and project support for communal group operations.

Other Donors

No other donors directly support this project. Coordination between this activity and those supported by other donors in related areas is the responsibility of the GOB (see details in Section III of this paper).

The project will be implemented within the regular institutional structure of the MOA and, with strong emphasis on their programs at the regional and district levels, the project will employ a phased and gradual approach to assist in communal formation and operations. The intent of such a process is to encourage and provide manpower skills and other required resources to permit improved management and utilization of both the human and physical resources of the smallholders.

Close coordination will be maintained between the Ministry of Agriculture regional offices, land boards, Commission of Communal Properties, Village Development Committees (VDC), Farmer Committees and Associations (FC and FAs), cooperatives and other community organizations. The project, although not a portion of the GOB/World Bank Livestock II Project, will be coordinated with this activity and its results will be of value to the Livestock II Project. Some activities which this project may foster may use other auxiliary services (Ranch Management Co.) and training in ranch management which are included in the Livestock II Project.

AID day-to-day management will be through the AID Area Operations Officer and/or the Botswana Assistant Agricultural Development Officer. Technical, program and administrative backstop support will be provided by staff of the OSARAC office in Mbabane.

This activity will be subject to two conditions precedent to release of funds identified by this document as follows:

1. Institutional Responsibility and Base for Communal Action Developments

Prior to release of FY 1977 or future funds, OSARAC will receive a letter from the Permanent Secretary of Finance and Economic Planning which identifies the MOA as the agency of the GOB responsible for implementation of communal action projects as discussed herein.

2. Availability of GOB Counterparts and Trainees

Prior to release of FY 1977 or future funds, OSARAC will receive in writing from the GOB Office of Personnel and MOA adequate assurance that both GOB counterparts will be assigned to U. S. -funded staff and that trainees will be available, on the schedule shown herein, to assure that effective training can take place.