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PD-AAW-540
ISN 52657

ZAMBIA

FY 1982 CIP LOAN

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Z A M B I A

F Y 1982 C I P L O A N

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a

DEC 8 1981

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA, ACTING

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

SUBJECT: P.A.A.D. Authorization - Zambia FY 1982 Commodity Import Program Loan

Problem: Your approval is required for a Commodity Import Program (CIP) loan of $10,000,000 from the Section 531, Economic Support Fund, appropriation to the Government of the Republic of Zambia (GRZ). It is planned that the entire authorized total of $10,000,000 will be obligated in FY 1982.

Discussion: The proposed loan will (1) provide short-term balance of payments relief, (2) contribute to the GRZ longer run objectives for the acceleration of agricultural development and diversification of the structure of the economy, and (3) support GRZ-AID/Zambia goals of increasing food production and raising small farmers' incomes. The loan will make available foreign exchange for critically needed public and private sector agricultural imports (fertilizer compounds). The finished fertilizer compounds totalling nearly 33,000 metric tons, will be used during the 1982-83 growing season, will constitute approximately 15% of Zambia's total annual fertilizer requirements, and will help to increase the yields of Zambia's staple food crop, maize.

The FY 1981 CIP loan introduced several agricultural sector support measures which were negotiated between the GRZ and AID/Zambia. These support measures have played an important role in reinforcing the GRZ's determination to achieve growth in the agricultural sector. The GRZ has made progress in implementing these support measures which are an integral part of the AID/Zambia program. The FY 1982 CIP Loan proposes to continue the implementation of these support measures. It is important to note that even though the support measures are not essential to the successful implementation of the FY 1982 CIP loan, they are an essential component of the overall program of AID/Zambia which focuses primarily on the agricultural sector. Consequently, the support measures are not stated as covenants or conditions precedent to the loan; instead, they will be an annex to the Loan Agreement. Pursuant to the agreement, the GRZ agrees to use the counterpart funds generated by the sale of the fertilizer to support these measures.

These support measures will continue to reinforce the Ministry of Agriculture and Water Development's planning unit, which is responsible for analyzing prices and subsidies, especially those for maize and fertilizer. AID/Zambia will continue to support the strengthening of the staff through the Zambia Agricultural Training, Planning and Institutional Development project (611-0075). The planning unit will continue to conduct comprehensive annual and ad hoc reviews of agricultural producer prices and fertilizer subsidies. Additional support measures will continue to focus on maize and fertilizer subsidies and provide a means for assisting the GRZ in reducing such subsidies. Local currencies generated under the loan will be used (a) to support further producer incentives, if necessary; and (b) to assist in relieving problems or constraints which develop as a result of the GRZ's new policies towards agriculture (i.e., stimulating production of other food crops). The specific areas in which the local currency will be attributed cannot be identified at the present time since it is not yet known what the impact of the new GRZ agricultural policies will be. AID/Zambia wishes to retain the flexibility to assist with local currency attributions when and if it is deemed helpful to do so.

b

However, local currencies will be applied in specific areas which are consistent with the objectives of this proposed loan and AID/Zambia's overall country development strategy.

It has been concluded from the analysis included in the Program Assistance Approval Document (PAAD) that:

(1) the program loan approach is technically and economically sound;
(2) the timing and funding of program activities are appropriately scheduled;
(3) sufficient planning has been done for the implementation, monitoring and evaluation of progress under this activity, and
(4) all statutory criteria have been met.

A determination was made by the AID Representative in Zambia that this activity does not require an Initial Environmental Examination (IEE). Section 216.2 of AID Regulation 16 provides for exceptions to the requirement for submitting IEE's, and this activity represents one class of exceptions to these requirements. The Bureau Environmental Officer has reviewed the determination of categorical exclusion made by the AID Representative in Zambia and concurs in his findings. This determination can be found in Annex H of the PAAD.

It is expected that heavy demands will be made upon the limited supply of U.S. flag vessels during the desired delivery period (February-May 1982), and it is probable that insufficient, approved flag vessels will be available. It is essential, however, that the fertilizer be shipped during this time to insure its arrival and distribution in Zambia during the four month period May-August 1982, prior to the crop growing season. Well aware of the time and shipping constraints of this procurement, the Office of Commodity Management has determined that ocean freight costs not to exceed $2,500,000 on Code 899 vessels are authorized when U.S. and Code 941 vessels are not available to carry the commodities for which transportation will be solicited. This determination and this authorization are made in conformance with the "source of delivery services-flag eligibility" policy stated in Handbook 1, Supplement B, section 7B1b(5). It should be noted that drawdowns of previous AID Commodity Import Program Loans to Zambia have been timely, and a similar performance is expected for this loan.

The Project Review Meeting was held on August 13, 1981. Because of the difficulties AID/Zambia was experiencing with the GRZ in the implementation of its program, a decision was made to delay processing of all new activities in Zambia until these difficulties were resolved. AID/Zambia indicated on October 9, 1981 that the difficulties had been resolved. ECPR meetings on this activity were held on October 23 and 30, 1981. All issues were resolved. A Congressional Notification was not necessary as this activity appears on page 254 of the amended version of the FY 1982 Congressional Presentation. The responsible AID officer in Zambia will be the AID Representative or his designee, and the AID/W backstop officer will be Alfred Harding, AFR/DR/SA.

C

There are presently no significant human rights issues in Zambia.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed activity in the amount of $10 million.

Attachment:

PAAD

Clearances:

AFR/DR: NCohen ______ Date: 12/7/81
AFR/SA: LPompa (draft) Date: 11/17/81
AFR/DR/SA: WWolff (draft) Date: 11/20/81
AFR/DP: TCornell (draft) Date: 11/17/81
AFR/DP/PPEA: FDuncan (draft) Date: 11/17/81
SER/COM: WCSchmeisser (draft) Date: 11/25/81
GC/AFR: EDragon EAD Date: 12/7/81

AFR/DR/SA: AHarding:agb:11/17/81

CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (8-66)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
AFR Loan No. 611-K-007

2. COUNTRY
Zambia

3. CATEGORY
Commodity Financing - Standard Procedure

4. DATE

5. TO:
F. S. Ruddy
Assistant Administrator
Bureau for Africa

6. OYB CHANGE NO.
N/A

7. FROM:
AAA/AFR/DR, John W. Koehring

8. OYB INCREASE
N/A

TO BE TAKEN FROM:
ESF Funds FY 1982

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

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING
[X] LOAN [ ] GRANT

12. LOCAL CURRENCY ARRANGEMENT
[X] INFORMAL [ ] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD
Jan. 1982 - June 1983

14. TRANSACTION ELIGIBILITY DATE
Loan Authorization Date

15. COMMODITIES FINANCED
Commodities for the Agriculture Sector such as Fertilizer Compounds of different types.

16. PERMITTED SOURCE
U.S. only: Loan $7,500,000 (Code 000)
Limited F.W.: $2,500,000 (Code 941 and 899)
Free World:
Cash:

17. ESTIMATED SOURCE
U.S.: $7,500,000
Industrialized Countries: $2,500,000 (Code 941 and 89
Local:
Other:

18. SUMMARY DESCRIPTION

The loan will provide U.S. assistance to ----- Government of the Republic of Zambia (GRZ) to (1) provide short-term balance of payments relief; (2) contribute to the GRZ's longer run objectives for the acceleration of agricultural development and diversify the structure of the economy; and (3) support GRZ - AID/Zambia's goals of increasing food production and raising small farmers' incomes. The loan will make available foreign exchange for critically needed public and private sector agricultural imports (fertilizer compounds) by AID.

1. The GRZ shall repay the loan to AID in US dollars within forty (40) years from the date of the first disbursement under the loan including a grace period of ten (10) years from such date. The GRZ shall pay to AID in US dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum on the declining balance thereafter. Repayment of principal will be paid in thirty-one (31) equal installments annually after the grace period.

2. Local currencies generated will be used in conjuction with economic measures now being negotiated to achieve self-sufficiency in maize production and in other crops, reduce the impact of increased fertilizer prices on traditional and emergent farmers and help fund agriculture development projects. Usage is agreed between GRZ-AID/Zambia at quarterly meetings.

19. CLEARANCES

	DATE
DAA/AFR, WHNorth	12/8/81
AAA/AFR/DP, ICoker	12/8/81
AFR/SA, TMorse	11-19-81
GC/AFR, TBork	
COM/ALI, PHagan	11/21/81
SER/COM, WSchmeisser	11/25/81

20. ACTION
[X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE: [signature] for

DATE: 12/8/81

F. S. Ruddy
Assistant Administrator, Bureau for Africa
TITLE

CLASSIFICATION: UNCLASSIFIED

ABBREVIATIONS

AID	Agency for International Development
BOP	Balance of Payments
CDSS	Country Development Strategy Statement
CIF	Cost, Insurance and Freight
CIP	Commodity Import Program
CP	Condition Precedent
CSO	Central Statistical Office
EFF	Extended Fund Facility
Eximbank	Export-Import Bank
FAO	Food Agriculture Organization of the United Nations
FOB	Free on Board
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	International Cooperative Alliance
IFB	Invitation for Bid
IMF	International Monetary Fund
INDECO	Industrial Development Corporation
K	Kwacha
L/Com	Letter of Commitment
LIMA	Small-Scale Farmer Recommendations, MWI

MAWD	Ministry of Agricutlure and Water Development
NAMBoard	National Agricultural Marketing Boa
NCDP	National Commission for Developmeng Planning
NCZ	Nitrogen Chemicals of Zambia, Limite
OFP	Operation Food Production
PAAD	Program Assistance Approval Documen
PL480	Public Law 480
REDSO/EA	Regional Economic Development Service Organization, East Africa
SDR	Special Drawing Right
TAZARA	Tanzania Zambia Railway
TDY	Temporary Duty
TNDP	Third National Development Plan
UNIP	United National Independence Party
ZATPID	Zambia Agricultural Training, Planning and Institution Development Project.

WEIGHTS AND MEASURES

1 metric ton	=	2,207.5 pounds
1 kilogram	=	2.2075 pounds
1 bag maize	=	90 kilograms
1 bag of fertilizer		50 kilograms
1 hectare	=	2.47 acres
1 square mile	= 640 acres =	2.590 square kilometers

of

CURRENCY EQUIVALENTS*

(PERIOD AVERAGES)

	US$1=	K1=	SDR1=	K1=	SDR1=	US$1=
Prior to 1973	K0.71428	US$1.4000	K0.77622	SDR1.2883	US$1.08571	SDR.92105
1973	0.64889	1.5411	0.77622	1.2883	1.19213	.83883
1974	0.64346	1.5541	0.77375	1.2924	1.20264	.83150
1975	0.64346	1.5541	0.78247	1.2780	1.21415	.82362
1976*	0.71332	1.4019	0.82354	1.2143	1.15452	.86616
1977	0.78995	1.2675	0.92184	1.0848	1.16752	.85652
1978*	0.81255	1.2307	1.02428	0.9763	1.25200	.79872
1979	0.79233	1.2621	1.02428	0.9763	1.29200	.77400
1980	0.78852	1.2682	1.02428	0.9763	1.30153	.76833

Source: IMF "International Financial Statistics"

* The Kwacha was depreciated by 20 per cent on July 9, 1976 when it was pegged to the SDR at K 1 = 1.08479 as against the existing implied rate of K 1 = SDR 1.35767 resulting from the kwacha being pegged to the U.S. dollar at K 1 = US$ 1.55556. On March 17, 1978, the kwacha was again depreciated (by 10 per cent) and the new rate was fixed at K 1 = SDR 0.976311.

GRZ FISCAL YEAR

January 1 to December 31

USG FISCAL YEAR

October 1 to September 30

ZAMBIA CROP YEAR

July 1 to June 30

ZAMBIA

FY 1982 COMMODITY IMPORT PROGRAM LOAN

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ANNEXES

PAAD (CIP) DESIGN TEAM

Dirk Dijkerman: REDSO/EA, Agricultural Economist

Forest Duncan: AFR/DP, Economist

Timm Harris: REDSO/EA, Project Design Officer/Team Coordinator

/1/

ZAMBIA COMMODITY IMPORT PROGRAM LOAN

FY 1982

I. Summary

A. Problem

Political Considerations

The United States foreign policy in southern Africa is to support self-determination, majority rule, and equal rights and human dignity for all people of the region. The focal point of this policy was Zimbabwe (then Rhodesia) until its transition to majority rule in April 1980. Prior to this transition, the U.S. assisted countries bordering Zimbabwe which were sustaining economic losses by enforcing sanctions against Zimbabwe. Zambia was one of these countries.

Although Zambia had to bear an extremely heavy financial burden to maintain sanctions, President Kaunda consistently supported a political solution in Zimbabwe and provided moderate leadership for African efforts to bring about a negotiated settlement. Now that majority rule has been established in Zimbabwe, Zambia is using its influence to encourage change to majority rule in Namibia and South Africa.

Macroeconomic Justification

President Kaunda's continued ability to play a constructive and moderating role in those countries still under minority rule has in part been undermined by Zambia's worst economic crisis since independence. The crisis originated in the dualistic structure of the economy which has traditionally relied heavily on copper earnings for government revenues and foreign exchange. In 1975, world copper prices plummeted and remained low through 1978. The resulting losses in revenues and foreign exchange earnings, coupled with the higher costs of maintaining economic sanctions against Zimbabwe -- particularly those related to transportation -- are basically the factors explaining the onset of the current financial crisis.

In 1979, recovery was frustrated by declines in copper production and agricultural output,but despite these problems, notable progress was made towards stabilizing the economy under an IMF standby program. This progress proved to be unsustainable in 1980-81 due, in part, to factors beyond Zambia's control but also to a loosening of financial discipline following the cessation of the war in Zimbabwe and the end of the two-year standby agreement with the IMF.

These economic developments have had an acute impact on Zambia's balance of payments in particular. From 1975 to 1978, the current account averaged a deficit of U.S.$320 million a year. After borrowing heavily in 1975, net capital inflows fell from 1976 to 1978, resulting in large overall deficits. These deficits led to an accumulation of external payments arrears which stood at about U.S.$620 million at the end of December 1978. The balance of payments position improved in 1979, but eroded markedly in 1980. The overall deficit in 1980 was U.S.$397 million compared to a U.S.$133 million surplus in 1979. Whereas external payments arrearages had been reduced by U.S.$150 million in 1979 they were increased by U.S.$144 million in 1980, such that by year-end they stood at U.S.$600 million.

The deterioration in the balance of payments position in 1980 is attributed to a stagnant level of export earnings and a 48% increase in imports. The sharp increase in imports was due to a high requirement for maize, payments for military imports, and overall higher import prices. The loosening of financial discipline noted above was a contributing factor as well. The payments deficit for 1981 is forecast at U.S.$200 million and arrearages are projected to be drawn down by U.S.$165 million. Projections for 1981-83 show an elimination of arrears by year-end 1982 and a return to a marginal positive payments position by the end of 1983.

The Government has undertaken a series of corrective measures to stabilize the economy since the onset of the crisis. These have included an initial stabilization program in 1976; a two-year IMF stand-by arrangement (April 1978-April 1980, US$300 million); and, beginning May 1981, a three-year Extended Fund Facility with the IMF (U.S.$945 million). In addition, the Third National Development Plan TNDP: 1979-83) and Three-Year Investment Plan (1981-83) have laid the basic groundwork for diversifying the economy; nationwide food production programs are being launched; a major effort is underway to reorganize the National Agricultural Marketing Board (NAMBoard) and strengthen cooperatives; and Zambia is continuing its efforts to promote political stability in southern Africa.

Economic recovery, both in terms of medium term stabilization and the achievement of sustained growth over the long run, will require more stringent financial discipline than has been evidenced over the past year and persevering efforts to diversify the economy. The extended arrangement with the IMF lends optimism that the GRZ will again exercise more disciplined management over the economy, and progress towards economic diversification is expected to result from the Government's more realistic Three-Year Investment Plan (1981-83). Recent steps taken by the GRZ to revitalize the agricultural sector are also encouraging. Should these efforts demonstrate that private sector support can produce positive results, the use of free market forces may gain wider application in other sectors. Given Zambia's current economic and financial situation, the implementation of the GRZ's stabilization and development programs indicated above will require substantial flows of external assistance for at least the next several years.

B. U.S. Response

In view of the GRZ's severe financial difficulties and long range agricultural development objectives as described above, AID proposes to loan the Government of the Republic of Zambia U.S.$10 million from the Economic Support Fund. The loan will be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief, contribute to the acceleration of agricultural development and support efforts to increase food production and small farmer income.

To assist the GRZ in meeting its food production problems and balance of payments difficulties, the foreign exchange proceeds, attributable local currency generations and economic measures negotiated under this loan will all be directed toward achieving agricultural self-sufficiency (especially in maize production), reducing budgetary subsidies and improving the efficiency of the Ministry of Agriculture and Water Development (MAWD).

The commodities to be financed under this loan will be fertilizer compounds, for a total of about 33,000 metric tonnes. The majority of the compound will probably be in the form of urea, used mainly in maize production. These compounds will constitute about 15% of the total annual fertilizer requirements as projected by the National Agriculture Marketing Board (NAMBoard).

The 1981 CIP is providing raw materials for the manufacture of fertilizer compounds. These materials, which are now in transit, will not be utilized until the 1983-1984 growing season. Therefore, the 1982 CIP proposes to provide funds for the purchase of finished fertilizer compounds. These will be used during the 1982-1983 growing season.

Another major feature of the FY 1982 CIP loan is the negotiaton of several economic support measures (see Section VC). These measures are all supportive of the loan objectives mentioned above. The GRZ will do the following:

1. Continue to reinforce the Planning Unit within the Ministry of Agriculture and Water Development charged with undertaking comprehensive annual and ad hoc reviews of agricultural producer prices and fertilizer subsidies.

"(i) Continue to conduct a comprehensive review of all agricultural producer prices and fertilizer prices to determine if there is sufficient incentive, especially for small rural farmers, to increase agricultural production, particularly maize; (ii) consider during the course of the review the following factors: (a) current producer prices in the region, (b) food self-sufficiency, (c) the cost of production plus a reasonable profit margin, and (d) comparative costs of importation; and (iii) keep AID advised of the findings of the review during its preparation and advise AID of its conclusions by April 1, 1982. (It is understood that discussions with AID will not include consideration of Ministry of Agriculture and Water Development recommendations to Cabinet.)

3. Continue efforts to develop a comprehensive and effective strategy for the development of the Zambian agricultural sector.

4. (a) Continue to maintain appropriate incentives, especially in pricing, to farmers in order to reduce maize production short-falls.

(b) Continue to reduce consumer subsidies in accordance with the principles and subsidy reduction schedules as announced by the Government of the Republic of Zambia.

(c) Continue to adhere to the Government of the Republic of Zambia's Three Year Investment Plan for 1981 to 1983.

(d) Increase the Recurrent Departmental Charges budget allocations in the Ministry of Agriculture and Water Development with the view towards more effectively supporting small farm development.

5. Conduct meetings with AID on a quarterly basis or, if required, more often, to discuss and to determine the utilization of the local currency attributable to this loan agreement (i.e., revise priorities, establish new support measures, revise procedures for managing local currency generations) and progress of support measures to date. The priorities for future use of local currency attributable to this loan are: (i) to provide appropriate incentives to stimulate production of maize and other food crops (e.g., cassava, sorghum, millet, rice, soya beans, sunflower seed, milk, and vegetable oil); (ii) to reduce the impact of increased fertilizer prices on the traditional and emergent farmers; and (iii) to help fund agricultural sector or sub-sector activities which are in addition to the Government of the Republic of Zambia's regular capital and recurrent budget and which are mutually agreed upon by the parties as consistent with the GRZ/AID strategy objectives.

6. Adopt procedures to improve the Ministry of Agriculture and Water Development's crop forecasting ability by improving the accuracy of the data base and the timeliness of the publication of the forecast.

7. Through the Ministry of Agriculture and Water Development revive a regular market news service.

8. In October of 1982, furnish AID with a statement of the progress the Government of the Republic of Zambia has made in carrying out the above measures.

Negotiation of the above measures and those subsequently agreed to will follow the GRZ and AID negotiating procedure (see Section VII) developed during FY 81 loan agreement.

The use of local currency attributions are placed in order of priority in Support Measure No. 5. The flexibility built into the Agreement is justified on the basis of GRZ's performance on the FY 81 support measures. Also the impact of GRZ agriculture policies is not yet known and it behooves AID to maintain flexibility in order to assist with any constraints that may arise because of those policies.

The proposed CIP loan is an integral part of AID/Zambia's overall program of assistance to the GRZ in the agriculture sector. The balance of payments assistance and "Support Measures" are a continuation of the efforts made under previous CIP loans and PL 480 programs. They are directly linked to other AID programs in Zambia which also focus their development efforts on achieving self-sufficiency in food production and on increasing the income of the small-scale farmer.

The decrease in the size of this loan compared to previous CIP loans is a demonstration of the gradual evolution in AID/Zambia away from purely non-project stabilization assistance to a more project-based program. The 1981 CIP was influential in the decision-making process of the GRZ to make significant changes in both agricultural policies and action towards the agriculture sector. It is believed that the assistance and influence should be maintained and the Commodity Import Program is an excellent means of doing so.

C. Recommendation

It is recommended that AID authorize a U.S.$10 million loan to the Government of the Republic of Zambia subject to the following terms:

(a) Repayment to AID in U.S. dollars within forty (40) years after the first disbursement, including a grace period on repayment of principle not to exceed ten (10) years.

b) Interest payable to AID in U.S. dollars at two percent (2%) simple interest per annum during the grace period and three percent (3%) simple interest per annum on the remaining principal owed thereafter.

c) Commodities and related services financed under the loan shall have their source and origin in the U.S. (A.I.D. Geographic Code 000) except for charges related to ocean transportation; a determination has been made by A.I.D. that ocean freight costs not to exceed $2,500,000 on Code 899 vessels are authorized when U.S.or Code 941 vessels are not available.

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

II. Political Considerations

A. Political Background

Zambia's modern political history dates back to 1888 when the area now constituting Zambia and Zimbabwe was proclaimed a British sphere of influence. In the same year, the British entrepreneur and explorer Cecil Rhodes obtained a mineral rights concession from indigenous chiefs to exploit the region's mineral wealth. A year later the British South Africa Company was commissioned to administer the area. Present-day Zambia and Zimbabwe were named after Rhodes and were known as Northern Rhodesia and Southern Rhodesia, respectively, in the colonial era that followed.

Northern Rhodesia became a British Protectorate in 1924 and was joined with Southern Rhodesia and Nyasaland (now Malawi) in 1953 to form the Federation of Rhodesia and Nyasaland. The years of the Federation, 1953-1963, were marked by controversy. Africans made insistent demands for greater participation in government, while Europeans feared for their future if they yielded government control to the Africans. In 1963, the Federation was dissolved after years of turmoil and crisis.

Upon attaining independence in 1964, the Republic of Zambia was established with a single legislative house composed of 75 members. A new constitution was promulgated in 1973 creating what is now called a "one party participatory democracy". The 1973 constitution provides for a strong president and unicameral parliament (National Assembly) composed of up to 136 members. Under the new system, a 25-member Central Committee formulates national policy and the Cabinet executes the policy. The sole legal party is the United National Independence Party (UNIP).

The major figure in Zambian politics is President Kenneth Kaunda. Kaunda was selected as the first president in 1964 and has been reelected president in every election since then. He has wide popular support and has proven himself capable of bridging rivalries that have existed among the country's various regions and ethnic groups. He advocates government according to his philosophy of "humanism", a loosely structured African socialist doctrine which stresses the tradition of cooperation among the people, but not at the expense of the individual.

Reflecting this philosphy, the Government's constitution provides extensive guarantees for the protection of basic human rights. These guarantees have not been seriously impaired despite the guerrilla movements that have operated in recent years along the country's borders with Namibia, Zaire, and Zimbabwe. Freedom of speech and press are somewhat restricted. Political activities are subject to control by th single party, but the country does not suffer from an atmosphere of repression. Freedom House rates Zambia in category 5 out of 7 (seven is least free) for both political rights and civil liberties, comparable to the ratings for Kenya, Egypt and Singapore.

In foreign affairs, Zambia follows a policy of non-alignment and its major foreign policy concern is to promote a transition to majority rule in Namibia (South West Africa) and South Africa. Zambia was also active in supportin the peaceful transition to independence in Angola and Mozambique (1975). Most recently, Zambia played a leading rol in working for a merger of black nationalist movements in Zimbabwe (then Rhodesia) and in concluding the breakthrough agreement providing for supervised elections involving all major parties. These efforts contributed to the establishment of majority rule in Zimbabwe on April 18, 1980.

B. U.S. -Zambia Relations

Although the United States and Zambia have differing viewpoints on some international issues, relations between the two countries are good. The United States shares Zambia's concern for the promotion of self-determination and majority rule in the white controlled areas of southern Africa. In support of these goals, the U.S. Government bans the sale of arms for use in South Africa and discourages new American investment in Namibia. Zambia, however would prefer that the United States take even more vigorous action.

C. U.S. Interests and Objectives

1. Majority Rule in Southern Africa

The United States foreign policy in southern Africa is to support self-determination, majority rule, and equal rights and human dignity for all people of the region. The focal point of this policy was Zimbabwe until its transition to majority rule in April 1980. Prior to this transition, the U.S. assisted countries bordering Zimbabwe which were sustaining economic losses by enforcing sanctions against Zimbabwe. Zambia was one of these countries.

Although Zambia had to bear an extremely heavy financial burden to maintain sanctions, President Kaunda consistently supported a political solution in Zimbabwe and provided moderate leadership for African efforts to bring settlement. Now that majority rule has been established in Zimbabwe, Zambia is using its influence to encourage change to majority rule in Namibia and South Africa.

President Kaunda's continued ability to play a constructive and moderating role in those countries still unde minority rule has in part been undermined by Zambia's worst economic crisis since independence. The crisis is primarily attributed to the rapid and prolonged decline in copper prices from mid-1975 through 1978, the significant declines in copper output since 1979, and to the heavy cost of sanctions applied against Zimbabwe prior to its transition to majority rule. Over the past year the situation has been further exacerbated by adverse external developments and a loosening of GRZ financial discipline.

2. Economic Stability and Development

The Zambian economy, partiularly it's agricultural sector, has fair to good development potential. However,due to external factors and recognized weaknesses in past management of the economy, this potential has not been exploited. In order to resume long-term growth and development, recovery from the current financial crisis is essential. Economic stabilization is, therefore, a major objective of U.S. assistance to Zambia and is considered necessary towards establishing a climate within which the longer term development objectives of U.S. economic assistance can be realized.

D. U.S. Economic Assistance Program

1. AID Strategy

The proposed AID strategy for Zambia is an evolutionary one. At present, as in recent years, the principal aim of U.S. aid to Zambia is to assist the GRZ in its efforts to recover from its economic and financial crisis. This is being done by providing balance of payments support through the Commodity Import Program (CIP) and the PL 480 food aid program. However, as Zambian policy measures to promote the diversification of the economy continue, and as the prospects for economic recovery improve, U.S. stabilization assistance is gradually being replaced by a longer term development program.

This program will support the objectives of the Government's Third National Development Plan (1979-1983) and Three Year Investment Plan (1981-1983). These plans aim to diversify the economy by giving priority development emphasis to agriculture and rural development. The AID program is now being restructured to concentrate on these areas. This re-direction of AID's assistance will help Zambia move away from heavy reliance on copper resources thereby cushioning future development efforts against the volatile financial fluctuations characteristic in the past.

2. AID Program Elements*

a. Commodity Import Program

AID initiated a program of commodity assistance to Zambia in FY 1973. Since then resource transfers under this program have totaled U.S.$107 million. In more recent years, loans of U.S.$20 million have been provided. This U.S.$10 million loan is being proposed for FY 1982. By providing foreign exchange to purchase essential imports, this assistance has aided the GRZ in its efforts to recover from its severe balance of payments difficulties of recent years. Most of the commodities imported under this program have been for use in the agricultural sector; e.g. fertilizer, stockfeeds, spare parts and equipment for vehicles used in agricultural production and in transporting goods and services of these commodities. Also, local currency generations have been used to support the GRZ's national budget.

b. PL 480

From a U.S. $200,000 program in FY 1975, PL 480 assistance increased sharply to U.S.$5.6 million in FY 1977, and to U.S. $12.5 million in FY 1980. The program for FY 1981 was U.S.$ 10 million. Total PL 480 aid over the 1975-1981 period was U.S.$48.5 million. A U.S.$ 10 million program is proposed for FY 1982. This program helps Zambia reduce its requirement for hard currency and provides essential food supplies. Self-help criteria designed to encourage domestic food production is a major feature of the program. Local currency to support development programs is also generated through the sale of Title I commodities comprising the bulk of this program.

c. Technical Assistance

AID's gradual transiton to a longer term development assistance program was initiated in FY 1980. This program is directed towards two basic objectives: (1) to increase small farmers' incomes; and (2) to increase food production. The program operates on the policy and information fronts. The Zambia Agricultural Training, Planning and Institutional Development Project (ZATPID) is the cornerstone of the overall program. On the basis of this activity, priority policy issues and supporting program interventions are identified. On the policy front, AID assistance will help strengthen the GRZ's capacity to analyze, define, and implement development policy, particulary as it relates to rural development. The action

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* Also see Annex A, Table 1 "U.S. Economic Assistance to Zambia: FY 1946 - FY 1978."

program, now just beginning, ultimately seeks to establish a crop or crops-specific decentralized program in one or two areas aimed at increasing small farmer income and at increasing the GRZ's capacity for managing and replicating such programs.

The technical assistance program was begun in FY 1980 with projects in research and extension (U.S. $12.5 million) and agricultural training, planning, and institutional development (U.S.$4.8 million). A major agricultural sector loan supporting rural cooperatives, the extension service, and the University of Zambia's Co-operative College is being proposed for FY 1981 (U.S. $45.0 million).

3. Other U.S. Economic Assistance

In addition to the U.S. bilateral aid program the U.S. indirectly supports Zambia's development efforts through the multilateral institutions. The U.S. is the single largest donor to the World Bank group, provides the United Nations with about 25% of its total budget, and is the largest subscriber to the International Monetary Fund. Zambia has benefited substantially from the economic and financial programs of these institutions for many years. The U.S. has also provided U.S Export-Import Bank loans and guarantees (U.S. $96 million exposure as of May 30, 1980) and Overseas Private Investment Corporation (OPIC) guarantees.

III. MACROECONOMIC JUSTIFICATION

A. Structure and Development of the Zambian Economy

1. Structure of the Economy

a. General

Zambia, located in south central Africa, is slightly larger than the American state of Texas. The country supports a population of 6.0 million (1981 estimate) growing at an average of about 3.0% per annum. About 40% of the population live in urban areas making Zambia one of the most rapidly urbanizing societies among African developing countries today.1/

Mining is the most important economic sector and is estimated to have accounted for 29% of real gross domestic product (GDP) in 1980.2/ Other major contributors to GDP in 1980 were agriculture, 12%; commerce, 7%; and services, 14%. Since Independence in 1965, mining's share has declined from 41% to about 30% in 1979-1980. Over this same period agriculture's contribution has declined from 14% to 12%; services have risen from 9% to 14%; and manufacturing's share has increased from 7% to 12%. Despite the mining sector's reduced relative contribution to GDP, the copper industry remains the primary determinant of Zambia's economic and financial performance. See Annex A, Tables 2 and 3.

Total GDP at current prices is estimated at K3.0 billion for 1980.3/ On a per capita basis, this would be about U.S.$515 per annum. While this figure suggests a moderately high income compared to many African countries, it does not reflect the extreme dualism that exists between the urban-

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1/ During the period 1963-74, the population in urban areas grew at the rate of 7% p.a. while the rural population expanded at a 0.8% rate; by 1974, 35% of Zambia's population was urban compared to 20% in 1963. Estimates now place the urban population at about 40% but evidence now suggests the rate of rural-urban migration is slowing.

2/ When adjusted for the changes in the terms of trade and expressed in current market prices, the sectoral distribution differs markedly. For example, in recent years, the mining sector's contribution varied from 32% in 1974 to as low as 11% in 1977. See Annex A, Table 4.

3/ K1 = U.S. $1.25

oriented modern sector, dominated by mining, and the rural agricultural sector. Indicative of urban-rural income disparities is a 1972-73 survey which showed that average annual household income in urban areas was over four times that in rural areas.

More recent data for the 4th quarter of 1977 shows that the average annual earnings for 30,000 Zambian employees in the agricultural sector were K639 per annum compared to K2,632 per annum in the mining sector and K1,529 in manufacturing.1/ See Annex A, Table 5. These figures compare with cash incomes of about K60-70 per annum earned by about half of Zambia's 600,000 subsistence farmers. The lack of economic development since 1977 would suggest that these disparities have not changed appreciably. Other socio-economic indicators show the per capital calorie supply as a percent of total requirements at 87% (1977); literacy at 39% (1975); and life expectancy at 48 years (1978).

b. Potentials and Constraints

Zambia's mineral resources and large land area offer fair to good potential for economic development. At currently projected rates of extraction, the country's quantity of copper ore will be sufficient to last about 20 years. Even barring the possibility of the discovery and development of new ore reserves, financial resources generated by the mining sector over the next two decades can support diversification efforts already begun to lessen the country's dependence on copper.

Zambia's land area and low population density of 20.7 persons per square mile (1981 estimate) also offer good potential for agricultural development. But though the population to land ratio is quite favorable, the generally weak soil structure and current cultivation practices are such that any significant increases in production and acreage will require more complex management techniques and increased inputs to maintain soil productivity.

Of the total land area of 290,410 square miles, about 90% is potentially suited to continuous cultivation, pasture and forestry. At present only 3 to 5% of this potentially arable land is under cultivation at any one time. Moreover, subsistence farmers using traditional practices account for 85%

1/ Cash earnings only; excludes earnings in kind and employer's contribution to pension funds, etc.

of total cereal production and 90% of all cattle slaughtered. Therefore, significant production increases are possible through both the expansion of area suitable for cultivation and through higher levels of productivity as traditional farmers adopt more modern technological practices. Further enhancement of this potential is possible with Zambia's favorable climatic and geographic conditions which permit the production of a wide variety of crops and livestock in varied ecological zones. Thus, with still significant known reserves of mineral deposits, large areas of uncultivated arable land, the absence of population pressures in rural areas, and favorable growing conditions, Zambia has fair to good prospects for economic development.

While possessing this potential, Zambia also faces formidable development constraints. The overdependence of the economy on copper is perhaps the most serious. This dependence, together with the chronic volatility of copper prices, has perpetrated instability in foreign exchange earnings and tax revenues and has made long-term planning difficult.

Transportation also is a major problem for landlocked Zambia. Because of regional political developments in recent years, border closings have often cut off traditional routes to the sea and operational inefficiencies have plagued the alternative routes. Except for the Benguela line, traditional outlets are now open but remain costly and difficult to maintain. .

Still another major constraint is the lack of adequately trained human resources. This is evident in the continued dependence upon expatriate technical and managerial personnel, the limited institutional capacity of many government agencies, and the inefficient management of several parastatal organizations. Emanating from and adding to the major constraints just noted is the current financial crisis described in section IIIB below. A closer look into the structural/historical factors relating to Zambia's development to date is helpful in developing a better understanding of the present crisis.

c. <u>Major Productive Sectors</u>

1. <u>Mining</u>

Zambia's economy is dominated by the mining sector. Until recently, it generated about 30% of total wage employment, contributed about 50% to government revenues, and, in 1976, it accounted for 98% of export earnings. It also contributed in the same year about 34% to GDP. Mining activities consist mainly of copper mining and smelting. Cobalt, zinc and lead are also mined but are of much less significance. In terms of world output, Zambia ranks fifth as a producer of copper and second as a producer of cobalt.

2. Agriculture*

Zambia's agricultural sector is highly dualistic. At one extreme are about 600,000 small-holder subsistence farmers, widely dispersed through the countryside on land of varying quality. Traditional farming methods are practiced using hand tools and generally work is unassisted by either animal or mechanical power. About half of the subsistence farmers produce food stuffs only for their own requirements; the other half earn cash incomes of about K60-70 per year from farming. The major crops are maize, cassava, millet, groundnuts, sorghum and free-grazed beef. Despite their small share of marketed production, small-holder farmers produce 85% of all cereals (80% of maize) and 90% of all domestic cattle slaughtered.

At the other extreme are some 400 commercial farmers including about 100 non-Zambians. Their farms are generally located on the best soil and are mainly near the principal line of rail or other major arteries with access to markets. Commercial famers use modern, increasingly capital intensive methods to produce cereals, dairy products, beef, poultry and eggs for the urban market and tobacco for export. They presently supply 30% to 40% of total marketed maize production.

Between the subsistence and commercial farmers is a small but growing group of Zambian "emergent farmers" who are using improved seeds and oxen or tractors to produce the same range of crops as commercial farmers, plus cotton. Commercial and emergent farms supply over 55 percent of the beef and over 50 percent of the country's milk, pork and tobacco. Gross annual sales from commercial farms average about K25,000-35,000, while those of emergent farmers vary widely but lie typically in the range of K1,000-3,000.

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* See "FY 1982 Country Development Strategy Statement" for a comprehensive description and analysis of the agricultural sector.

3. Manufacturing

Compared with other African countries, Zambia has developed a relatively large and diversified manufacturing sector. However, few Zambian enterprises have been designed to utilize domestic raw materials and to develop linkages with other sectors such as agriculture. Industries are biased toward the processing of imported raw materials and are generally highly capital-intensive. Manufacturing is particularly sensitive to fluctuations in the availability of foreign exchange. Major industries include the following:

Food, Beverages and Tobacco
Textile and Wearing Apparel
Paper, Paper Products, Publishing and Printing
Chemicals, Petroleum, Plastic and Rubber Products
Non-Metalic and Mineral Products
Basic Metal Products
Fabricated Metal Products, Machinery and Equipment.

4. Role of the Public Sector

The public sector plays an important role in the productive structure of the economy. Apart from providing the usual economic infrastructure such as power and water supplies, it runs the railway network and owns over 51% interest of the country's major industries including the two largest copper mining companies.

d. Foreign Trade*

Zambia's principal exports in terms of value are copper (85%-90%), zinc, lead, cobalt, and tobacco. Major imports in 1979 included machinery and transport equipment (34%), manufactured goods (20%), electricity and mineral fuels (18%), chemicals (13%), and foodstuffs (6%). The country's main trading partners are the United Kingdom, Japan, South Africa, U.S. and West Germany.

2. Economic Development to 1976

a. 1888-1964: Basic Economic Structure Established Under British Administration

Zambia's modern economic development began with the establishment of the British South Africa Company in 1889.

*See Annex A, Tables 6, 7 and 8.

During this early colonial period, white settlement was encouraged, small mines were opened, and roads and railroads were built. The first major developments in copper mining did not begin until the creation of large companies during the boom of the 1920's. With this prosperity came a major influx of mine workers, traders, artisans and farmers. Except for a brief period during the Great Depression, mining continued to provide the major impetus for development until Independence in 1964.

Manufacturing was slow to develop during this period due to: (1) the lack of a skilled labor force stemming from colonial neglect of education for Africans; (2) a limited market; and (3) extended transport routes leading to high costs for imported raw materials and capital equipment. Between 1930 and 1954, a customs agreement between South Africa and the two Rhodesias also precluded the use of tariffs to promote industrial development in Northern Rhodesia. From 1954 to 1963, the years of the Federation of the Rhodesias and Nyasaland, expansion in industrial output occurred mainly in Southern Rhodesia because of its superior financial, commercial and economic infrastructure.

The colonial system also discouraged the development of African agriculture. Expatriates were encouraged to settle on "state land". This land consisted of good soils, was free of tsetse fly, and had good access to markets and services along the main lines of rail. In contrast, traditional farmers were widely dispersed on small holdings of varying soil quality. African farmers used mainly human motive power and suffered from the lack of access to services and markets.

Traditional agriculture was not encouraged and did not develop beyond subsistence levels. In fact, policies and incentives were designed to cause Africans to leave their farms and migrate to the urban areas. Two such major policies were: (1) the imposition of a quota on marketing board purchases of maize from Africans to protect the expatriate farmers, and (2) taxation policies designed to force African laborers to work in the mines. These policies had the desired result, leaving the aged, women and children behind to do farming.

Thus, at the time of Independence in 1964, Zambia inherited an economy created by the colonial system and characterized by:

(a) Heavy dependence on copper, an export subject to wide price swings on the international market;

(b) Extreme dualism between a rich export-oriented mining sector and a poor subsistence agricultural sector largely outside the money economy;

(c) Dependence upon imported manufactures from Southern Rhodesia, South Africa and Britain because of the under-development of its industrial sector;

(d) Dualism within the agricultural sector between a small number of largely expatriate commercial farmers using modern, more capital-intensive techniques and a vast number of Africans using traditional, subsistence techniques;

(e) Large income differentials between expatriates and Zambians, African miners and non-miners, urban and rural workers; and

(f) Dependence upon expatriates because of shortages of skilled African labor.

In short, the development that took place during the colonial period was oriented to the needs of white settlers and the mining industry. Much of the Government's revenues generated by Northern Rhodesia's mines were used to develop Southern Rhodesia; and, except for their use as mineworkers and farm laborers, Africans were left out of the mainstream of development.

b. 1965-1976: Independence and Slow Economic Growth

1. Development Program Strategy and Objectives

The major aim of government economic policy at Independence was to reorient the economy to serve Zambian development needs and to provide the basis for sustained and balanced growth. This was to be achieved by using the country's mineral wealth to advance the economic and social welfare of the entire country. More specifically, both the GRZ's First National Development Plan (1966-70) and the Second National Development Plan (1972-76) established the following objectives:

(a) Raise the general level of economic welfare;

(b) Diversify the economy to lessen dependence on copper;

(c) Narrow the gap between the rural and urban living standards; and,

(d) Improve educational levels and develop technical and managerial skills to reduce dependence on expatriates (Zambianization).

2. Development Program Results

From 1965 to 1976, the period covering implementation of the First and Second National Development Plans, GRZ efforts to achieve the above objectives were poor. Many of the conditions to be corrected worsened. Yet, major physical infrastructure had been laid to promote future growth, and social services, particularly education, were significantly expanded. Progress towards Zambianization was made but heavy reliance upon expatriates continued.

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

Because of this relative neglect of the agricultural sector, the rural-urban terms of trade deteriorated by about 20% over the 1965-76 period; in other words, the average unit of agricultural produce in 1976 would buy only 80% of what it purchased in terms of urban goods in 1965. Taking into account both rising real output (2.8% p.a.) and the falling terms of trade, rural real income barely kept pace with rural population growth over the period. Further illustrating the dichotomy in urban-rural incomes was the difference in urban-rural wages. In 1976, the IBRD estimated that average wages for miners were 160% of national average wages, while farmers earned only 40% of the national average.

To summarize, as a result of this pattern of development the economy continued to be dominated by the mining sector which contributed 34% to GDP in 1976 compared to 41% in 1965;* real per capita income in 1976 was only U.S. $250 per annum compared to U.S. $243 per annum in 1965; and the gap between urban and rural incomes was wider in 1976 than it had been at Independence.

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

III. B. Current Economic Crisis

1. Principle Causes

Zambia's current economic crisis originated in the dualistic structure of the economy which has traditionally relied heavily on copper earnings for government revenues and foreign exchange. In 1975, world copper prices plummeted and remained low through 1978. The resulting losses in revenues and foreign exchange earnings, coupled with the higher costs of maintaining economic sanctions against Zimbabwe, are basically the factors explaining the onset of the current crisis.

Despite a modest recovery in world copper prices in 1979, the economic situation failed to improve significantly due to a reduction and what now appears to be a "levelling off" of copper production at an annual rate of 600,000 MT. This compares to average production levels of 700,000 MT in the late sixties and early seventies. Agricultural production also declined due to poor weather conditions and inadequate producer incentives. Notable progress was made in 1979 towards stabilizing the economy under an IMF stand-by program but these advances later proved to be unsustainable.

During 1980 and early 1981, the economic and financial climate eroded drastically. This was due in part to factors beyond the government's control, but also to a loosening of financial discipline following the cessation of the war in Zimbabwe and the end of a two-year stand-by agreement with the IMF. This setback was reflected in 1980 in a serious deterioration in the balance of payments position, a doubling both in the national budgetary deficit and recourse to central bank financing; and sizeable increases in private consumption at the expense of domestic savings and capital formation. The signing of an IMF extended arrangement in May 1981 is expected to strengthen economic and financial performance in 1981.

Fluctuations in world copper prices have traditionally posed difficulties for Zambian economic planners. Since Independence in 1964, copper prices have peaked three times in regular cycles: 1966, 1969/70 and 1973/74. In early 1974, prices rose to a post-independence high of U.S. $1.52 per pound resulting in high Government revenues and a large trade surplus. However, in 1975, the world-wide recession sharply reduced copper demand and the average price plunged to U.S. $0.56 per pound. In real terms this was the lowest price since 1957.

Unlike previous copper price cycles, the downside of the latest cycle remained low for over four years. In 1977, the average price was U.S. $0.59 per pound, and in 1978, it rose to only U.S. $0.62 per pound. Largely due to this sharp decline in copper prices, the terms of trade declined by over 50% from 1972 to 1978.

Prices began to recover in 1979 averaging US. $0.90 per pound for the year. In 1980 prices averaged U.S. $0.99 per pound but are projected to decline again to about U.S. $0.93 per pound in 1981.

Transportation bottlenecks caused by instability in southern Africa also worsened landlocked Zambia's economic situation during the 1975-1978 period and in 1979 as well. As early as 1973, the country's southern access route to the sea was lost with the closure of the Rhodesian border. The Lobito route through Zaire and Angola was closed in August 1975 owing to the civil war in Angola. In early 1976, Kenya ports, as well as trade with Kenya, were not available with the closing of the Kenya-Tanzania border. The Tanzania-Zambia Railway (Tazara) was opened in August 1976 but this route was soon plagued by congestion at the Dar es Salaam port, a shortage of rail engines and locomotives, poor maintenance, and destruction resulting from Rhodesian military actions.

In response to the deterioration of the transport situation, the Zambian authorities reopened the rail route through Zimbabwe in October 1978 for essential goods. However, in October and November of 1979, Rhodesian forces destroyed numerous access bridges and roads from Zambian outlets to Tanzania and Botswana. Most of this damage has now been repaired, and the transport situation is almost back to normal.

Overall, transportation difficulties cost Zambia millions of dollars in scarce foreign exchange from 1975 to 1979. Major outlays were required to reconstruct rail and road routes to the north and freight costs were much higher to move trade over these extended routes. Costs were also high in terms of the inability to move stockpiled inventories, the opportunity costs of foregone production, and the added inflationary pressures resulting from imports being held in transit.

In addition to low copper prices and high transport costs, Zambia's copper production dropped from an average level of 695,000 MT during 1972-1974 to a 650,000 MT average during 1975-1978. Production was only 580,000 MT in 1979 and was about 600,000 MT in 1980. Future production is projected to remain at about 600,000 MT, nearly 100,000 MT below the average production levels for the late sixties and early seventies. The lower levels of production are attributed to the declining number and quality of managerial and technical personnel, shortages of machinery and spare parts, and wild-cat strikes. The increasing difficulty of extracting deeper and lower grade ores is also a factor.

The most recent developments contributing to the current crisis include; higher import prices, an erosion of fiscal and monetary discipline following the end of the Zimbabwe war and the expiration of the IMF stand-by agreement in April 1980. These factors are evidenced in the sections that follow:

2. A. Balance of Payments

The financial consequences of Zambia's continued heavy dependence on copper earnings and the high costs of constructing and maintaining transportation outlets to the sea have been particularly acute on the balance of payments (BOP). About 85% to 90% of Zambia's foreign exchange earnings continue to derive from copper (90%-95% including other mineral exports), and traditionally, Zambia has had a large surplus on mechandise trade. However, about half of export earnings are absorbed by payments on services and transfers because copper production depends heavily on foreign personnel and capital, as well as on expensive transport costs.

After independence and until 1975, Zambia enjoyed a generally healthy balance of payments position. Nevertheless, even during this earlier period, a gradual deterioration in the external accounts began with foreign exchange earnings falling from an average of U.S. $280 million during 1965-1970 to a U.S. $210 million average for 1971-1974.

B. 1975-1978

In 1975, world copper prices plunged, and from 1975 to 1978, the current account averaged a deficit of about U.S. $320 million a year (see Annex A, Table 9*). After borrowing heavily in 1975, net capital inflows fell from 1976 to 1978, resulting in large overall deficits. These deficits led to an accumulation of external payments arrears which stood at U.S. $620 million at the end of December 1978.

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*Conversion rates: 1975 U.S.$1=SDR.82362; 1976 U.S.$1=SDR.86616; 1977 U.S.$1 = SDR.85652; and 1978 U.S.$1=SDR.79872.

The most important factor contributing to this deterioration was a 50% decline in the real price of copper from 1969 to 1978. Another major reason was the virtual stagnation in the volume of copper exports which averaged about 650,000 tons over the same period. Copper exports were also adversely affected by the 1978 transportation crisis which prevented Zambia from exporting a substantial part of its production. Due mainly to these factors, exports fell from a high of U.S. $1,396 million in 1974 to U.S.$829 million in 1978.

Imports also declined from U.S. $1,144 million in 1975 to U.S. $773 million in 1978. In terms of volume, 1978 imports were just about half those prevailing during 1969-1973. The 1978 transportation crisis also affected imports causing periodic shortages of vital and essential consumer goods. The composition of imports improved from 1975 to 1978 with the consumption of food, clothing and transport declining from 28% to 20% of total imports. Both intermediate and investment goods increased as a proportion of imports to 55% of total imports respectively.

The overall terms of trade deteriorated significantly and seemingly permanently during the 1970's. If 1969 - 73 is taken as a base of 100.0 the terms of trade turned against Zambia as follows:

1974	1975	1976	1977	1978
95.4	46.4	51.6	45.2	43.0

Although the terms of trade improved somewhat in 1979 with the increase in copper prices, it did not attain the average of the early 1970's since world wide inflation continued to be felt through import prices.

There was some improvement in the services accounts over this period. Although investment income rose from a net outflow of U.S.$117 million to U.S.$129 million between 1975 and 1978, private transfers and other services outflows decreased by about U.S.$50 million. Government transfers showed the greatest improvement, from a net inflow of U.S.$5.2 million to U.S.$25.0 million over the four-year period.

In the capital accounts, public and private sector net outflows were sharply reduced from U.S.$210 million in 1975 to U.S.$18 million in 1978. However, external debt increased dramatically from 1973 to 1977 and at the end of 1978 stood at U.S.$1.4 billion or 61% of GDP. See Annex A, Table 10. Zambia's debt service payments were U.S.$191 million in 1978 or about 23% of export receipts.

C. 1979: Signs of Recovery

After suffering severe BOP deterioration and stagnation in the 1975-1978 period, favorable events in 1979 contributed to a significant though temporary recovery. Toward the end of 1978, the railway link to South Africa through Zimbabwe was reopened. This facilitated the export of all 1979 copper production and carry-over stocks that had accumulated in 1978. World market prices rose from the 1978 average of U.S.$0.62 per pound to U.S.$0.90 per pound in 1979. A two-fold increase in cobalt prices coincided with increased production capacity. As a result, exports increased 65% over those in 1978. Imports rose by 20% while net service payments decreased by 4%. Overall the current account moved from a U.S $242 million deficit in 1978 to U.S.$151 million* surplus in 1979.

In the capital accounts official capital inflows rose substantially, moving the balance of payments position from a 1978 deficit of U.S.$233 million to a 1979 surplus of U.S.$233 million. Discounting the 1979 exports of 1978-produced copper totalling U.S.$161 million, the overall BOP position in 1979 would still have shown a surplus of U.S.$58 million. This improvement permitted the GRZ to reduce the amount of outstanding external payments arrears from U.S.$620 million at the end of 1978 to U.S.$470 at year-end 1979.

D. 1980: Setback

Following the impressive performance in 1979, 1980 was a disappointing setback. The current account recorded a U.S.$397 million** deficit compared to a U.S.$172 million surplus in 1979. This was the largest deficit since the beginning of the crisis in 1975. There was only a modest increase in the capital accounts from U.S.$71 million to U.S.$105 million and overall the balance of payments registered a U.S.$277 million deficit compared to the U.S.$244 million surplus in 1979. External arrearages increased U.S.$600 million after having been reduced by U.S.$187 million in 1979. Debt service payments amounted to the equivalent of 26% of exports, and foreign exchange reserves fell another U.S.$125 million to U.S.$79 million at end-December. This was equivalent to about three weeks' imports.

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* U.S.$1=SDR.77400

** U.S.$1=SDR.76833

This deterioration is attributed mainly to a stagnant level of export earnings and a 48% increase in imports. On the export side, the volume of copper exports were maintained at about the same level as in 1979 but the average price fell to U.S.$0.93 per pound compared to U.S.$0.99 in 1979. Lagging cobalt sales also contributed to the lackluster export performance.

While 1980 exports remained at the 1979 level, imports soared from U.S.$950 million in 1979 to U.S.$1,412 million in 1980. This increase is accounted for, in part, by a large requirement for maize imports and payments for military imports. Some observers also attribute the overall increase in imports to a loosening of financial discipline associated with the ending of the war in Zimbabwe and the conclusion of the two-year IMF stand-by program. This occured to some extent because of political pressures for meeting rising expectations following the war's end, and pressures for satisfying heavy pent-up demand for imports.

Higher import prices also contributed to the steep increase in import costs. The unit value for 1980 imports is estimated to have increased 28%, partially as a result of higher prices charged to importers penalized for Zambia's accumulation of external arrears and impaired credit worthiness.* In real terms, 1980 imports showed a 15% increase over 1979.

The services accounts remained stable in 1980 except for net investment income outflows which almost doubled from U.S.$125 million to U.S.$233 million. Capital inflows offered little to offset the current account deficit and Zambia once again found itself in a precarious financial position.

Balance of payments projections for 1981-1983 are presented in Annex A, Table 11. The GRZ and IMF project the elimination of arrearages by year-end 1982 and a recovery in the overall balance of payments position to a marginal positive balance in 1983. These estimates appear optimistic in light of the assumptions upon which they are based. Forecasting world copper prices is always a speculative venture and the projected recovery in prices to U.S.$1.40 per pound by 1983 seems questionable in light of recent trends. Of perhaps more significance, the public and private sectors remain in dire need of imported spare parts, equipment and raw materials. The

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* In some cases it is estimated that additional interest charges and markups added as much as 25% to the cost of some imports.

first tranche of disbursements under the EFF (U.S.$156 million) largely went towards reducing arrears and satisfying unhonored commercial bank Letters of Credit. Little of this first tranche offered relief for Zambia's under-utilized industries, and pent-up demand has increased accordingly. This will likely make it more difficult to stay within the 1981 imports target of a 9% decline in real terms. Restraining the demand for imports will be a challenge not only in 1981 but throughout the extended arrangement period.

For 1981, the current account deficit is projected to increase by U.S.$56 million, to U.S.$458 million. Capital inflows are forecast to U.S.$241 million, mainly as a result of a sharp projected increase in investment by the mining companies. The overall deficit is forecast at U.S.$200 million. Net drawings on IMF resources will be used to finance this deficit as well as reduce arrearages by about U.S.$130 million.

3. Public Finance

The financial position of the Government reflects the difficulties which the economy has experienced over the past six years. Until 1975, taxation of the copper mining sector represented an important source of revenue for the Government. Mining revenues in the 1960's represented about 60% of Government revenue. In the 1970's they reached a peak in 1974 at K340 million, representing 52% of total Government revenue, up from 18% to 28% respectively in 1972 and 1973.

Because of the huge losses in earnings resulting from the collapse of copper prices in 1975, mining revenues fell to K12 million in 1976 or less than 3% of total revenue (see Annex A, Table 12). From 1977 to 1979, there was virtually no revenue from the mining sector. Mining tax revenue for 1980 was K42 million, or about 5% of total revenue.

To offset the loss in mining revenues since 1976, the GRZ has successfully diversified its tax base. Taxes on domestic goods and services increased from K86 million to 1974 to K259 million in 1980. Taxes on income have more than doubled to K271 million over the same period. Thus, total revenue since the 1974 peak has never decreased to pre-1974 levels in absolute terms.

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* Conversion rates: 1978: U.S.$1=SDR.79872;
1979: U.S.$1=SDR.77740;
1980: U.S.$1=SDR.76923;

Performance on the expenditure side was less successful during the mid-1970's than for revenue generation. When revenues declined in 1975-1977, expenditures were not adjusted downward and large Government deficits resulted. These deficits, of which the domestic banking system financed over 80%, averaged 16% of GDP.

Strict discipline over budgetary expenditure was generally maintained in 1978. The overall budgetary deficit declined from K259 million in 1977 to K196 million in 1978. Moreover, domestic bank financing was reduced from K220 in 1977 to K93 million in 1978 as a result of increased foreign financing.

Performance on the expenditure side reversed in 1979 due primarily to sharp increases in subsidies (mainly maize and fertilizers) which rose from K42 million in 1978 to K102 million in 1979. Expenditures also noticeably increased in the "constitutional and statutory" account reflecting higher defense outlays. Overall the budgetary deficit widened from K196 in 1978 to K274 million in 1979. Increased foreign inflows again permitted the GRZ to reduce resources from the banking system to K60 million.

1980 witnessed a major deterioration in the budgetary position. Subsidies more than doubled to K214 million; personnel emoluments rose 33% reflecting the first general wage increase for civil servants in several years; constitutional and statutory outlays increased 35% mainly due to defense expenditures; and "capital outlay" more than doubled as a result of the GRZ's assumption of K161 million in the external debt of the Nitrogen Chemicals of Zambia Ltd. fertilizer plant. Overall the deficit nearly doubled to K512 million and Government borrowing from the banking system rose K173 million to K233 million.

As was the case with the upsurge in imports, the termination of the IMF stand-by program and the end of the Zimbabwe struggle probably played a significant role in the relaxation of restraints on expenditures. Zambians believed they had been sacrificing for years toward the war effort and expectations were high that its resolution would bring economic benefits. In response to these expectations, the GRZ raised wages and constrained price increases of necessary consumer goods.

The 29% increase in "recurrent department charges" similarly reflected a need to increase operating outlays after years of restraint. Recurrent departmental charges represent operating costs for materials and services in contrast to personnel emoluments.

From 1970 to 1980, the relative share of both categories in total recurrent expenditures have declined from an average of 28-30% to 18-20%. These declines have been offset for the most part by increases in constitutional and statutory outlays* which increased from 20% of the budget in 1970 to 36% in 1980.

Because of the importance placed on the role of agriculture in achieving the GRZ's diversification objective, the recurrent budget for the Ministry of Agriculture and Water Development (MAWD) is of particular interest. A recent World Bank study of MAWD's budget showed that from 1970 to 1980, personnel emoluments fell from 15% of MAWD's total recurrent budget to 9%; recurrent departmental charges fell from 26% to 9%; but grants and subsidies rose from 59% to 82% (see Annex A, Table 13). During 1975-1980 over 80% of MAWD's recurrent budget was used to cover operating losses of parastatals handling agricultural marketing and input delivery and finance. Only 20% of the budget was spent on actual agricultural services to farmers or 3% of total GRZ recurrent budget outlays.

The study further indicates that, in real terms, personnel emoluments grew at an average annual growth rate of 4.1% from 1975 to 1980, while recurrent department charges fell 13.6% per annum. As a result the amounts of goods and services available to operate and maintain MAWD's capital stock and support its permanent labor force have declined significantly. Any serious effort to promote agricultural growth and development must address this problem.

Under the extended arrangement, the GRZ will aim to reduce its overall budgetary deficit from an average of 12% to GDP in 1978-1980 to less than 5% in 1983. Domestic bank financing is expected to fall from an average of 20% in 1978-1980 to under 6% in 1983.

The first year of the program will reduce the overall budget from K512 million, or 17% of GDP in 1980 to K260 million, or 7% of GDP in 1981. Domestic bank borrowing is forecast to decline from K233 million in 1980 to K150 million in 1981. This improvement will be achieved primarily through a hiring freeze, a sharp reduction in subsidies as a result of economic pricing, and a major cutback in defense expenditures. New tax measures are also expected to contribute nearly K50 million to revenue.

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* Includes expenditures for defense, certain salaries and interest payments on the public debt, but not of amortization and sinking fund payments on internal and external debt.

4. Monetary Development

Zambia's banking system consists of the Bank of Zambia which acts as a central bank, and four commercial banks (of which three are foreign subsidiaries and one is owned by the Government). Insurance companies and other financial institutions are mostly Government-owned and also act as commercial banks in housing, agriculture and savings and loans.

Monetary developments through 1977 reflect large expansions in domestic credit due to borrowing by the Government and mining sectors. In 1977, domestic credit expanded by 30% and the money supply rose by 12% (see Annex A, Table 14).

In 1978 and 1979, the Government undertook a stabiization program to restrict credit, especially that of the Government and mining sectors. Private sector credit was also controlled. The liquidity position of banks was tightened through the imposition of a 100% reserve requirement for imports in April 1978, and through the enforcement of the kwacha counterpart requirement for foreign exchange applications. As a result of these measures, domestic credit expansion slowed to 18% in 1978 and to 8% in 1979.

GRZ borrowing rose sharply in 1979 and domestic credit increased 16%. However, the increase in private sector credit was minimal. Over the five-year period 1976-1980, the Government's share of credit steadily increased such that the proportion of private sector credit declined from 51% at year end-1975 to 37% at the end of 1980.

The money supply increased 30% in 1979, as Zambia absorbed a large balance of payments surplus. However, after taking into account a sharp drop in the money supply which occurred at the end of 1978, the rise in average money balances during the year was more on the order of 15%. In 1980, the increase in money supply was only 9% because Zambia incurred a large balance of payments deficit.

Domestic price increases were only 10% in 1979 and 12% in 1980, despite price increases of imports which averaged 17% annually, and increases in domestic production costs of 14% annually. The low inflation rates are explained by the GRZ's price control system covering twenty essential or priority goods.

5. Economic Growth

The net result of Zambia's financial difficulties of recent years has been an adverse impact on real economic growth. Between 1973 and 1976, real GDP grew by an average of 3% per annum. Real GDP declined 5.1% in 1977, but there was a limited (2.5%) recovery in 1978. A sharp 8.0% decline followed in 1979 and growth stagnated at less than 1% in 1980. Considering the population growth rate of 3%, there has been a substantial decline in per capita income over the past several years.

In terms of sectoral performance, the mining sector's relative share of GDP fell from 32% in 1974 to 30% in 1979. Mining's share declined again in 1980 to 29% (see Annex A, Table 2). Over the same 1974-1979 period, agriculture's share rose from 10% to 12%, manufacturing remained unchanged at 11%, and services rose from 12% to 14%.

In the agricultural sector, weather conditions, inappropriate prices, the lack of spare parts, credit, transport and marketing and input delivery have been among the problems impeding the growth of this potentially dynamic sector. Agriculture experienced particularly poor years in 1979 and 1980 due to severe drought and this resulted in huge crop losses. Weather conditions improved in 1981, and a better harvest is anticipated.

The mining sector has experienced mixed performance over the past three years with its contribution to real GDP falling 19.6% in 1979 after showing a 7.5% increase in 1978. Higher copper prices and cost savings in mining operations contributed to the 1978 improvement. However, in 1979, supply bottlenecks and the loss of key personnel led to the sharp reduction in copper production. Despite this decline, the financial position of the mining companies was strengthened in 1979 and they were able to show profits for the first time in four years.

The poor performance of the manufacturing sector in recent years has been due to the scarcity of foreign exchange, price control policies and limitations on raw material imports. Despite the improvement in 1978, performance in 1979 was stagnant and capacity utilization will probably not increase in the near future (unless imports of essential inputs are increased).

In 1980, both the mining and manufacturing sectors were virtually stagnant in terms of growth. This was due to the same problems as described above for 1979.

Zambia's national accounts showing GDP by type of expenditure are a further reflection of the disappointing growth in recent years (see Annex A, Table 15). From 1976 to 1979 gross domestic savings as a percent of GDP fell from 38% to 25% and declined again to 19% in 1980. Gross capital formation followed similar declines from 32% in 1976 to 20% in 1980. Government consumption held at about 27.5% of GDP over the 1976-1980 period. Private consumption rose markedly during 1979-1980 due to gains in labor incomes estimated at 36%.

III. C. Corrective Measures

The Government has undertaken a series of corrective mesures to stabilize the economy since the onset of the economic crisis in 1975. These have included an initial stabilization program in 1976, a stand-by arrangemnt with the IMF (April 1978) and recently an IMF extended arrangement commencing May 1981. In addition, the Third National Development Plan (1979-1983) has laid the basic groundwork for diversifying the economy; nationwide food production programs are being launched; a major effort is underway to reorganize the National Agricultural Marketing Board (NAMBoard) and strengthen cooperatives; and Zambia is continuing its efforts to promote political stability in southern Africa.

1. Stabilization Programs

a. GRZ Program 1976-1977

Faced in early 1976 with unfavorable prospects for a quick recovery in world copper prices, the GRZ initiated a program to stabilize the economy. These early measures included a 20% devaluation of the Kwacha in July 1976, fiscal measures to diversify sources of government revenue and to contain government capital expenditures, and incentives to stimulate the diversification of the economy toward increased agricultural and industrial production. This initial program met with only limited success and it became evident that more stringent efforts were necessary.

b. GRZ-IMF Standby Program, 1978-1980

In April 1978, the Government negotiated a two-year stand-by arrangemnt with the International Monetary Fund. This program made available SDR 250 million (U.S.$313 million) in IMF credits. The stand-by arrangement supported a comprehensive stabilization program, of which the main objectives were to achieve an overall balance of payments equilibrium by 1980, reduce inflation, resume economic growth, and set the basis for diversification of the economy through efficient resource allocation, especially in terms of fiscal performance. In addition, the program was designed to gradually eliminate external payments arrears which, at the beginning of the program, stood at SDR 467 million (U.S.$585 million).

Zambia's implementation of the stand-by arrangement was largely successful. As described above, the balance of payments showed marked improvement in 1979 permitting a large payments surplus and a reduction in external arrearages. In the area of public finance, the revenue base was diversified and strengthened; discipline was exercised over expenditures; and the resort to deficit financing was restrained. These factors plus restrictions on the expansion of domestic credit contributed to reductions in the rate of price increase from about 18% in 1977 to about 10% in 1979.

With the termination of the standby program in April 1980 there followed a major deterioration in the financial management of the economy as described in the preceeding sections. In the fall of 1980, the GRZ began negotiating with the IMF for an extended arrangement to address its worsening economic and financial crisis.

c. GRZ-IMF Extended Arrangement, 1981-1983

In May 1981 the GRZ signed an agreement with the IMF for a three-year extended arrangement. The overall objective of the program is "to increase the level and diversify the structure of domestic production, while seeking domestic financial equilibrium and a sustainable external position." Other major objectives of the program include the following:

- rehabilitation and more intensive use of existing capacity in the main targeted growth sectors, agriculture and manufacturing;
- restructuring of the import composition to accord priority to essential inputs for the manufacturing, mining and construction industries;
- shift resources for consumption to investment through appropriate supply-oriented and demand-constructing measures;
- attainment of economic pricing for the products of parastatal enterprises through rationalization of the cost-price structure;
- eliminate all subsidies on maize by the end of 1983 and reduce the per unit subsidy on fertilizer to about 50% of the 1980 level;
- align total public expenditures closely with the availability of resources other than resources to the banking system;
- move gradually to an overall balance of payments equilibrium by 1983, while establishing the framework for a sustainable current account balance after the conclusion of the program.

The macroeconomic targets of the program are presented in Annex A Table 16.

This program is certainly a timely one and it appears to have already enhanced the confidence of investors. On the other hand, some observers believe present financial conditions are so strained that criteria under the arrangement will not likely be met during the first year. Nevertheless, the program is expected to help restore financial discipline that might not otherwise prevail, and the Extended Fund Facility remains an essential means to eventual long term recovery.

2. Third National Development Plan

The Third National Development Plan (TNDP) covering the period 1979 to 1983 seeks "to diversity the economic structure in order to reduce the economy's dependence on copper and to undertake a crash economic program of promoting agriculture and industry based on the use of local raw materials and the establishment of the necessary capital goods industries". The plan gives highest priority to rural development and includes other objectives as follows:

- promote fuller employment generation;
- promote prospecting and exploitation of non-copper minerals;
- reduce rural-urban income disparities;
- promote a regional pattern of development;
- speed up the process of Zambianization;
- expand education and training facilities; and
- obtain a real growth in GDP of 6% over the plan period.

These objectives are appropriate in light of Zambia's current economic situation and progress toward achieving them would contribute to developing a more resilient economic structure. However, the plan fails to indicate the annual tranches of the investment program nor does it include an order of priority for the various projects. In addition to these shortcomings, the plan has already proven to be too ambitious and unrealistic in terms of the resources likely to be available for implementing it.

On the latter point, the plan projects total investment of K3,354 million. Of this amount, K1,439 million

(43%) will be provided from the government budget, including donor assistance; K1,085 million (32%) by parastatal internal resources; K530 million (16%) by external financing to parastatals; and K300 million (9%) by the private sector.* These estimates are not realistic in that they do not reflect fiscal and other commitments which constitute an integral part of the government's economic stabilization program. Nor are they adjusted for the balance of payments constraints in recent and coming years. In view of the shortfall in financial resources and other weaknesses as indicated above, a more realistic investment plan is required.

3. Three-Year Investment Plan

In view of the shortcomings of the TNDP, the Government decided to establish an investment plan to facilitate a feasible implementation of the TNDP's remaining three years. The program totals K784 million and will place emphasis on the economic sectors. The plan will focus on agriculture more than has been done in the past (28% of program resources are allocated to agriculture) and, proposes the development of domestic resources-based industries should funding be available after completing ongoing activities. Priority is given to projects promising maximum productive impact and those which are most likely to attract foreign financing. The investment program by sectors is shown in Appendix A, Table 17.

The IBRD has reviewed the program and concluded that for the first time the GRZ's medium-term priorities are set out in an operationally relevant document. At the same time, the Bank has cautioned the GRZ to consider certain changes in the composition of the investment program and that more emphasis be given to ongoing programs. In particular the Bank suggested that a very gradual approach be taken towards the development of state farms. The GRZ has agreed to take these latter concerns into consideration.

4. Food Production Programs

To stimulate agricultural production and initiate efforts to diversify the economy via the agricultural

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*Of total investments, 15% or K420 million is allocated to agricultural development. Of this latter amount, the government is expected to finance 87%. Agriculture figures more prominently in the government's share of investments, with 31% of total government investments being allocated to agriculture, in addition to other allocations for rural roads.

sector, the GRZ has launched two major food production programs. One is the LIMA Program designed to promote the cultivation of small quarter-hectare gardens in urban and rural areas. The other is "Operation Food Production", a nation-wide program to boost food production. The LIMA program was begun in 1979. Operation Food Production was initiated last year.

a. LIMA Program

The LIMA program is an extension program designed around a farm input package for units of one-fourth hectare. Its fundamental principle is the encouragement of the rational use of agricultural inputs on standardized units of land using standardized measures for fertilizer, seed and insecticide. The LIMA program is directed at small farmer agricultural production and includes the use of existing technologies disaggregated into usable packages.

b. Operation Food Production

Faced with forecasts that Zambia would have to spend K60 million (US $75 million) to import 3.5 million 90 kg bags of maize during 1980 (38 million on maize and K22 million on transport), President Kaunda called a special seven day continuous meeting of the UNIP Central Committee to discuss methods of boosting food production. The result was the launching of Operation Food Production on May 23, 1980.

The program is a large one, envisaging the expenditure of K400 million (U.S. $500 million) over ten years to boost food output by a combination of establishment of large capital intensive farms, mobilization of traditional farmers and provision of new incentives to farmers. The strategy involves the establishment of 1) two 20,000 hectare state farms in each of Zambia's nine provinces; 2) expansion of the size of hitherto unsuccessful reconstruction centers to 1,000 hectares each; and 3) encouragement of producer cooperatives which have declined in recent years.

Because of the generally poor record of rural reconstruction centers, many observers are skeptical about the ability of these centers to transform themselves into the spearheads of a campaign for higher agricultural production. However, more favorable results are expected from measures designed to encourage individual farmers and expatriate farmers in particular. These are described in Section V.

5. Cooperative Development

AID/Zambia believes that the GRZ's program to reorganize NAMBoard and gradually transfer its agricultural marketing functions to cooperatives is of major significance to Zambia's private sector development and to agricultural revitalization. Cooperatives have already assumed these functions in two of Zambia's eight provinces, and negotiations are continuing with the remaining cooperative unions. AID/Zambia proposes to support the program through a major agricultural sector grant beginning in FY 1983. Other donors including the IBRD and SIDA are also providing substantial support to the cooperative movement.

6. Peace Efforts in Southern Africa

Zambia's efforts to bring about peaceful transition to majority rule in southern Africa must also be cited among the measures taken to stabilize the economy. The costs of maintaining economic sanctions against Rhodesia, particularly transport-related costs, placed heavy financial strains on the GRZ. Zambia's role in bringing about a negotiated settlement to the Rhodesia-Zimbabwe conflict is well recognized, and the more stable political climate in the region will enhance the prospects for economic recovery.

III. D. Prospects for Economic Recovery

Economic recovery will require more stringent financial discipline than has been evidenced over the past year and persevering efforts to diversify the economy. The Extended Fund Facility lends optimism that the GRZ will again exercise more disciplined management over the economy, and progress towards economic diversification is expected to result from the Government's more realistic Three-Year Investment Plan. Recent steps taken by the GRZ to revitalize the agricultural sector are also encouraging. Should these efforts demonstrate that private sector support can produce positive results, the use of free market forces may gain wider application in other sectors. In view of Zambia's current economic situation, it can be readily concluded that the implementation of Zambia's stabilization and development programs will require substantial flows of external assistance for the next several years.

Because of the financial deterioration experienced in 1980 and early 1981, stabilization remains the most urgent task facing the GRZ and donor development community. Past stabilizaton efforts suggest that the Government can exercise discipline over the management of the economy. Under the 1978-1980 stand-by arrangement, GRZ compliance with the performance criteria was generally satisfactory. However, inadequate progress was made in the reduction of consumer subsidies and the implementation of economic pricing in the parastatal sector. Redressing these problem areas is critical to the stabilization and the diversification efforts now underway and is a central objective of the extended arrangement. The signing of the three-year Extended Fund Facility (EFF) with the IMF in May 1981 should help instill the discipline that is necessary to stabilize the economy and establish a satisfactory framework for long term growth.

Long term exploitation of Zambia's economic development potential will depend upon the determination with which the GRZ adopts economic policies conducive to structural change and economic growth. Zambia's need for economic structural change is justified not only by the severe and erratic economic fluctuations of the past but by the future prospects for the exploitation of Zambia's copper resources. Present known resources are expected to be depleted within about 20 years and production is likely to remain relatively constant at about 600,000 tons per year.

To significantly increase the rate of extraction would require heavy capital investments to process lower grade areas. Projected copper prices over the intermediate term suggest that these investments would not be economically justifiable. Cost savings and marginal increases could accrue from more efficient management and capacity utilization. However, notable future increases in copper mining revenues and foreign exchange earnings will come about through higher prices rather than increased output. Current price projections indicate modest and steady increases in the years ahead. But as in the past, there are no guarantees of such predicable performance in the volatile world copper market.

Measures are already being taken to revitalize the agricultural sector and establish it as a major component of the diversification scheme. Significant producer price increases of key agricultural commodities, particularly maize, were announced early this year and other measures (See section IV) have recently been taken to further strengthen incentives for increased agricultural production. The continuing program to reorganize NAMBoard and transfer the marketing of agricultural inputs to cooperatives is also expected to enhance the prospects for agriculture development.

One area of concern to the GRZ and many donor agencies is the emphasis being given to the establishment of state farms under Operation Food Production (OFP). Some observers believe that disappointing experiences with state farms in Zambia and elsewhere caution against moving hastily into this scheme. Although state farm development is a major feature of OFP, the GRZ now intends to move very gradually into its implementation. The availability of external financing for the development of state farms will also determine the pace of implementation. To date, some support for only a few of the farms has been secured.

Other components of Operation Food Production support increased agriculture production through cooperatives, commercial farmers and emergent and traditional farmers. It is expected that initial production increases promoted under Operation Food Production will come largely from these private sector groups.

In addition to policy incentives, the effectiveness of GRZ efforts to promote private sector agricultural production will depend upon continuing efforts to strengthen its agricultural development strategy and increase "recurrent departmental charges" needed to more efficiently utilize MAWD's existing service delivery capital stock and labor force. To the extent recent incentive measures are continued, and concerted GRZ actions are directed toward supporting the private sector, the prospects for agricultural development appear good.

The provisions of the EFF and the objectives of the Three-Year Investment Plan also support economic and financial recovery in the manufacturing sector. Key measures include economic pricing of outputs to make existing parastatals financially independent, and the development of domestic resources-based industries (should resources be available after completing on-going investments). Adherence to these principles should lead to a resumption of growth in this sector after several years of decline and stagnation.

Bringing about the economic structural change needed requires perservering efforts on several challenging fronts. These include continuing efforts to maintain the financial stability of the economy; the restructuring of relative domestic prices, particularly of agricultural products, to improve resource allocations; the adjustment of fiscal and monetary policies to promote exploitation of the agricultural sector; improvement in the performance of parastatals; and the strengthening of institutions supportive of structural diversification. Further strengthening of the Government's development planning capacity at both national and ministerial levels is especially needed to better plan investment programs and allocate scarce financial resources in accordance with established priorities. These structural changes are in large part also the focus of AID/Zambia's development strategy.

Economic revitalization in this broader sense will require several years. Despite stated GRZ priorities toward rural development, recovery in the mining and manufacturing sectors must be supported as well. Assuming copper prices and production remain favorable, at least 2 to 3 years will be required to simply eliminate arrearages and bring capacity utilization of the industrial sector up to more normal levels Foreign exchange allocation supportive of structural diversification will be made but will be constrained by these competing needs. This "competition" can be reduced to the extent external assistance is available to fund structural diversification programs.

Donor balance of payments support in the near future can thus be expected to have more of a deve¯lopmental impact than in the past (assuming the GRZ undertakes the necessary stabilization and diversification measures as indicated above). In light of the above prognosis, the donor community should coordinate efforts and activities to support policy reorientation. At the same time, the GRZ should make every effort to mobilize and direct donor resources to support diversification.

E. Other Donor Assistance*

The most recent detailed data on donor assistance to Zambia is available for 1979 only. This data shows thst Zambi. signed international assistance agreements totalling U.S. $250.4 million. Of this total, $147.7 was for commodity assistance, and U.S. $102..7 million was for technical assistance. Major donors were Iraq (U.S.$30.0 million), Japan (U.S.$26.2 million), Romania (U.S.$15.0 million), Netherlands (U.S. $13.0 million), India (U.S. 12.3 million), and the Federal Republic of Germany (U.S. $5.0 million). The U.S. $147.7 million in 1979 commodity aid, including food programs (U.S. $10 million), compares with U.S. $112.5 million provided in 1978. Annex A Table 18 illustrates the type of commodities provided under other donor programs.

The U.K. is traditionally the largest donor providing U.S. $75 million to U.S. $90 million in assistance each year. Other major bilateral donors in 1979 were the U.S. (U.S.$51.3 million), Iraq (U.S. $39.0 million), Japan (U.S.$26 2 million), and the EEC (U.S.$21.5 million). Under the SDR 250 million IMF standby agreement, SDR 100 million was utilized in 1978 and SDR 100 million was utilized in 1979. The remaining SDR 50 million was utilized in 1980.

It is expected that high levels of donor aid will continue and that it will be directed mainly towards the agriculture sector. In 1979, 35% of technical assistance went to agriculture; 13% to education; 11% to health; and 12% to humanitarian aid and relief. Transport and communications accounted for 64% of commodity aid, followed by agriculture representing 27%.

*Also see annex A, Table 1.

The most significant recent development with regard to external aid flows is the signing in May 1981 of the GRZ-IMF Extended Fund Facility. Total funding available under the EFF is SDR 800 million (U.S. $944 million). SDR 300 million will be purchased in 1981 and SDR 250 million will be released in both 1982 and 1983. SDR 120 million has already been purchased (by July, 1981). The signing of this agreement and satisfactory GRZ compliance with the performance criteria established under the three-year program should enhance the GRZ's ability to attract high levels of assistance in the years ahead.

IV. Past Performance Of Commodity Import Programs

The proposed FY 1982 Commodity Import Program is an integral component of AID/Zambia's overall program to increase food production and to raise small farmers' incomes. The significance of this year's program is best viewed in terms of the development of the AID/Zambia CIP program over the past few years and the progress that has been made. During 1973-1980, Zambia's financial position was so poor and severe that stabilization assistance (rather than a developmental, growth orientation) was of paramount need.

A. Objectives

The GRZ has changed its development focus since 1979 and the Third National Development Plan (TNDP) places its highest priority on the revitalization of the agricultural sector. This reorientation in development focus and the prospect of slow, steady economic recovery prompted AID/Zambia to undertake a complementary transition in its Zambian program.

A combination of non-project and project assistance is appropriate for the AID/Zambia program, in order to function on both policy and action fronts as stated in the FY 82 and FY 83 (Supplement) Zambia Country Development Strategy Statements (CDSS). The FY 1980 loan was indicative of this change in approach. Given the small staff (one person) and a limited knowledge of the Zambian agriculture sector, AID/Zambia attempted through the 1980 CIP to assist the GRZ in identifying major agricultural problems and policy concerns, as well as providing the GRZ with needed foreign exchange to purchase fertilizer compounds and some fertilizer raw materials.

The FY 1981 Commodity Import Program was aimed at lowering maize subsidies, increasing maize producer prices and reinforcing the MAWD's Planning Unit, especially in its responsibility for analyzing agricultural prices and subsidies (concentrating on maize and fertilizer). Also other measures were introduced, including: the reduction of government subsidies, increasing farm producer prices, improving crop forecasting and reviving a regular market news service. The use of the loan funds was for the importation of raw materials for the manufacture of fertilizer compounds. This was done to save the GRZ foreign exchange and to support the local manufacture of fertilizer compounds.

B. Usage of Commodities

One of the difficulties within the Zambian agriculture system has been costly delays in the arrival and distribution of farm inputs. This has been most prevalent with regards to fertilizer. The GRZ, through the parastatal company Nitrogen Chemicals of Zambia (NCZ), is attempting to develop a Zambian domestic capacity for the manufacture of fertilizer. A major processing plant is nearing completion at Kafue (at a cost to the GRZ of some K285 million) and funds were provided by AID for the procurement of raw materials for fertilizer manufacture to assist with pre-commissioning, commissioning and full operations of the plant (See Annex E). Under part of the FY 1980 CIP loan (U.S. $3 million) and the FY 1981 CIP loan (U.S.$15 million), U.S. $18 million was provided. Some 43,000 metric tons of raw materials have been delivered or are in transit. During 1982 and part of 1983, these raw materials, with local inputs, will be converted into roughly 95,000 metric tons of fertilizer compound. It will then be sold and distributed to farmers throughout Zambia.

C. Use of Local Currency Generations

In the FY 1980 CIP loan agreement it was stipulated that "counterpart funds" or local currency generations would be used "...to support economic development activities in the agricultural and Rural Development sectors." In the FY 1981 CIP loan agreement it was stated that "...the United States Government is prepared to utilize local currency attributable to this loan to help subsidize a real increase in maize producer prices."

The uses of funds attributable to the various CIP loans are shown in Annex D. They are in keeping with the terms of the loan agreements and their usage is certified by the GRZ.

Under the FY 1981 CIP loan (611-K-006), the local currency equivalents have not yet been generated. The generation is contingent on the sale of the fertilizer compounds to be manufactured. Sales will begin in 1982 and should be complete by June 1983. Until sales are complete, no attributions can be made. Therefore, certification by the GRZ will not take place until the fertilizer compounds have been manufactured and sold.

D. Performance on Agricultural Support Measures

Introduction

Since the beginning of 1981, the GRZ has made several major agricultural policy adjustments which will stimulate agricultural production, particularly maize, and stabilize the Government's continuing financial crisis. These policy adjustments have been designed to stimulate both small farm and commercial farm production. They are among the most significant set of policy adjustments taken by the GRZ since Independence towards resolving its financial crisis and strengthening the contribution agriculture can make to Zambia's economy. The major GRZ/AID support measures negotiated under the FY 81 Loan Agreement were satisfied by these recent developments.

Review of GRZ and AID Negotiating Principles Used for the FY 1981 CIP Loan

The FY 81 CIP support measures negotiated between the GRZ and AID were designed to complement the overall objectives of the TNDP. Specific emphasis was directed towards increasing agricultural production through small farm agriculture. These support measures were to be supported by the GRZ with local currency attributable to this loan, other GRZ resources, and technical assistance from AID, where requested.

The support measures are viewed by the GRZ and AID/Zambia as steps needed to improve the agriculture sector, with self-sufficiency in maize production as a major goal. Discussions of these measures (or tasks to be done) are viewed as an on-going process and a continuing means of resolving problems and focusing GRZ attention on key elements of agricultural policy. Therefore, they are not "tied" to any one GRZ/AID agreement. This is best illustrated by the example of the 1981 CIP loan agreement. Support measures and the tasks needed to achieve them were agreed upon by AID/Zambia and the GRZ in the latter part of 1980. Action on these measures by the GRZ began in November 1980. Yet the actual 1981 CIP loan agreement was not signed until February 1981.

This GRZ/AID view of the negotiation and implementation process developed as an outgrowth of the integrated AID program effort in Zambia. The support measures developed and specifically agreed to under the loan are mutually reinforcing and, in some cases, the same as earlier PL 480 self-help measures and other AID program efforts. Furthermore, those support and self-help measures requiring resources in addition to local currency generations are supplemented by other AID/Zambia programs, (e.g. Zambia Agricultural Training, Planning and Institutional Developomer Project (611-0075)). As the support measures for the FY 1981 CIP loan are reviewed to evaluate the GRZ's implementation performance, the inter-relationship of AID/Zambia's entire program becomes apparent. (See the FY 82 CDSS and FY 83 Supplementary CDSS.)

The support measures agreed to under the FY 81 CIP loan are not all new and unique ideas developed by AID. They are measures which AID/Zambia and REDSO/EA analyzed and concluded were worthy of AID support. Not surprisingly, some are similar to those developed by various other donors (i.e., IBRD and IMF). In that sense, where the views were similar tl AID effort to obtain policy adjustments was mutually reinforcing with those of other donors and vice versa.

Support Measures

The seven support measures and the GRZ's performance and plans toward implementing each support measure is reviewed below (also see Annex C).

1. Planning Unit

Support measure: 1(a) reinforce the Planning Unit within the Ministry of Agriculture and Water Development charged with undertaking comprehensive annual and ad hoc reviews of agricultural producer prices and fertilizer subsidies.

Discussion: Reinforcement of the Planning Unit has taken several forms. Firstly, since September 1980, five new positions have been established in the Unit, and four Zambians will be hired during July 1981. Secondly, the Ministry has expanded its Agreement with CIDA to fund an additional two TA positions. One Canadian technician has arrived and the other will be in Zambia shortly.

Thirdly, the Unit has been given the additional responsibility and resources to undertake a detailed cost of production survey (to obtain more reliable and timely data upon which it can base its producer price recommendations). MAWD plans to up-date the survey periodically. Field work on the survey commenced in April 1981, and was completed in June. A preliminary report is expected this September. The full analysis will be completed by December 1981. The findings of this survey will be incorporated in the 1982/83 producer price recommendations.

Finally, the Unit is actively participating in the GRZ selection process of a U.S. university to manage the Zambian Agricultural Training Planning and Institutional Development (ZATPID) Project (611-0075). A component of this project is active support of the GRZ's effort to build the capacity and capability of the Planning Unit to undertake better analyses and to actively participate in the development of a comprehensive and effective agricultural development strategy for Zambia.

2. <u>Comprehensive Maize and Fertilizer Review</u>

Support Measure: 1(b)(i) Continue to conduct a comprehensive review of maize producer prices and fertilizer subsidies to determine if there is sufficient incentive to reduce the prevailing maize production short-falls; (ii) consider during the course of the review the following factors: (a) current producer prices in the region; (b) self-sufficiency; (c) the cost of production plus a reasonable profit margin; and (d) comparative costs of importation; and (iii) keep AID advised of the findings of the review during the preparation and complete these discussions with AID prior to May 1, 1981.

Discussion: The GRZ has continued to conduct its annual comprehensive reviews of the maize producer price and fertilizer subsidies to determine the incentives for increased production. Also reviewed by the Planning Unit (MAWD) were the producer prices for sunflower seed, groundnuts, soya beans, rice, wheat, and milk. The methodology used to determine the adequacy of the producer price was:

(a) an assessment of the cost of production for each crop production activity, and

(b) an assessment of the national priority needs for each crop.

In this year's maize producer price analysis, the Planning Unit did not explicitly account for the current producer prices in the countries surrounding Zambia. The GRZ considered other factors of self-sufficiency, cost of production plus a reasonable margin, and comparative costs of imports in its pricing determination. AID/Zambia is satisfied with the Planning Unit's performance toward this aspect of the support measure at this point.

AID/Zambia has been kept advised of the maize and fertilizer review on an informal basis. This reporting is still continuing. Since the start of the FY 81 loan negotiation process the GRZ, through MAWD, has not hesitated to inform AID/Zambia of its pricing review procedures and the development of its pricing recommendations.

3. Subsidization of Agricultural Inputst

Support measure: 1(c) Adopt a selective approach to the subsidization of fertilizer and other input costs in order to provide farmers, especially traditional and emergent farmers, with the necessary incentives to increase the production of maize and to reduce subsidies to manageable levels.

Discussion: The approaches the GRZ has chosen to provide the necessary incentives to increase maize production and reduce subsidies to manageable levels are to increase maize producer prices by 18.5 percent (to K16.00 per 90 Kg. bag) and to reduce fertilizer subsidies (by 1983 to fifty percent of the 1980 subsidy level) through an increase of fertilizer prices. The increase in the maize producer price, as well as for other crops, was announced in May 1981. Price increases for the other crops ranged from 12 to 51 percent (See Lusaka 2511 (LOU)). The schedule for reducing fertilizer subsidies was also announced in May 1981 as part of the new GRZ/IMF three-year extended arrangement.

The impact on all farmers' production of the reduction of the fertilizer subsidy (by allowing the selling price to rise) is not yet clear. A study to evaluate the impact of this measure on commercial, traditional and emergent farmers is planned by the GRZ. The GRZ believes that the increases in the maize producer price and other crop prices are sufficient to compensate for this increase in fertilizer prices. The "cost of production" survey being undertaken by the Planning Unit will contribute toward estimating the actual impact of this new policy.

4. Reduction of Consumer Subsidies

Support Measure: 2(a) Reduce consumer subsidies on maize and fertilizer to align retail prices more closely to producer prices, (b) reduce progressively the per unit maize subsidy within a period to be agreed with AID by June 1981.

Discussion: When the AID/GRZ negotiations started in September, this particular support measure was near the top of AID/Zambia's list of concerns which had to be part of the FY 81 Agreement. Repeated meetings with the GRZ finally resulted in this support measure being agreed to in mid-November, 1980. On January 7, 1981, the GRZ announced that a component of the maize subsidy-- the differential between the producer price for maize and the subsequent selling price to the milling companies -- was to be immediately eliminated on a permanent basis. Also announced were increases in the prices of mealie meal (ground maize) by an average of 32 percent, and various other agricultural products (e.g., milk, flour, bread, and sugar). Both these changes will contribute to reducing overall and per unit subsidy costs to the GRZ as defined in this support measure.

These changes were difficult decisions for the GRZ to make. AID was one of several donors who urged strongly for a reduction in consumer subsidies. The size of the change was more than AID/Zambia expected or thought was politically possible. Because of these GRZ policy changes, the June 1, 1981, deadline to agree on a reduction in maize subsidies has been met.

5. Use of Local Currency Generations

Support Measure: 3. to permit commensurate increases in maize producer prices in real terms which will stimulate production, without simultaneously enlarging the Zambian budgetary subsidies caused by differences between maize consumer and producer prices, utilize local currency attributable to this loan to partially subsidize maize producer/consumer prices. This subsidization is to be done on a declining graduated basis (allowing maize consumer prices to be adjusted suitably) in accordance with a schedule to be adopted in consultation with AID prior to May 1, 1981.

Discussion: This support measure is closely related to support measures 2(a) and (b), except that the use of local currency attributable to this loan will help support maize producer price increases in real terms. There should be roughly a 4 percent real price increase; the IMF (p.6, ESB/81/91) projects inflation during the 1981/82 period to be about 14 percent while the maize producer price increase is 18.5 percent over the 1980/81 level.

The local currency under this loan will be attributed to announced increased maize producer prices which will be paid in 1982.

6. Improved Crop Forecasting

Support Measure: 4. Adopt procedures to improve the Ministry of Agriculture and Water Development's crop forecasting by improving the accuracy of the data base and the timeliness of the publication of forecasts.

Discussion: The section within MAWD charged with managing crop forecasting is the Planning Unit. Due to the limited manpower base, the choice was made to undertake the cost of production survey this year and let the improvement of crop forecasting procedures be carried forward. The Unit is negotiating with FAO to undertake a survey beginning in late 1981. This is one of the subjects of GRZ/AID/Zambia's continuing dialogue.

7. Market News Service

Support Measure: Through the Ministry of Agriculture and Water Development revive a regular market news service.

Discussion: As of June 1981, little progress has been made toward reviving the National Farmer Information Service. An examination of its 1981 budget shows the largest expenditure increase is in salaries and other personnel emoluments while the broadcasting budget was reduced almost 10 percent. Because of the importance and significance of the other GRZ policy changes which have taken place, AID/Zambia has not actively pursued implementation of this support measure.

This support measure is also a subject of GRZ/AID/Zambia's continuing dialogue. It should be noted that the first statement of progress (towards implementing the support measures) the GRZ is required to submit to AID is not due until October 1981. Thus, there are several months left before the first report is due.

8. Summary and Conclusions

In reviewing the GRZ's performance of the FY 81 support measures, the GRZ made substantial progress on the most difficult ones. As noted, the GRZ policy adjustments were substantially more than AID/Zambia or the Embassy thought was politically possible in so short a time. On the less difficult support measures, such as improving crop forecasting, less progress was made.

AID/Zambia believes that the GRZ has shown in its policies a clear commitment towards making Zambia self-sufficient in maize production and towards making the Government more financially sound. The major FY 81 support measures have been implemented to AID/Zambia's satisfaction.

Other GRZ Agricultural Adjustments

As is evident from the above discussion, the GRZ in January, 1981 began announcing significant policy adjustments with the underlying goals of stimulating agricultural production and making the Government financially stable. The AID/GRZ support measures focused primarily on maize, but the GRZ's adjustments were broader, affecting many crops and all sizes of farming operations.

One producer incentive announced by the GRZ is that all maize producers delivering over 5,000 bags of maize to NAMboard will receive a 90 ngwee (U.S.$1.04) bonus for each bag over the first 5,000. This money is convertible into foreign exchange with no restrictions of its use.

The GRZ has also adjusted (March 1981) the income tax laws to be more favorable toward farmers and agricultural investments. Altered regulations included liberalization of depreciation allowances and additional investment write-offs. A recent budget speech also noted that changes in the customs and excise taxes were forthcoming with the intent of becoming more conductive to imports of agricultural inputs. These changes reflect a more liberal GRZ stance toward the large farmers, since many of these changes will impact primarily upon large commercial operations.

Indications that private investors are taking the recent GRZ's agricultural policy adjustments seriously is evidenced by increased private lending to the agricultural sector and commercial farmers expanding hectarage. An informal survey completed by AID in June found private bank lending to the agricultural sector was expected to increase to over K160 million in 1981[1/]. This is a 14 percent increase over 1980 levels and a 22 percent increase over 1979 levels. AID/Zambia's informal contacts with commercial farmers have found that a number are expanding their cultivated area to produce more maize. One commerical farm is in the process of expanding maize cultivation by 1,000 hectares.

Prospects for Agriculture 1981-82

Since the start of 1981, the GRZ has made a large number of difficult agricultural policy adjustments which have far-reaching implications. The total impact of all these various changes on Zambian agriculture is expected to be positive, but they will take some time for their full effects to become apparent.

1/ The private banks surveyed were Barclays, City Bank and Standard.

These policy adjustments should also contribute toward stabilizing the GRZ's financial crisis through expected reductions in subsidy expenditures. The GRZ plans to apply a portion of these savings from reduced subsidy expenditures to increasing the Recurrent Departmental Charges (RDC) budget allocations in the Ministry of Agriculture and Water Development.1/

In the past, underfunding of MAWD's extension department has led to substantial under-utilization of existing capital stock and labor and a commensurate reduction in services to farmers. Recurrent budget increases of MAWD's RDC budgets are positive moves toward expanding and improving services to farmers and improving the efficiency of existing capital stock and labor in agriculture's public sector.

E. Conclusions

Past CIP loans have been effective in assisting the GRZ with the objectives of saving foreign exchange, supplying farmers with some needed inputs and encouraging major policy changes in regards to subsidies and pricing for farm products and fertilizer. These objectives of the GRZ are compatible, if not identical, to those of AID/Zambia.

It should be recognized that the goals strived for cannot be achieved in a short time frame and that the political, social and economic pressures resisting such changes have been great. Yet significant gains have been made, and the AID/Zambia CIP loans have been instrumental in bringing about these changes. The tasks and actions necessary to create an equitable, viable and balanced agricultural system in Zambia cannot all be achieved rapidly and the progress to date has been encouraging.

1/ MAWD's recurrent budget is comprised of: (i) personnel emoluments; (ii) grants, subsidies and other payments; and (iii) recurrent departmental charges. Personnel emoluments includes items such as salaries and housing allowances. Grants, subsidies and other payments are for non-direct productive purposes and for covering parastatal operating losses on agricultural marketing, finance and import delivery. The recurrent department charges budget is the operating expense budget for office materials, gasoline, travel allowances, and other commodities required for an employee to undertake assigned tasks. It is this portion of the GRZ recurrent budget which has suffered real cutbacks since 1975. For example, of MAWD's 1980 extension service recurrent budget, 90 percent was for personnel emoluments and the remainder went to recurrent departmental charges. (See Current Economic Crisis, Section II for a fuller discussion).

V. Proposed Commodity Import Program

A. Objectives

Given the GRZ's continuing balance of payments difficulties and long-term agricultural objectives as discussed earlier, AID proposes to loan the Government of the Republic of Zambia U.S. $10 million from the Economic Support Fund. The loan will be provided in the form of a Commodity Import Program (CIP) to: (1) provide short-term balance of payments relief; (2) contribute to the GRZ's longer run objectives of accelerating agricultural development and diversify the structure of the economy; and, (3) support the GRZ and AID/Zambia's goals of increasing food production and raising small farmers' incomes.

The external payment arrears stood at U.S. $600 million at the end of 1980. For 1980 alone arrears increased by U.S. $277 million. The short-fall in Zambia's domestic food production is exemplified by the importation of nearly 290,000 metric tons of maize in 1980 (See Section III). 1981 maize imports are projected at 89,000 metric tons.

To assist the GRZ in meeting its food production goals and improve its balance of payments position, the foreign exchange proceeds, attributable local currency generations and economic measures negotiated under this loan will all be directed toward achieving agricultural self sufficiency (especially in maize production), reducing budgetary subsidies and improving the efficiency of the Ministry of Agriculture and Water Development.

B. Commodities to be Financed

As officially requested (see Annex B), it is proposed that the foreign exchange provided under this loan be used to purchase fertilizer compounds. The exact composition is not yet known and is roughly estimated at the following levels.

Fertilizer Compound	Quantity (MT)	Approx. Value
UREA	21,000	6,400,000
"X"	4,000	1,200,000
"R"	4,000	1,200,000
"D"	4,000	1,200,000
TOTAL	33,000	10,000,000

Utilization of these fertilizer compounds will help improve food production by providing a timely needed input, will allow the GRZ to use its foreign exchange for other agriculture inputs and contribute towards increasing domestic food supplies and satisfying Zambia's basic human needs.

Fertilizers financed under the last four CIP loans to Zambia, when fully manufactured and distributed, have met or will meet roughly 30% of the country's needs. A more detailed picture of Zambia's past and present fertilizer stock and sales is discussed in Annex E. The estimated 33,000 metric tons (MT) to be purchased under this loan represent roughly 15% of expected requirements in 1982.

C. Agricultural Sector Support Measures for the FY 82 CIP Loan

Under the FY 82 loan program several measures supportive of the loan objectives (as outlined in Section VA) will be negotiated. The proposed measures are consistent with the FY 81 support measures. The proposed measures to be included in the FY 82 loan agreement follow:

A. In implementing these support measures which complement the overall objectives of the Third National Development Plan (TNDP) and the Three Year Investment Plan, specific emphasis will be placed on increasing agricultural production through small farm agriculture.B.
During the period of this agreement and until all local currency attributable to this loan have been utilized as agreed upon by the Government of the Republic of Zambia and the United States Government's Agency for International Development, either party may request re-opening discussions to develop new support measures or revise the local currency level attributable to a particular support measure.

C. The Government of the Republic of Zambia will:

1. Continue to reinforce the Planning Unit within the Ministry of Agriculture and Water Development charged with undertaking comprehensive annual and ad hoc reviews of agricultural producer prices and fertilizer subsidies.

2(i) Continue to conduct a comprehensive review of all agricultural producer prices and fertilizer prices to determine if there is sufficient incentive, especially for small rural farmers, to increase agricultural production, particularly maize; (ii) consider during the course of the review the following factors: (a) current producer prices in the region, (b) food self-sufficiency, (c) the cost of production plus a reasonable profit margin, and (d) comparative costs of importation; and (iii) keep AID advised of the findings of the review during its preparation and advise AID of its conclusions by April 1, 1982. (It is understood that discussions with AID will not include consideration of Ministry of Agriculture and Water Development recommendations to Cabinet.)

3. Continue efforts to develop a comprehensive and effective strategy for the development of the Zambian agricultural sector.

4. (a) Continue to maintain appropriate incentives, especially in pricing, to farmers in order to reduce maize production short-falls.

(b) Continue to reduce consumer subsidies in accordance with principles and subsidy reduction schedules as announced by the Government of the Republic of Zambia.

(c) Continue to adhere to the Government of the Republic of Zambia's Three Year Investment Plan for 1981 to 1983.

(d) Increase the Recurrent Departmental Charges budget allocations in the Ministry of Agriculture and Water Development with the view towards more effectively supporting small farm development.

5. Conduct meetings with AID on a quarterly basis or, if required, more often, to discuss and to determine the utilization of the local currency attributable to this loan agreement (i.e., revise priorities, establish new support measures, revise procedures for managing local currency generations) and review progress of support measures to date. The priorities for future use of local currency attributable to this loan are: (i) to provide appropriate incentives to stimulate production of maize and other food crops (e.g., cassava, sorghum, millet, rice, soya beans, sunflower seed, milk, and vegetable oil); (ii) to reduce the impact of increased fertilizer prices on the traditional and emergent farmers; and (iii) to help fund agricultural sector and sub-sector activities of the Government of the Republic of Zambia's regular capital and recurrent budget and which are mutually agreed upon by the parties as consistent with the GRZ/AID strategy objectives.

6. Adopt procedures to improve the Ministry of Agriculture and Water Development's crop forecasting ability by improving the accuracy of the data base and the timelines of the publication of the forecast.

7. Through the Ministry of Agriculture and Water Development revive a regular market news service.

8. In October of 1982, furnish AID with a statement of the progress the GRZ has made in carrying out the above measures.

Negotiation of the above measures and those subsequently agreed to will follow the GRZ and AID negotiating procedure (See Section VII) developed during the FY 81 loan agreement.

D. Use of Local Currency

Despite GRZ intentions to eliminate subsidies on maize and fertilizers over the past two years, these outlays rose sharply in 1979 and 1980. Contributing to these increases were poor domestic maize harvests necessitating costly imports, higher prices of fertilizer imports, higher maize prices paid to domestic producers, and GRZ reluctance to pass these costs on to consumers.
The prospects for 1981 and 1982 are much improved due to the GRZ policy adjustments announced which increased consumer prices on a wide range of agricultural commodities and eliminated the price differential between the GRZ's maize producer price and the price charged to millers. Budgeted funds for the importation of maize have been reduced from K105M in 1980 to K55M in 1981. Still remaining is the subsidy on transportation and handling costs which the GRZ and IMF have agreed to eliminate by 1984.

To help continue this new trend, it is proposed that the local currency under this loan be used in support of the GRZ-AID program negotiated. The uses of the local currencies will be two-fold. They will be used (a) to support further producer incentives if necessary; and (b) to assist in relieving problems or constraints developing as a result of the GRZ's new policies toward agriculture (i.e. stimulating production of other food crops). The specific areas where the local currency will be applied will be consistent with the objectives of this proposed loan and AID/Zambia's overall country development strategy. This approach to the programming of the FY 82 local currencies is justified on the basis of the GRZ performance in conformance with the FY 81 support measures and the new agricultural policies instituted to stimulate Zambian agriculture. Furthermore, it is not yet known what the impact may be of the recent GRZ agriculture policies. Constraints may arise and AID wishes to retain the flexibility to assist with local currency attributions when and if it is deemed helpful to do so.

AID/Zambia, the CIP design team and the Ambassador discussed extensively the possiblity of introducing a special account under this loan in order to manage the local currency generations. AID/Zambia rejected the idea of a special account for the following reasons:

1. The GRZ has complied with all important support measures in the past two years without a special account. Continued adherance to the evolving support measures, as AID/Zambia negotiates them, continues to be based on good will of the GRZ and the impact that AID/Zambia has with the total AID "package". A special account cannot substitute for the good will and AID's negotiating leverage.

2. Special Accounts can create more problems than they solve since they involve AID in the direct decision making process of the host government; generate opportunities for political friction and; create unnecessary additional bureaucratic systems and procedures.

3. Special Accounts must be subjected to audits therefore careful management and control systems by both the GRZ and the local AID staff. AID/Zambia is not now adequately staffed (nor will it be) to provide more than the essential controls of its programs as now contemplated. It cannot manage a special account and continue to carry out its development strategy and the stewardship required by that strategy. In addition GRZ current management effectiveness is an identified major constraint to development; a special account places an unnecessary burden on an already weak management and will generate more bureacratic and accounting problems than the local currency is worth.

4. The nature of a special account limits the flexibility for the use of the funds. Such flexibility to achieve policy objectives as they evolve over the next several years is one of the main objectives of the loan "support measures".

AID/Zambia needs the flexibility for several reasons:

a. We do not know the impact of current maize producer prices on other crops but there is concern that there could be wide-spread maize plantings in substitution for sorghum, millet, cassava (important subsistence crops) and for livestock. If that is the case, we should be prepared to support rapid action by the GRZ to rectify such problems.

b. Although the GRZ is now committed to what AID/Zambia believes is an appropriate price policy for maize as well as a policy which will eliminate consumer subsidies for maize, we are concerned that when maize self-sufficiency is achieved whether or not the GRZ can continue to maintain their political resolve in the face of mounting consumer problems. AID/Zambia needs the flexibility to leverage GRZ resolve in this respect and if necessary buffer the consumer price increases if it seems imperative.

c. Given the near term bleak prospects for growth in the economy, the GRZ resolve to increase both capital and recurrent expenditures in agriculture may just not be possible if they continue to maintain fiscal discipline. AID/Zambia needs the flexibility to utilize local currency generations to continue or start critical agricultural projects and efforts.

d. The GRZ agreed with the IMF to reduce the current fertilizer subsidy by 50 percent by 1983. The subsidy reduction for the 1981-1982 crop year is not as great as planned primarily because of political level concern about the possible negative impact of such an increase in cost on small farmers. The ability of the small farmer to finance these added costs is far less than the commerical farmers. AID/Zambia is also concerned and needs the flexibility to use local currencies to reduce the impact of these cost outlays if necessary.

E. Loan Program Rationale

The proposed loan is an integral component of AID/Zambia's overall program of assistance to the GRZ for the increase of food production and small farmers' income. The balance of payments assistance and "Support Measures" in the 1982 CIP are a continuation of efforts made under previous CI loans and PL 480 programs. The Zambia Agricultural Training and Planning Institutional Development Project (ZATPID (611-0075)) is the cornerstone of the overall program as explained in Section II D above. This activity, the Agricultural Research, Extension and Development Project (AREI (611-0201)) and the proposed Agriculture Sector Support Progr (ASSP (611-0203)) also focus their development efforts on enabling Zambia to be self-sufficient in food production and t increase the income of the small-scale farmer.

The decrease in the size of this loan from previous CIPs is a further demonstration of the gradual evolution in Zambia away from purely non-project stabilization assistance t a more project-based program. The 1981 CIP was influential in the decision-making process of the GRZ to make significantchanges in both agricultural policies and Governmental actions toward the agriculture sector. It is fel that the assistance and influence should be maintained and tha the CIP program is an excellent means of doing so.

VI. Loan Implementation and Administration

A. Loan Implementation

1. Status of Existing Commodity Import Loans

The FY 1978 Commodity Import Loan agreement ($30 million) was signed in March 1978. The first Letter of Commitment was issued in July 1978. Major commodities importec under this loan included fertilizer ($18.2 million), animal stockfeed, locomotive spares, vegetable seeds and transport/tractor spares. Most of this loan was drawn down very rapidly. However, during implementation some residual funds became available from the fertilizer and stockfeed transactions, and a problem also arose in procuring spare parts from General Motors. The GRZ, therefore, requested a one-year extension of the terminal disbursement date in order to utilize all of the funds. Accordingly, the terminal disbursement date was extended to February 28, 1981. This loan has now been fully disbursed.

The FY 1979 Commodity Import Program Agreement ($20,000,000) was signed on february 26, 1979. The GRZ's procurement plan for the loan was to use the entire amount for the purchase and shipmemt of fertilizer. The first Letter of Commitment was issued in June 1979. Within three months the entire fertilizer procurement of approximately 70,000 metric tons was en route to Zambia.

After the fertilizer shipments were completed there was a balance of almost $600,000. This remainder was used to import some agricultural equipment, spares and supplement the purchase of fertilizer raw materials under the Loan 611-K-005. This loan has also been fully disbursed.

The FY 1980 Commodity Import Program Agreement ($17,000,000) was signed on February 15, 1980. The GRZ's procurement plan was again to use the entire loan for the procurement of fertilizer and the related delivery services. The first Letter of Commitment was issued on June 26, 1980. By July 14, 1980, Letters of Commitment had been issued for $16,999,746.11 to cover the fertilizer and freight. By august 15, 1980, the entire fertilizer procurement of 53,744 metric tons had been shipped from the U.S., destined for the ports of East Londonin South Africa and Beira in Mozambique.

On August 29, 1980, an amendment to the FY 1980 loan was signed for $3,000,000. The GRZ used these funds, along with the residuals from the FY 1978 and FY 1979 loans to purchase raw materials for manufacturing compound fertilizer at the Nitrogen Chemicals of Zambia plant. These fertilizers were purchased in september 1980, and arrived in-country during February and March, 1981. This loan has been fully disbursed.

The FY 1981 Commodity Import Program Agreement ($15,000,000) was signed on February 4, 1981. The GRZ's procurement plan was to use the entire loan for financing raw materials for the manufacture of compound fertilizer by Nitrogen Chemicals of Zambia Limited (NCZ). The raw materials were purchased in May, 1981, and deliveries will be arriving in East London starting July 15, 1981. It is expected that this loan will be entirely disbursed by January, 1982.

As evidenced by the above review, the disbursement rates have been acceptable for these three Commodity Import Loans, particularly the current loan. This performance is attributed mainly to the identification and discussion with AID commodity specialists of commodity needs at an early stage.

2. Commodity and Source Eligibility

The GRZ has requested that fertilizer procurement be financed under the FY 1982 loan. Commodity eligibility for any other items requested at a subsequent date will be restricted to those supportive of the agricultural sector.

Commodities and related services financed under the loan shall have their source and origin in the U.S. (A.I.D. Geographic Code 000) except for charges related to ocean transportation; a determination has been made by A.I.D. that ocean freight costs not to exceed $2,500,000 on Code 899 vessels are authorized when U.S.or Code 941 vessels are not available.

3. <u>Implementation Schedule</u>

The following is the proposed implementation schedule for the loan:

(a)	Loan authorization	October 1981
(b)	Loan signing	October 1981
(c)	Issuance of IFB for fertilizer	November 1981
(d)	Contracts awarded for fertilizer	November 1981
(e)	First L/Com. opened	December, 1981
(f)	First Commodity shipment	December 1981
(g)	First disbursement	December 1981
(h)	Final disbursement	January 1983

The above schedule appears realistic in view of the GRZ's plan to have the fertilizer compounds distributed in May-August, 1982. This will ensure that the fertilizer compounds are used for the September, 1982 - April, 1983 growing season.

Also, the GRZ has considerable experience under previous CIP loans in procuring fertilizer in the U.S. It is therefore essential that the loan agreement be authorized during CY 1981.

It is anticipated that the fertilizer will be purchased before the "window period " of February-May, when AID normally does not allow procurement of fertilizer under AID-Financed programs. If authorization is not given at an early date, it will be necessary to procure and ship the materials during the "window period".

4. <u>Inland Transport of Commodities</u>

With the peace settlement and independence of Zimbabwe last year Zambia's historically most favored rail route from Beira through Zimbabwe was re-opened. However, this route is not operating at full capacity and it is estimated that congestion in Beira will continue throughout 1981 and well into 1982. The Durban rail route has a tremendous backlog of goods for transport and will not be able to tranship new goods for at least six months. Furthermore, the RSA has given priority to its own imports and exports, effectively embargoing goods in Durban with destinations to Zimbabwe and Zambia.

East London is seen as the best route for inland transport at this time. Goods have been flowing quite smoothly and will probably continue to serve as the main point of transhipment.

The 57,000 MT of PL 480 wheat and 38,000 MT of fertilizer raw materials under the 1981 CIP will be handled there before the end of the year. As much of Zambia's exported copper is shipped through East London, sufficient rolling stock is available for return hauls. It is likely that goods under the 1982 CIP will use the East London route. The final decision, of course, is to be made by the GRZ.

B. Loan Administratioin

1. Administrative Responsibility

The administrative responsibility for the loan will rest with the Ministry of Finance. The responsibility will include the preparation of all reports, assurance of compliance with all AID requirements and the issuance of Financing Requests to AID.

Primary responsibility for managing AID's implementation functions under the loan will be shared jointly by REDSO/EA in Nairobi, Kenya and the AID Rrepresentative assigned to Zambia. If necessary, AID/W will provide TDY support and will assist the Zambian Embassy to undertake any formal procurements for which bids are to be received in Washington.

2. AID Procurement Procedures

AID's standard Commodity Financing Procedures, as set forth in AID regulation 1, will be followed for this loan. All procurement by the public sector will be conducted under formal competitive bid procedures, except in certain cases where negotiated procurement would be more appropriate and justifiable. For purposes of loan implementation, any parastatal organization which is more than 50% owned by the GRZ will be considered a public sector entity. Procurement by the private sector will be carried out in accordance with the negotiated procurement procedures as set forth in Section 201.23 of AID Regulation 1.

3. GRZ Import Procedures

Under normal GRZ import procedures, an importer first applies for a foreign exchange allocation through the International Technical Committee. After this application is approved, the importer applies for an import license from the Ministry of Commerce. At present, the issuance of import licenses are subject to strict control and are issued quarterly on the basis of quotas set by a ministerial committee in consultation with the Bank of Zambia and the Ministry of

Finance. After the license is approved, the importer must get a letter of credit, which at this time could take several months due to the arrearages problem discussed in Section III. After issuance of the letter of credit, the commodities are shipped, and payment is made.

In the case of imports tied to foreign loans such as this one, a separate more expeditious process is used. When the importer applies for a license (in this case NAMboard), a ministerial committee will immediately allocate and approve a license for the previously agreed upon end use. This will insure the immediate opening of a letter of credit against AID-issued letters of commitment. Thus, under this procedure, it is anticipated that importers will save a substantial amount of time in getting orders placed and letters of credit opened.

4. Loan Disbursement

As can be seen from the above status of existing loans, the GRZ has established a very acceptable record in drawing down the funds. The funds under this loan are expected to be disbursed within an 18-month period after the time the loan agreement is executed. Therefore, the terminal disbursement date will be set 18 months from the loan agreement date. The terminal date for requesting disbursing authorizations will be set at 12 months from the loan agreement date.

5. Method of Disbursement

It is expected that all disbursements under the loan will be through direct AID Letters of Commitment to suppliers.

VII. Additional Considerations

A. Impact on U.S. Balance of Payments

The short-run impact of the loan on the U.S. balance of payments position will be minimal. In the long-run, U.S. exporters may be able to establish market positions in Zambia, but the transportation cost disadvantage of buying from the U.S. (as opposed to traditional European suppliers) could militate against any lasting inroads.

B. Use of U.S. Government Excess Property

AID will review the possibilities of the financing of excess property under the loan. However, it is unlikely such property will be appropriate given the nature of the commodities to be purchased.

C. Relation to U.S. Export-Import Bank Credit

The U.S. Export-Import Bank's exposure as of May 30, 1980 was estimated at U.S. $96.4 million as follows:

Short-term	U.S.$ 8.0
Medium-term	12.0
Long-term	76.4
	U.S.$ 96.4

Most of this exposure is to the two major copper companies both whose credits are guaranteed by the Government.

Eximbank has avoided taking on any additional exposure in transactions which would be subject to the trade arrears delay, but has been willing to consider new supplier credits if the Government guarantee is available. In some cases, however, unguaranteed credits may be approved if they are for profitable, foreign exchange generating uses for which commercial term credit service can be justified.

Eximbank has concentrated its direct credit/financed guarantee assistance in Zambia on projects that earn foreign exchange and that are preferably self-liquidating. In 1980 Zambia Airways applied for U.S. $60.1 million in credits to purchase one Boeing747-200 B Combi aircraft and related equipment. This application was denied approval because it did not meet this criterion.

Given the nature of Eximbank's activities in Zambia, it can be concluded that this proposed loan does not present any conflict in interest to current or planned Eximbank exposure.

VIII. Recommendation

It is recommended that AID authorize a U.S. $10 million loan to the Government of the Republic of Zambia subject to the following terms:

(a) Repayment to AID in U.S. dollars within forty (40) years after the first disbursement, including a grace period on repayment of principle not to exceed ten (10) years.

(b) Interest payable to AID in U.S. dollars at two percent (2%) simple interest per annum during the grace period and three percent (3%) simple interest per annum on the remaining principle owed thereafter.

c) Commodities and related services financed under the loan shall have their source and origin in the U.S. (A.I.D. Geographic Code 000) except for charges related to ocean transportation; a determination has been made by A.I.D. that ocean freight costs not to exceed $2,500,000 on Code 899 vessels are authorized when U.S.or Code 941 vessels are not available.

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

It is not anticipated that the GRZ will have difficulty repaying the proposed loan. A GRZ-IMF Extended Fund Facility has been negotiated and signed. This will help tighten foreign exchange control and help to re-establish a balance of payments recovery. Assuming prudent fiscal management and a continuing improvement in world copper prices, within a relatively short period of time Zambia's balance of payments deficit could be eliminated. With the recommended terms in force, the loan repaymenmt will not place a significant strain on the GRZ. The grant element of the loan is about 75%-80%.

ANNEXES

ANNEX A

STATISTICAL TABLES

Table 1

U.S. OVERSEAS LOANS AND GRANTS — OBLIGATIONS AND LOAN AUTHORIZATIONS
(U.S. Fiscal Years — Millions of Dollars)

COUNTRY ZAMBIA

PROGRAM	FOREIGN ASSISTANCE ACT PERIOD 1976	TQ	1977	1978	1979	TOTAL LOANS AND GRANTS 1946-79	REPAYMENTS AND INTEREST 1946-79	TOTAL LESS REPAYMENTS AND INTEREST 1946-79
I. ECONOMIC ASSISTANCE — TOTAL	[illegible].1	1.6	5.6	36.5	33.4	112.5	34.9	77.6
Loans	-	1.6	5.4	33.5	30.0	102.1	34.9	67.2
Grants	[illegible].1	*	0.2	-	3.4	10.4	-	10.4
a. A.I.D. and Predecessor Agencies	*	*	*	30.0	20.4	61.1	7.6	53.5
Loans	-	-	-	30.0	20.0	55.6	7.6	47.4
Grants	*	*	*	*	0.4	6.1	-	6.1
(Economic Support Fund)	-	-	-	30.0	20.0	50.0		
b. Food for Peace (PL 480)	[illegible].1	1.6	5.6	8.5	13.0	29.0	0.2	28.8
Loans	-	1.6	5.4	8.5	10.0	24.7	0.2	24.5
Grants	[illegible].1	-	0.2	-	3.0	4.3	-	4.3
Title I - Total Sales Agreements	-	1.6	5.4	8.5	10.0	24.7	0.2	24.5
Repayable in U.S. Dollars - Loans	-	1.6	5.4	8.5	10.0	24.7	0.2	24.5
Payable in Foreign Currency - Planned for Country Use	-	-	-	-	-	-	-	-
Title II - Total Grants	[illegible].1	-	0.2	*	3.0	4.3	-	4.3
Emerg. Relief, Econ. Develop. & World Food Program	[illegible].1	-	0.2	*	3.0	4.3	-	4.3
Voluntary Relief Agencies	-	-	-	-	-	-	-	-
c. Other Economic Assistance	-	-	-	-	-	22.4	27.1	4.7-
Loans	-	-	-	-	-	22.4	27.1	4.7-
Grants	-	-	-	-	-	-	-	-
Peace Corps	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
II. MILITARY ASSISTANCE — TOTAL								
Credits or Loans								
Grants								
a. MAP Grants								
b. Credit Financing - FMS								
c. Military Assistance Service-Funded (MASF) Grants								
d. Transfers from Excess Stocks								
e. Other Grants								
III. TOTAL ECONOMIC AND MILITARY ASSISTANCE								
Loans								
Grants								
Other U.S. Government Loans and Grants	1.4	-	-	-	24.7	89.2	35.3	53.9
a. Export-Import Bank Loans	1.4	-	-	-	24.7	89.2	35.3	53.9
b. All Other Loans	-	-	-	-	-	-	-	-

* LESS THAN $50,000. TQ - TRANSITIONAL QUARTER (7/1/76 - 9/30/76)

ECONOMIC PROGRAMS OF ALL DONORS
(Millions of Dollars)

A. ASSISTANCE FROM INTERNATIONAL AGENCIES — COMMITMENTS

TOTAL	FY 1978	FY 1979	FY 1980	FY 1946-80
IBRD	25.5	26.1	98.9	692.8
IFC	11.3	0.0	25.0	538.3
IDA	0.0	0.0	37.6	41.4
IDB	11.3	11.0	15.0	37.3
ADB	0.0	0.0	0.0	0.0
AFDB	0.0	0.0	0.0	0.0
UNDP	0.0	9.7	19.4	43.0
OTHER-UN	7.9	2.9	1.7	28.0
EEC	0.0	0.0	0.2	2.3
	0.0	2.5	0.0	2.5

B. BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE

1. D.A.C. COUNTRIES (Gross Disbursements)

Donor	CY 1978	CY 1979	CY 1959-79
TOTAL	167.1	215.3	779.9
U.S.	35.0	43.0	102.0
JAPAN	28.0	23.5	74.7
U.K.	25.6	60.8	229.4
SWEDEN	19.4	23.9	101.0
GERMANY	17.5	22.7	76.3
CANADA	15.9	3.5	54.0
OTHER	25.7	37.9	142.5

2. O.P.E.C. COUNTRIES (Gross Disbursements)

	CY 1978	CY 1979	CY 1973-79
TOTAL		9.5	11.4

C. LOANS AND GRANTS EXTENDED BY COMMUNIST COUNTRIES

	CY 1978	CY 1979	CY 1954-79
TOTAL	12	-	405
USSR	-	-	15
EASTERN EUROPE	12	-	60
CHINA	-	-	330

Source: A.I.D

Table 2

REAL GROSS DOMESTIC PRODUCT BY TYPE OF ECONOMIC ACTIVITY, 1965 AND 1970-78
(in millions of 1970 kwacha)

	Former SNA	Present SNA								
	1965	1970	1971	1972	1973	1974 4/	1975 4/	1976 5/	1977 5/	1978 5/
Gross Domestic Product	1103.0	1268.9	1269.3	1386.4	1361.1	1463.9	1434.2	1548.7	1484.6	1480.5
Agriculture, Forestry, Fishing	151.1	136.1	139.4	145.6	143.5	150.5	157.0	166.9	168.2	171.5
Commercial Sector	28.7	41.5	44.3	49.6	46.4	52.2	56.3	63.6	62.4	63.0
Subsistence Sector	122.4	94.6	95.1	96.0	97.1	98.3	100.7	103.3	105.8	108.5
Mining and Quarrying	452.2	460.3	415.8	478.1	449.7	474.8	427.9	503.2	473.6	483.5
Manufacturing	75.0	129.2	144.3	162.7	165.4	177.6	157.6	151.9	141.4	150.5
Construction	64.0	90.3	88.9	94.3	99.9	114.5	140.2	157.5	154.5	133.0
Transport, Communications & Storage	50.7	48.8	58.8	54.6	51.4	54.0	59.6	67.0	62.0	60.0
Services	287.9	388.4	410.3	439.9	450.4	485.9	488.3	504.6	487.9	486.0
Community, Social and Personal services 1/	99.3	151.7	158.1	163.5	162.1	172.6	180.6	188.4	190.0	191.0
Electricity, Gas & Water	8.8	15.5	23.5	31.4	38.7	46.0	48.9	52.6	57.8	58.5
Other Services 2/	179.8	221.2	228.7	245.0	249.6	267.3	258.8	263.6	240.1	236.5
Other 3/	22.1	15.4	11.8	11.2	0.8	6.6	3.6	-2.4	-3.0	-4.0

1/ Includes public administration, defense, sanitary services, education, health, recreational and personal services.
2/ Includes finance, real estate, commerce and trade.
3/ Import duties less imputed bank service charges.
4/ Provisional
5/ Likely to undergo some revision.

Source: CSO. National Accounts and Input-Output Tables, 1971 (August 1975), and Monthly Digest of Statistics (April/June 1979).

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(Table from IBRD Report No. 3007-ZA, Zambia: Country Economic Memorandum: February 27, 1981).

Table 3

Zambia: Gross Domestic Product (GDP) by Sector, 1975-80

(In millions of kwacha at 1970 prices; and in per cent of GDP)

	1975		1976		1977		1978		1979		1980 1/	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Gross domestic product	1,438	100.0	1,500	100.0	1,424	100.0	1,459	100.0	1,342	100.0	1,354	100.0
Agriculture, forestry, and fishing	157	10.9	167	11.1	168	11.8	169	11.6	153	11.4	167	12.3
Mining and quarrying	428	29.8	503	33.5	470	33.0	505	34.6	401	29.9	396	29.2
Manufacturing	158	11.0	152	10.1	141	9.9	152	10.4	152	11.3	159	11.7
Electricity, gas, and water	49	3.4	53	3.5	58	4.1	58	4.0	63	4.7	67	4.9
Construction	139	9.7	100	6.7	90	6.3	82	5.6	78	5.8	69	5.1
Wholesale and retail trade	105	7.3	108	7.2	97	6.8	97	6.6	75	5.6	96	7.1
Transport, communication, and storage	58	4.0	67	4.5	62	4.4	62	4.2	64	4.8	67	4.9
Financial institutions and insurance	60	4.2	58	3.9	49	3.4	41	2.8	45	3.4	39	2.9
Community, social, and personal services	181	12.6	188	12.5	190	13.3	191	13.1	189	14.1	189	14.0
Other	103	7.1	104	7.0	99	7.0	102	7.1	122	9.0	105	7.9

Source: Central Stati :ical Office.

1/ Preliminary.

(Table from IMF Report EBS/81/91; Zambia - Request for Extended Arrangement; April 20, 1981).

Table 4

GROSS DOMESTIC PRODUCT BY THE TYPE OF ECONOMIC ACTIVITY IN CURRENT PRICES, 1965 AND 1970-78
(in millions of current kwacha)

	Former SNA 1965	Present SNA 1970	1971	1972	1973	1974 4/	1975 4/	1976 5/	1977 5/	1978
Gross Domestic Product	711.1	1268.5	1180.9	1337.8	1588.3	1872.9	1571.1	1923.5	2010.6	2291.0
Agriculture, Forestry, Fishing	97.4	136.1	154.0	172.2	180.9	199.4	206.4	273.3	321.5	382.0
Commercial Sector	18.3	41.5	52.7	66.7	63.5	67.4	62.9	95.3	110.0	137.0
Subsistence Sector	79.1	94.6	101.3	105.5	117.4	132.0	143.5	178.0	211.5	245.0
Mining and Quarrying	291.8	460.3	275.1	324.4	520.8	616.2	215.2	341.8	235.6	277.0
Manufacturing	68.0	192.2	149.7	181.4	195.3	237.5	250.3	275.6	314.0	394.0
Construction	40.9	90.3	98.2	99.8	103.0	127.0	151.2	184.9	186.0	169.5
Transport, Communications & Storage	32.8	48.8	62.3	63.5	64.5	75.5	88.5	118.5	135.5	144.0
Services	185.7	388.4	425.3	474.5	519.4	579.9	631.5	723.0	810.0	914.0
Community, Social and Personal Services 1/	64.0	151.7	176.9	193.4	208.7	235.0	266.5	309.3	345.5	382.0
Electricity, Gas, Water	5.4	15.5	22.5	30.7	36.0	41.2	43.0	47.8	50.5	47.5
Other Services 2/	116.3	221.2	225.9	250.4	274.7	321.7	320.0	365.9	414.0	484.5
Other 3/	14.5	15.4	16.3	22.0	4.4	19.4	28.0	6.4	8.0	10.5

1/ Includes public administration, defense, sanitary services, education, health, recreational and personal services.
2/ Includes finance, real estate, commerce and trade.
3/ Import Duties less imputed bank service charges.
4/ Provisional.
5/ Likely to undergo some revision.

Source: CSO. National Accounts and Input-Output Tables, 1971 (August 1975), and Monthly Digest of Statistics (April/June 1979).

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(Table from IBRD Report No. 3007-ZA; Zambia:Country Economic Memorandum; February 27, 1981).

 Table 5

AVERAGE EARNINGS OF EMPLOYEES IN EACH INDUSTRY: TOTAL
(Kwacha)

Industry	1975 (3)			1976 (3)		
	Zambian	Non-Zambian	Total	Zambian	Non-Zambian	Total
Agriculture, forestry and fisheries	453	2,524	528	604	3 490	716
Mining and quarrying	1,478	6,784	2,322	2,510	10,304	3,600
Manufacturing	1,179	5,657	1,445	1,696	8,650	1,726
Electricity and water	1,042	7,835	1,569	1,482	7,819	1,773
Construction and allied repairs	764	6,868	983	906	4,109	1,105
Distribution, restaurants and hotels	1,018	5,316	1,373	1,420	7,743	1,805
Transport and communications	1,834	7,377	2,226	1,830	5,301	2,039
Finance, insurance, real estate and business services	1,641	7,528	2,233	1,927	6,696	2,331
Community, social and personal services (1)	1,259	3,859	1,446	1,370	4,149	1,554
All industries	1,140	5,572	1,504	1,478	6,858	1,864

Industry	June 1977			1977 (3)		
	Zambian	Non-Zambian	Total	Zambian	Non-Zambian	Total
Agriculture, forestry and fisheries	612	3,546	738	639	3,547	762
Mining and quarrying	2,576	10,723	3,657	2,632	10,704	3,669
Manufacturing	1,470	7,158	1,797	1,529	7,758	1,859
Electricity and water	1,494	8,135	1,767	1,509	8,263	1,775
Construction and allied repairs	886	4,346	1,094	883	4,436	1,101
Distribution, restaurants and hotels	1,547	7,764	1,911	1,564	7,873	1,935
Transport and communications	1,988	5,361	2,180	2,103	6,359	2,331
Finance, insurance, real estate and business services	1,992	7,086	2,491	2,031	7,148	2,390
Community, social and personal services (1)	1,375	4,032	1,556	1,384	4,034	1,560
All industries	1,526	6,961	1,924	1,566	7,086	1,959

(1) Excluding domestic service. (2) Based on 2nd quarter only. (3) Based on 4th quarter.
Note: Cash earnings only, excluding earnings in kind and employer's contribution to pension funds, etc.

TABLE 6—AVERAGE ANNUAL EARNINGS OF EMPLOYEES IN EACH INDUSTRY: PUBLIC SECTOR
(Kwacha)

Industry	1975 (3)			1976 (3)		
	Zambian	Non-Zambian	Total	Zambian	Non-Zambian	Total
Agriculture, forestry and fisheries	609	3,271	643	812	2,146	832
Mining and quarrying	—	—	—	—	—	—
Manufacturing	1,077	3,612	1,174	1,620	3,468	1,691
Electricity and water	882	4,070	921	931	4,012	1,031
Construction and allied repairs	907	2,532	935	884	3,524	953
Distribution, restaurants and hotels	926	1,790	956	876	1,910	902
Transport and communications	1,014	5,943	1,131	1,160	4,248	1,234
Finance, insurance, real estate and business services	1,871	6,186	2,062	2,813	5,898	2,954
Community, social and personal services (1)	1,292	3,861	1,460	1,393	4,176	1,566
All industries	1,147	3,768	1,278	1,255	4,066	1,397

Industry	1977 (2)			1977 (3)		
	Zambian	Non-Zambian	Total	Zambian	Non-Zambian	Total
Agriculture, forestry and fisheries	815	2,159	832	850	2,278	868
Mining and quarrying	—	—	—	—	—	—
Manufacturing	1,724	5,060	1,789	1,836	5,056	1,907
Electricity and water	1,029	5,042	1,129	1,032	5,050	1,120
Construction and allied repairs	849	3,199	912	854	3,231	915
Distribution, restaurants and hotels	891	2,061	918	879	2,044	923
Transport and communications	1,211	4,108	1,258	1,210	4,118	1,266
Finance insurance, real estate and business services	2,776	5,860	2,822	2,785	5,859	2,937
Community, social and personal services (1)	1,392	4,127	1,561	1,401	4,105	1,567
All industries	1,249	3,978	1,386	1,258	3,985	1,393

(1) Excluding domestic service. (2) Based on 2nd quarter only. (3) Based on 4th quarter.
Note: Cash earnings only, excluding earnings in kind and employer's contribution to pension funds, etc.

GRZ Central Statistical Office, Source: Monthly Digest of Statistics

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Table 6

MERCHANDISE EXPORTS, 1970-78
(in millions of kwacha and thousands of tons)

		1970	1971	1972	1973	1974	1975	1976	1977 1/	1978
Copper	- value	681.4	450.2	490.9	698.3	838.5	472.0	688.6	645.9	598.0
	- tons	684.0	635.0	711.0	670.0	673.4	641.2	746.0	667.0	-
Zinc	- value	11.0	11.5	16.4	16.7	25.2	20.3	26.6	17.9	14.8
	- tons	50.3	49.5	60.6	51.1	50.2	41.3	51.2	34.9	-
Lead	- value	4.9	4.6	5.6	5.4	7.2	5.7	4.4	5.7	3.1
	- tons	22.1	23.9	26.7	20.0	18.8	19.3	14.8	10.9	-
Cobalt	- value	6.3	4.1	8.6	4.9	7.9	7.1	15.9	15.3	30.6
	- tons	1.8	1.2	2.3	1.1	1.9	1.3	2.3	1.6	-
Tobacco	- value	2.9	3.5	2.7	4.8	5.8	5.0	5.1	5.8	5.0
	- tons	4.0	5.2	4.2	5.0	4.9	5.3	4.6	3.5	-
Maize	- value	-	0.2	0.1	2.6	7.6	1.4	0.5	3.5	2.0
	- tons	-	8.6	1.9	50.1	111.2	16.6	8.8	25.6	-
Other Goods	- value	4.0	5.9	11.7	5.4	8.2	6.5	7.5	12.3	14.0
Total, f.o.b. 2/	value	710.5	480.0	536.0	738.1	900.4	518.0	748.8	706.4	667.5

1/ Preliminary.
2/ As in trade returns.

Source: CSO. Monthly Digest of Statistics (various issues) for 1965-73, and (July/Sept. 1978) for 1974-78 data.

12/79

(From IBRD Report No. 3007-ZA; Zambia: Country Economic Memorandum; February 27, 1981).

Table 7

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—VALUE OF IMPORTS BY S.I.T.C. SECTI
(K'000)

	Total	Food	Beverages and tobacco	Crude materials	Electricity and Mineral fuels	Oils and fats	Chemicals	Manufactures classified by materials	Machinery and transport equipment	Miscellaneous manufactured articles	Miscellaneous transactions
1970	340,711	30,451	1,175	5,277	35,184	1,456	26,021	74,797	131,716	30,540	1,094
1971	377,232	43,193	1,417	7,629	32,335	4,516	31,683	81,786	160,115	27,257	1,443
1972	402,471	37,133	1,250	7,913	26,523	3,907	33,041	87,918	163,009	35,377	1,355
1973	346,867	21,344	973	5,420	33,285	4,323	35,135	77,339	132,911	25,393	1,753
1974	506,636	43,391	1,130	10,353	61,075	5,770	43,445	124,936	165,795	36,431	2,297
1975	597,511	35,747	1,018	9,892	81,115	9,037	77,293	140,211	211,300	23,693	3,250
1976	469,743	25,706	834	7,193	72,616	10,634	63,131	95,789	166,904	19,995	731
1977	529,970	23,672	879	8,807	81,010	9,108	53,923	117,855	205,102	19,260	347
1978	492,835	31,611	673	9,025	86,978	7,169	65,042	98,033	175,793	18,099	402
1979*	597,841	37,958	1,299	11,018	106,411	10,118	79,275	121,512	204,906	23,890	1,494
1977 January ...	42,441	2,576	94	850	8,155	725	5,161	8,993	14,097	1,847	31
February ...	46,132	3,435	43	630	7,132	1,170	3,865	10,562	15,091	1,146	22
March ...	45,193	1,603	64	879	6,479	249	5,253	8,669	20,541	1,443	15
April ...	42,560	2,634	35	735	5,820	324	3,530	9,728	18,014	1,645	95
May ...	50,019	3,489	94	615	6,360	21,651	6,193	9,228	19,680	1,678	19
June... ...	48,981	3,523	58	518	8,050	30	5,981	8,703	20,382	1,711	20
July	36,844	1,724	73	1,172	992	210	4,727	10,566	15,674	1,702	15
August ...	48,326	1,589	94	834	9,043	157	5,152	13,159	16,455	1,779	15
September	41,313	1,595	92	833	7,460	312	4,515	9,103	15,758	1,631	23
October ...	37,743	3,032	100	505	1,160	926	4,311	9,714	15,249	1,636	55
November	47,933	1,236	70	578	11,454	2,193	5,303	10,328	15,249	1,556	13
December	42,430	2,137	62	554	8,895	113	4,914	9,104	15,001	1,605	20
1978 January ...	53,611	1,713	118	623	7,978	643	5,301	12,310	22,953	1,949	14
February ...	34,709	3,941	45	553	1,317	440	5,691	9,292	10,816	2,594	16
March ...	40,839	2,095	45	896	9,206	816	4,978	7,970	13,204	1,512	85
April ...	39,473	5,145	7	1,131	8,900	45	3,939	6,629	12,221	1,509	16
May ...	41,362	1,951	45	610	7,904	339	5,459	9,739	13,435	1,830	30
June ...	29,497	1,379	92	602	670	2,074	4,930	7,121	11,437	1,083	21
July ...	24,595	1,124	0	550	129	10	3,173	7,991	10,629	1,055	25
August ...	52,203	3,104	21	537	9,543	145	7,405	8,091	21,527	1,439	37
September	38,901	1,435	39	655	8,600	2,280	4,043	7,255	13,476	1,094	45
October ...	41,226	1,519	16	853	9,094	75	6,255	6,555	15,753	1,035	56
November	47,817	6,197	55	805	9,192	231	6,235	6,790	16,525	1,758	30
December ...	48,597	1,733	185	1,000	14,615	20	7,634	8,383	13,761	1,216	22
1979* January ...	40,363	1,595	215	383	9,495	623	4,309	7,423	14,354	1,927	40
February ...	45,330	2,913	115	550	8,574	3,050	3,863	8,400	16,405	1,435	10
March ...	50,894	6,490	127	1,432	11,162	874	7,062	7,983	14,105	1,651	7
April ...	32,657	2,022	92	755	679	878	6,293	8,935	11,355	1,531	62
May ...	42,138	2,907	105	420	920	165	5,521	10,612	20,029	1,370	78
June ...	53,563	813	37	890	13,927	294	6,400	10,597	18,634	1,791	174
July ...	67,062	2,865	281	1,102	9,463	180	9,336	9,850	31,247	2,555	163
August ...	56,065	4,114	69	835	10,392	1,333	5,031	13,176	14,997	2,185	26
September	53,461	4,243	54	970	12,105	612	7,363	13,052	13,370	1,547	44
October	62,239	4,941	37	1,785	13,891	412	6,557	11,570	18,925	3,197	811
November	56,004	3,192	85	1,473	14,116	1,274	5,947	11,683	16,125	2,074	38
December	38,010	1,754	81	438	1,195	337	11,423	7,950	12,359	2,440	37

* Preliminary.

Source: GRZ Central Statistical Office; Monthly Digest of Statistics.

TABLE 26—TRADE WITH SELECTED COUNTRIES
(K'000)

	United Kingdom Total Exports	United Kingdom Imports	South Africa Total Exports	South Africa Imports	China Total Exports	China Imports	USA Total Exports	USA Imports	Japan Total Exports	Japan Imports	West Germany Total Exports	West Germany Imports	East African Community Total Exports	East African Community Imports
1970	152,074	93,559	6,432	57,077	34,737	2,159	1,442	33,302	166,457	21,829	84,151	16,473	1,703	13,[illegible]
1971	73,187	57,091	10,447	60,391	32,961	4,025	4,557	43,159	99,649	26,033	45,370	17,558	2,537	14,1[illegible]
1972	107,650	94,867	10,504	59,303	12,555	9,023	2,2[illegible]	35,008	110,603	28,841	45,520	21,539	1,904	9,713
1973	142,264	74,709	2,173	41,059	13,533	9,600	3,675	31,259	179,901	31,209	75,524	22,578	3,050	12,201
1974	175,[illegible]	92,435	3,413	37,716	21,[illegible]	24,311	5,2[illegible]	37,652	174,345	48,571	114,736	40,549	10,480	15,4[illegible]8
1975	117,312	116,328	1,722	40,377	13,[illegible]	17,073	132	74,477	90,93[illegible]	53,524	73,703	43,062	2,140	8,074
1976	103,728	112,341	1,006	34,999	19,041	3,559	116,371	53,728	125,[illegible]	22,055	105,021	33,502	7,305	10,984
1977	113,319	121,490	1,735	38,524	22,937	6,637	72,247	57,524	124,141	25,401	102,405	67,071	6,322	9,139
1978	7[illegible],[illegible]34	122,254	800	31,476	22,675	6,206	70,101	34,679	132,[illegible]	21,332	79,255	54,700	5,019	8,25[illegible]
1979*	145,375	152,949	4,171	64,650	34,319	2,233	111,624	55,357	201,34[illegible]	24,372	100,338	46,032	6,650	11,441
1977 January	10,035	8,975	55	3,715	—	265	362	5,207	15,[illegible]55	2,122	12,454	4,668	277	[illegible]
February ...	9,0[illegible]	8,512	47	3,397	2,07[illegible]	212	545	3,591	14,5[illegible]	1,571	8,017	9,259	43	1,173
March ...	7,631	7,953	234	4,673	2,1[illegible]	761	4	3,032	7,737	667	14,0[illegible]	12,[illegible]21	174	41[illegible]
April ...	1[illegible],55[illegible]	8,495	140	2,0[illegible]	1,[illegible]3	533	3,779	3,632	8,112	1,454	7,777	5,926	394	321
May ...	7,555	12,445	117	2,971	7	5[illegible]	6,131	4,437	15,[illegible]	3,134	6,053	5,125	727	883
June ...	10,173	8,805	245	3,270	[illegible]	914	9,558	8,035	9,317	3,457	7,177	2,415	347	444
July ...	1[illegible],141	11,013	143	3,176	927	147	14,502	5,325	9,705	2,815	12,192	3,133	517	634
August ...	11,347	12,293	10	3,231	[illegible]	1,041	5,034	4,621	8,313	2,022	9,459	3,084	670	977
September ...	3,061	10,523	91	3,141	8[illegible]1	892	3,372	3,001	9,443	2,103	5,519	3,705	1,989	1,042
October ...	7,211	11,102	127	2,632	1,[illegible]	455	13,055	4,914	6,94[illegible]	1,254	4,075	4,552	326	929
November	11,566	10,765	262	2,514	2,[illegible]22	2[illegible]	8,[illegible]91	6,935	6,0[illegible]3	1,826	7,572	5,164	352	545
December	8,373	9,623	224	3,312	[illegible]	430	7,2[illegible]	4,253	8,972	2,514	6,737	2,099	284	973
1978 January	7,165	14,015	100	1,676	—	648	6,343	5,476	3,316	1,977	4,357	3,630	547	995
February ...	7,1[illegible]	7,376	31	2,035	2,[illegible]	674	11,157	1,499	12,475	2,015	4,676	3,257	124	778
March ...	8,327	9,122	—	2,267	1,5[illegible]	477	1,520	4,464	5,259	1,579	5,272	3,0[illegible]3	573	499
April ...	6,0[illegible]	10,343	205	1,520	—	474	11,437	1,657	2,653	1,024	11,813	3,152	645	645
May ...	5,039	10,724	5	2,472	[illegible]	1,156	16,235	4,753	3,417	2,026	5,271	7,795	2[illegible]	3[illegible]
June ...	16,577	10,326	—	2,827	—	2[illegible]	7,644	1,[illegible]31	24,[illegible]7	965	5,331	2,769	508	777
July ...	7,[illegible]2	7,47[illegible]	[illegible]4	1,425	—	450	679	2,021	11,001	1,037	6,391	3,440	611	714
August ...	14,103	11,917	5	4,051	6,[illegible]15	391	5[illegible]3	3,[illegible]4	14,266	3,563	7,755	9,546	380	427
September	[illegible],[illegible]27	10,703	8	2,243	..	133	3,37[illegible]	2,241	15,796	2,152	10,4[illegible]5	4,6[illegible]5	628	1,185
October	7,651	9,112	2	3,408	[illegible]	650	3,572	4,779	4,51[illegible]	2,156	12,417	3,317	138	601
November	5,247	10,497	53	2,513	—	163	4,161	4,495	17,452	1,175	4,159	4,697	514	6[illegible]
December	6,575	8,384	60	3,973	1,0[illegible]	1[illegible]7	3,227	3,0[illegible]6	17,771	2,030	1,[illegible]96	9,901	73	542
1979* January	[illegible],8[illegible]	10,545	822	3,729	1,[illegible]	13	5,533	1,651	15,859	1,253	15,371	3,724	514	1,7[illegible]9
February	17,1[illegible]	11,629	653	3,334	1,[illegible]	154	2,4[illegible]5	6,732	23,778	1,437	1,370	3,131	267	352
March ...	21,[illegible]24	11,311	276	4,970	4,[illegible]	131	7,224	5,752	26,297	1,333	10,709	3,897	962	1,113
April ...	8,[illegible]65	9,572	12	3,224	[illegible]	279	3,193	1,034	9,073	2,351	10,659	3,796	165	6,5[illegible]
May ...	9,344	13,963	15	4,342	1,[illegible]	51	11,713	3,076	11,867	3,417	7,725	2,873	676	47[illegible]
June ...	17,767	11,602	64	3,727	[illegible]	1,[illegible]	11,0[illegible]	[illegible],575	27,520	1,275	9,432	3,314	469	3[illegible]
July ...	1,471	10,572	37	5,005	[illegible]	—	9,55[illegible]	5,303	15,936	4,219	7,345	4,996	884	533
August	16,712	14,761	451	8,009	10,[illegible]	61	14,75[illegible]	4,732	13,0[illegible]	1,1[illegible]4	5,257	3,764	322	1,[illegible]
September	15,336	12,095	452	8,724	2,[illegible]	72	15,331	3,027	9,334	1,133	10,671	3,276	459	4[illegible]
October	8,[illegible]31	11,253	87	6,357	[illegible]	1[illegible]	7,4[illegible]3	[illegible]	26,515	1,5[illegible]	9,272	5,492	474	1[illegible]
November	5,[illegible]	13,4[illegible]	897	7,117	5,[illegible]	10[illegible]	10,0[illegible]3	3,631	3,476	1,420	6,005	4,565	512	1,[illegible]
December	13,571	11,135	21[illegible]	5,440	—	50	12,257	8,[illegible]03	16,451	1,133	5,564	3,034	451	1,[illegible]

*Preliminary

Source: GRZ Central Statistical Office; Monthly Digest of Statistics

Table 9

Zambia: Balance of Payments, 1974-80

(In millions of SDRs)

	1974	1975	1976	1977	1978	1979	1980 1/
Exports, f.o.b.	1,161	660	902	768	662	1,065	1,081
Imports, c.i.f.	-822	-973	-738	-711	-617	-735	-1,085
Trade balance	339	-313	164	57	45	330	-4
Services and unrequited transfers							
Investment income	-80	-96	-132	-114	-109	-97	-179
Other services	-91	-82	-50	-58	-64	-71	-79
Private transfers	-112	-106	-104	-83	-85	-86	-86
Government transfers	7	4	9	13	20	27	39
Total	-276	-280	-277	-242	-238	-227	-305
Current account	63	-593	-113	-185	-193	103	-309
Nonmonetary capital (net)							
Government	48	108	34	17	53	134	79
Mining companies	8 2/	225 2/	8 2/	-15	-15	-23	26
Other (including errors and omissions)	-95	-60	-94	-60	-52	-56	-24
Total	-39	273	-52	-58	-14	55	81
SDR allocation	--	--	--	--	--	15	15
Overall balance	24	-320	-165	-243	-207	173	-213
Financing							
Use of Fund resources (net)	--	19	19	--	149	73	6
Purchases	(--)	(57)	(38)	(19)	(149)	(99)	(50)
Repurchases	(--)	(-38)	(-19)	(-19)	(--)	(-26)	(-44)
Payments arrears (decrease -)	--	131	126	170	102	-145	111
Other foreign assets (net) (increase -)	-24 3/	170 3/	20 3/	73	-44	-101	96

Sources: Bank of Zambia; Central Statistical Office; and staff estimates.

1/ Preliminary.
2/ Including nonmining private sector.
3/ Including valuation adjustments.

(Table from RMF Report EBS/81/91; Zambia- Request for Extended Arrangement, April 20, 1981)

Table 10

PUBLIC EXTERNAL DEBT, 1965-78

(In millions of US dollars)

Year	Debt Outstanding at End of Period: Disbursed Only	Debt Outstanding at End of Period: Including Undisbursed	Commitments	Disbursements	Service Payments
1965	169.0	175.8	1.1	4.4	13.1
1966	172.7	210.4	39.0	8.1	13.2
1967	209.6	273.7	79.8	50.4	14.9
1968	225.4	340.3	77.7	26.9	19.8
1969	276.9	384.4	33.6	39.9	25.8
1970	596.0	905.2	555.5	350.6	54.9
1971	394.3	887.3	8.2	40.9	72.6
1972	639.2	927.0	125.9	132.2	106.9
1973	655.2	1,116.0	439.7	282.0	362.4
1974	762.2	1,384.2	322.3	154.8	105.6
1975	1,098.8	1,669.4	391.9	420.2	68.4
1976	1,251.1	1,797.8	195.9	224.4	112.7
1977	1,392.0	1,849.1	120.0	221.6	180.7
1978	1,396.3	2,125.9	346.1	104.2	191.4

Source: IBRD. External Debt System, Table 2 (December 4, 1979).

12/79

(Table from IBRD Report No. 3007-ZA; Zambia: Country Economic Memorandum; February 27, 1981)

Table 11

Zambia: Balance of Payments Projections, : 30-83

(In millions of SDRs)

	1980	1981	1982	1983
	Preliminary		Projections	
Exports, f.o.b.	1,081	1,063	1,369	1,647
Imports, c.i.f.	-1,085	-1,107	-1,257	-1,487
Trade balance	-4	-44	112	160
Services and unrequited transfers				
Investment income	-179	-205	-220	-234
Other services	-79	-70	-70	-74
Private transfers	-86	-86	-88	-88
Government transfers	39	53	49	58
Total	-305	-308	-329	-338
Current account	-309	-352	-217	-178
Nonmonetary capital (net)				
Government	79	71	99	119.
Mining companies	26	114	83	23
Other (including errors and omissions)	-24	--	--	49
Total	81	185	182	191
SDR allocation	15	15	--	--
Overall balance	-213	-152	-35	13
Financing				
Use of Fund resources (net)	6	253	163	135
Purchases	(50)	(300)	(250)	(250)
Repurchases	(-44)	(-47)	(-87)	(-115)
Payments arrears (decrease -)	111	-100	-128	-148
Other foreign assets (net) (increase -)	96	-1		

Sources: Data provided by the Zambian authorities; and staff estimates.

(Table from IMF Report EBS/81/91; Zambia- Request for Extended Arrangemtn; April 20, 1981).

Table 12

Zambia: Government Budgetary Position, 1974-80

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	Preliminary actuals 1980
Revenue	651.0	462.3	460.8	510.7	589.9	620.6	763.7
Mining taxes	339.2	59.3	11.6	0.1	--	-9.8	41.7
Income tax	110.5	142.6	159.1	198.6	217.7	223.3	271.7
Taxes on domestic goods and services	86.0	125.2	151.6	179.5	210.5	239.4	258.8
Taxes on international trade	60.9	63.2	60.5	61.5	50.7	68.4	96.9
Other revenue	54.4	71.9	78.0	71.0	104.0	99.3	95.2
Recurrent expenditures	404.3	531.8	562.3	593.6	579.9	743.3	1,027.8
Personal emoluments	100.8	120.5	142.9	148.9	154.1	162.0	215.1 1/
Recurrent departmental charges	96.5	112.3	126.1	129.7	124.3	154.4	199.3
Subsidies	47.4	82.8	59.8	66.2	42.1	102.1	214.0
Of which: to NAMBOARD	(...)	(54.6)	(41.4)	(43.2)	(30.2)	(90.2)	(171.0)
to cooperative unions	(...)	(3.1)	(4.0)	(8.0)	(5.3)	(5.2)	(10.6)
Constitutional and statutory	...	...	...	...	208.5	248.3	335.1
Interest	39.2	42.3	60.6	71.8	(90.2)	(90.1)	(131.2)
Internal	(...)	(...)	(...)	(...)	(56.4)	(59.5)	(64.1)
External	(...)	(...)	(...)	(...)	(33.8)	(30.6)	(67.1)
Other	120.4	173.9	172.9	177.0	(118.3)	(158.2)	(203.9)
Other payments					50.9	76.5	64.3
Capital outlays	112.6	143.6	122.3	92.3	91.7	88.7	193.7 2/
Net lending	49.5	100.8	46.7	84.2	107.4	62.6	54.6 2/
Deficit	-84.4	313.9	269.9	259.4	196.3	274.0	512.4
Financing (net)							
External	37.1	84.8	30.1	19.0	59.4	137.9	254.7 2/
Domestic nonbank	40.2	17.7	2.6	20.6	14.9	17.8	54.7
Domestic banking system	-127.0	239.7	237.2	219.8	93.0	59.8	232.8
Other	-34.7	-28.3	--	--	36.0	58.5	-29.8

Sources: Ministry of Finance, Financial Reports (Annual), 1974-79; and data provided by the Zambian authorities.

1/ Includes K 17 million in salary increases which were due in 1980 but paid in January 1981.
2/ Includes government assumption of K 161 million in external debt provided for the Nitrogen Chemicals of Zambia (NCZ) fertilizer plant, of which K 66 million was recorded as capital investment and K 95 million as net lending.

(Table from IMF Report

Table 13

ZAMBIA

AGRICULTURAL BUDGETARY STUDY

Economic Classification of the

Ministry of Agriculture and Water Development

Recurrent Budget 1/

	Amount (In Millions of Current Kwacha)			Average Annual Growth Rate (%) (At Current Prices)		Average Annual Growth Rate (%) (At 1980 Constant Prices)		Percentage Distribution		
	1970	1975	1980	1970-75	1975-80	1970-75	1975-80	1970	1975	1980
1. Personal Emolument Charges	3.8	5.7	9.7	8.5	11.0	5.4	4.1	14.9	7.3	8.8
2. Recurrent Departmental Charges	6.6	7.9	10.1	3.6	5.1	(1.8)	(13.6)	25.8	10.1	9.2
3. Grants, Subsidies, and other Payments	15.0	64.4	90.6	33.8	7.1	26.7	(12.0)	58.7	82.4	82.1
4. Special Expenditures	0.2	0.1	-	8.9	-	(14.2)	-	0.6	0.2	-
TOTAL	25.6	78.1	110.4	25.0	7.1	19.6	(11.3)	100.0	100.0	100.0

1/ Includes only the current eight departments/sections of MAWD. See Tables A.6 and A.7 for the economic classification of MAWD recurrent budget from 1970 to 1980.

Sources of Basic Data: Financial Report (various years), Estimates of Revenue and Expenditure for the Year 1980.

(Table from IBRD "Agricultural Recurrent Budgetary Study". March 4, 1981).

Table 14

Zambia: Monetary Survey, 1975-81

(In millions of kwacha; end of period)

	1975	1976	1977	1978	1979	1980	1981 Mar. Est.	1981 June Projections	1981 Sept. Projections	1981 Dec. Projections
Net foreign assets	...	...	...	-777.3	-621.6	-828.8	-880.8	-894.7	-928.6	-984.5
Net foreign assets of the banking system	(-75.0)	(-114.7)	(-183.5)	(-311.5)	(-283.1)	(-387.9)	(-400.0)	(-460.0)	(-540.0)	(-646.0)
External payments arrears 1/ 2/	(...)	(...)	(...)	(-465.8)	(-338.5)	(-440.9)	(-480.8)	(-434.7)	(-388.6)	(-338.5)
Domestic credit	764.2	970.1	1,260.9	1,483.5	1,604.1	1,859.7	1,930.0	1,999.0	2,094.0	2,134.0
Claims on Government (net)	(371.8)	(571.1)	(791.1)	(1,061.8) 3/	(1,121.6)	(1,354.4)	(1,420.0)	(1,454.4)	(1,489.4)	(1,521.4) 4/
Claims on private sector	(392.4)	(399.0)	(469.8)	(421.7) 3/	(482.5)	(505.3)	(510.0)	(544.6)	(604.6)	(612.6)
Assets = Liabilities	689.2	855.4	1,077.4	706.2	982.5	1,030.9	1,049.2	1,104.3	1,165.4	1,149.5
Money plus quasi-money	492.9	623.5	698.7	639.5	832.2	907.1	925.4	980.5	1,041.6	1,025.7
Money	(322.1)	(376.8)	(386.5)	(391.7)	(513.3)	(509.4)	(...)	(...)	(...)	(...)
Quasi-money	(170.8)	(246.7)	(312.2)	(247.8)	(318.9)	(397.7)	(...)	(...)	(...)	(...)
Other items (net) 2/	196.3	231.9	378.7	66.7	150.3	123.8	123.8	123.8	123.8	123.8

Sources: Bank of Zambia, Quarterly Financial and Statistical Review; data provided by the Zambian authorities; and staff estimates and projections based on program for 1981.

1/ Based on data obtained from commercial banks' special reserve deposits related to external payments arrears. These differ from those in the balance of payments (Table 5 and Appendix Tables I and VII) due to exchange rate changes, timing differences, etc.
2/ Because separate data are unavailable on external payments arrears for 1975-77, they are included in "other items (net)."
3/ On April 1, 1978, K 178.2 million in consolidated loans to the mining companies was transferred to the Government.
4/ Provides for K 17 million in salary payments due in 1980 but paid in January 1981.

(Table from IMF Report EBS/81/91; Zambia - Requests for Extended Arrangement; April 20, 1981).

Table 15

Zambia: Macroeconomic Indicators, 1975-80

	1975	1976	1977	1978	1979	1980 Preliminary
	(In millions of kwacha at 1970 prices; percentage changes in parentheses)					
Government final consumption	287	292 (1.7)	277 (-5.1)	256 (-7.6)	248 (-3.1)	258 (4.0)
Private final consumption	565	432 (-23.5)	408 (-5.6)	476 (16.7)	524 (10.1)	575 (9.7)
Increase in stocks	34	-8	--	91	-50	30
Gross fixed capital formation	394	331 (-16.0)	304 (-8.2)	213 (-29.9)	154 (-27.7)	162 (5.2)
Exports of goods and services	683	830 (21.5)	813 (-2.0)	748 (-8.0)	638 (-14.7)	552 (-13.5)
Imports of goods and services	-455	-339 (-25.5)	-317 (-6.5)	-250 (-21.1)	-240 (-4.0)	-254 (5.8)
Statistical discrepancy	-70	-38	-61	-75	68	31
Gross domestic product (GDP)	1,438	1,500 (4.3)	1,424 (-5.1)	1,459 (2.5)	1,342 (-8.0)	1,354 (0.9)
Gross domestic product (GDP) at current prices	1,583	1,872	1,952	2,201	2,623	3,038
	(Ratios; in per cent of GDP at current prices)					
Government final consumption	27.5	26.8	28.4	26.9	25.9	27.5
Private final consumption	51.4	35.7	37.1	44.2	48.8	53.3
Gross fixed capital formation	38.0	32.0	34.2	25.2	18.0	19.6
Exports of goods and services	36.3	44.5	40.4	34.0	45.0	39.7
Imports of goods and services	55.8	39.3	40.5	34.3	34.8	41.8
Gross domestic savings	21.0	37.6	34.5	29.0	25.3	19.2

Source: Central Statistical Office.

(Table from IMF Report EBS/81/91; Zambia Request for Extended Arrangment;April 20, 1981).

Table 16

Zambia: Macroeconomic Targets of the Medium-Term Program

(In per cent, unless otherwise indicated)

	Period averages		Base period	Program period 1/		
	1975-77	1978-80	1980	1981	1982	1983
Real GDP growth rate	-1.1	-1.6	0.9	5.0	5.0	5.0
Government capital expenditure/ Total government expenditure	25.9	20.6	19.4	18.4	19.7	20.2
Gross capital formation/GDP	23.6	12.7	19.6	21.9	23.1	26.0
Total final consumption/GDP	69.0	75.6	80.8	77.4	76.7	75.2
Government	(27.6)	(26.8)	(27.5)	(24.1)	(23.9)	(23.4)
Private	(41.4)	(48.8)	(53.3)	(53.3)	(52.8)	(51.8)
Imports of material inputs 2/ / Total imports	65.3	63.7	67.9	70.0	72.0	74.0
Domestic inflation						
Consumer prices 3/	15.5	12.3	11.7	14-16	12-14	10-12
GDP deflator	3.0	18.2	14.8	14-16	17	17
Budgetary subsidies/Total revenue	14.6	17.2	28.0	14.4	9.3	5.8
Overall budget deficit/GDP	15.6	12.4	17.0	7.1	5.5	4.7
Expansion in total domestic credit	47.1	13.9	15.9	14.7	...	...
Increase in credit to the Government	156.1	20.2	20.8	12.3	6.6	5.6
Change in money plus quasi money	16.7	10.2	9.0	13.1	...	...
Current account balance/GDP	-14.7	-6.1	-11.7	-11.3	-5.6	-4.0
Outstanding external payments arrears (in millions of SDRs)	...	...	461	361	211	61
External debt/GDP 4/	43.1	47.5	41.5	45.0	39.0	32.0
External debt service/Exports 4/ 5/	17.2	20.5	26.3	22.0	22.0	20.0

Sources: Data provided by the Zambian authorities; Appendix Table X; and staff estimates.

1/ Subject to review for 1982-83 following further understandings between the Zambian authorities and the Fund.
2/ Standard International Trade Classifications 2, 3, 4, 5, and 7.
3/ Weighted average of low-income group (70 per cent) and high-income group (30 per cent).
4/ Excluding external payments arrears but including transactions with the Fund.
5/ Exports of goods and services.

(Table from IMF Report EBS/81/91; Zambia - Request for Extended Arrangment; April 20, 1981)

Table 17

Zambia. Government Investment Program by Sector, 1981-83

(In millions of 1981 kwacha)

	1981 Budget	Per cent	1982	Per cent	1983	Per cent
Economic sectors	142.4	63	177.5	68	213.9	71
Agriculture (loans)	59.7 (23.2)	26	71.5 (27.5)	27	91.5 (27.3)	30
Commerce and industry (loans)	23.8 (20.9)	11	40.2 (36.9)	15	46.0 (42.6)	15
Power (all loans)	2.1	1	4.0	2	—	—
Transport (loans)	40.5 (16.9)	18	43.2 (5.9)	17	27.5 (—)	9
Communications (all loans)	2.0	1	2.3	1	25.8	9
Mining (loans)	4.9 (2.5)	2	5.7 (2.9)	2	1[illegible].6 (7.5)	4
Information and broadcasting	9.4	4	10.6	4	12.5	4
Social sectors	29.6	13	27.5	11	28.9	10
Education	12.6	6	8.3	3	8.2	3
Health	7.5	3	8.7	3	9.9	3
Others (loans)	9.5 (8.7)	4	10.5 (9.6)	4	10.8 (9.7)	4
Administrative sectors	31.3	14	28.8	11	26.0	9
Provinces	22.5	10	25.9	10	29.8	10
Total	225.8	100	259.7	100	298.6	100
(direct capital outlays) (loans)	(149.5) (76.3)		(170.6) (89.1)		(185.7) (112.9)	

(Table from IMF Report EBS/81/91; Zambia - Request for Extended Arrangement; April 20, 19

Table 18

COMMODITY AID

Source of Assistance	US $	Description
CIDA	160,000	GRANT: Provision of spare parts for railway rolling stock and road graders in 1979.
FRG	11,110,000 (1979-80)	LOAN: For purchase of locomotives for Zambia Railways. Interest [illegible] grace period 10 years, repayment 30 years.
FRG	5,330,000 (1979-80)	LOAN: For procurement of general commodities: i.e. $4,060,000 - Transport. $1,270,000 - various other sectors. Interest [illegible], Grace period 10 years, repayment 30 years.
GDR	50,000,000 (1979-81)	LOAN: For purchase of industrial, agricultural and transport equipment. Disbursement in 1979 = $880,000.
INDIA	1,250,000	CREDIT. By Industrial Development Bank of India to the Govt. of Zambia to finance import of capital goods and machinery.
INDIA	1,250,000	CREDIT: By Govt. of India to the Govt. of Zambia to finance the import of capital goods and machinery.
INDIA	15,000,000	CREDIT: Commercial credit by private Indian agencies to Zambian parastatals and private firms to finance the import of [illegible], buses, etc.
JAPAN	26,000,000	LOAN: For purchase of railway wagons, trucks and chemical fertilisers. Interest 4%, grace period 7 years, repayment [illegible] years.
NETHERLANDS	17,000,000	LOANS AND GRANTS: Import Support Programme: For purchase of essential imports for the production process and also fertiliser, chemicals, vaccines, [illegible] and [illegible] during 1979.
NORWAY	1,040,000 (1977-ongoing)	GRANT: For purchase of commodity [illegible]. In 1979 - $1,040,000
SWEDEN	1,441,176	GRANT: Import Support Programme to Bank of Zambia (Fertilisers) and [illegible] (spare parts), during 1979.
SWEDEN	7,204,115	EMERGENCY AID/GRANTS: During 1979 - Telecommunications $2,590,411; [illegible] Railway $1,411,704; Food Imports [illegible] Transport to Contract Haulage [illegible]

/ .....

Commodity Aid Continued ..

Source of Assistance	US $	Description
U.K.	N.K.	UK Food Aid Grant, 1979 - To supply 17,000 tonnes of maize : funds generated from sale of the maize will be used to finance development programmes/projects..
USA	10,000,000	CONCESSIONARY LOAN: Food Imports. Fully disbursed during 1979 for wheat, oil and rice imports. Agreement signed in 1979.

Total Commodity Aid - $147,779,291

Source:UNDP, Lusaka

Communications should be addressed to the Permanent Secretary

Telephone: LUSAKA 213822

Telegrams: FINANCE, RIDGEWAY

ANNEXB

In reply please quote:

No.

REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE

P.O. BOX 50062
LUSAKA

July, 2 1981

Mr. John A. Patterson,
AID Representative,
Agency for International Development,
P.O. Box 32481,
LUSAKA.

Dear Mr. Patterson:

GRZ REQUEST FOR USAID COMMODITY IMPORT PROGRAM LOAN FOR FY 1982

On behalf of the Government of the Republic of Zambia, I wish to formally request the Government of the United States of America for a U.S. $15 million Commodity Import Program Loan to finance the importation of finished fertilizer compounds.

As you are aware, USAID has assisted with loans for fertilizer procurement in the past. Increased requirements, because of expansion of agricultural lands and Governmental incentives, are being felt throughout Zambia. The need of Zambia for this assistance is great and your Government can be of great help.

I await your favourable response to this request.

Yours sincerely,

F. S. KAZUNGA
A/PERMANENT SECRETARY
MINISTRY OF FINANCE

ANNEX C

Telegrams:

REPUBLIC OF ZAMBIA

No. MAWD/12/7/9

MINISTRY OF AGRICULTURE AND WATER DEVELOPMENT

MULUNGUSHI HOUSE, INDEPENDENCE AVENUE
P.O. BOX 50197
LUSAKA

3rd July, 1981

Mr. J. Patterson,
USAUD Representative,
LUSAKA.

Dear Mr. Patterson,

Please find enclosed a status report on "Support measures" in accordance with the 1981 GRZ/AID Commodity Import Programme signed on 4th February, 1981.

As a result of various policy measures which government is taking to eliminate subsidies the "support measures" on future AID programmes will definitely have to be modified. In this regard a number of possibilities for future use of AID local currency generations come to mind.

The most important ones are:-

(1) Possible use of such local currency to reduce the impact of increased fertilizer prices on the small farmer. The implementation of such a programme is rather difficult due to commonality of markets from which both Commercial and small scale farmers purchase their fertilizers. There is a need to through study the distribution pattern of farmers vis-a vis the fertilizer depots. However a possibility still exists of utilizing the local currency for this purpose.

(2) Possible use of local currency to provide appropriate incentives to stimulate production of all food crops rather than only maize on which the current support measures address themselves to.

(3) Possible use of local currency to fund agricultural development projects which can be in addition to the governments' capital budget. The projects could be mutually agreed upon by both sides.

I trust we can discuss the above possibilities in detail and I am coping this letter to the Commission for Development Planning for their reaction to my proposals.

Yours sincerely,

F. K. Mbewe

for PERMANENT SECRETARY
MINISTRY OF AGRICULTURE & WATER DEVELOPMENT

c.c. Director General,
National Commission for Development Planning,
LUSAKA.

Attention Mr. E. S. Musonda

c.c. The Permanent Secretary, (information)
Ministry of Finance,
LUSAKA.

STATUS REPORT ON THE IMPLEMENTATION OF THE SUPPORT MEASURES CONTAINED IN THE 1981 COMMODITY IMPORT LOAN (611-K-006) AGREEMENT SIGNED ON FEBRUARY 4, 1981

A. The government of the republic of Zambia has taken the following actions in accordance with Annex 1- Support Measures of the February 4, 1981 agreement.

C.1 (a) Planning Unit - Ministry of Agriculture and Water Development. Professional staffing within the Planning Unit was increased during 1980 by the recruitment of five Zambia economists and a further two experienced economists under the CIDA Technical Assistance Programme.

The Marketing Section is currently staffed by one Senior Economist (Canadian) and two economists (Zambian). The Section is about to undertake a detailed cost of production survey to provide more reliable data for the determination of producer prices. A total of 300 farms will be visited, comprising 70 large scale farms, 130 small scale commercial and 100 traditional farms. Field work will commence in April and be completed by June 1981. Summary results will be available by September and the full analysis by December 1981. This will allow sufficient time to incorporate the finding into the calculation of pre-planting producer prices for the 1982/83 production season. This survey will be periodically up-dated.

C.1. (b) <u>Maize Producer Prices</u> The government has recently concluded a comprehensive review of the maize producer price in order to establish the appropriate price for the maize which will be produced in 1982. The price which has been recommended to the appropriate Cabinet Committee takes into account the:

(1) cost of production

(2) producer prices in Zambia's border states

and

(3) a reasonable return to capital. (Please refer to the illustration of the development of maize prices in the annex)

The government policy is to conduct a comprehensive annual review of prices for most marketed food crops and uses this review to establish producer prices which allow the producer to cover his cost of production plus a reasonable profit margin.

<u>C.1. (b) Fertilizer Prices</u> The government has also undertaken a thorough review of the fertilizer prices and has decided to increase fertilizer prices in an effort to reduce the subsidy drain on the GRZ budget. We have studied the possible effects of this fertilizer price increase, and we believe it will not result in reduced fertilizer sales nor will it be a disincentive to agricultural production.

<u>C. 1. (c) and 2(a)</u> The government, in accordance with its policy of eliminating subsidies to achieve economic pricing, has decided to reduce its subsidy for fertilizers by 50% by the marketing year 1983-84. (i.e. May 1 to April 30). The current projected direct fertilizer subsidy for 1981 amounts to K62,000,000. The government does not subsidize other inputs. The government has agreed to eliminate the maize handling cost subsidy by 1983 and ½ of the subsidy on fertilizer by 1984.

ILLUSTRATION OF AGRICULTURAL PRICING METHODOLOGY IN ZAMBIA

The Planning Division of the Ministry of Agriculture and Water Development undertakes annually price reviews of the following agricultural products. The methodology used is illustrated below.

(a) Assessement of cost of production for each production activity.

(b) Ranking of enterprises on rate of returns which is predetermined on the basis of national priority needs of individual crops.

The assessement of the cost of production is based on the quantities of inputs which have been recommended by the research Branch of the Department of Agriculture for various levels of management e.g. maize, the recommendation for fertilizer use ranges from 150 to 300 Kg. of both basal and top dressing for emergent to commercial (top management producers. Due to diversity in the type and quantities of inputs that can be used depending on the farmer's ability and technical know-how the Division has chosen to use in its calculations those quantities of inputs recommended for top management i.e. commercial farmers. To illustrate this procedure the cost of producing maize per hectare is shown below.

A. Maize Production

Variable Costs

seed 25Kg/ha @ K52/50Kg	26.00
Fertilizers	
Basal dressing @ 300Kg/ha D' @ K11.75/50Kg	70.50
Urea 250Kg/ha @ K10.95/50Kg	54.75
Chemicals	
(a) Atrazin 2.5Kg/ha @ 9.90/Kg	24.75
(b) Thiodan 2.5 litres/ha @ 6.35/ltr.	9.50
Fuel & oil (16 tractor hrs) @ K5.00/hr	80.00
Packing 55 bags @ 8n/bag	4.40
Labour 34 man-days @ K2.00/man-day	68.00
Maintenance (a) machinery & vehicles	79.39
Fixed improvements	3.73
Interest charges 10%/p.a.	40.45
Total variable costs	467.85

B. Fixed Costs

Depreciation Allowances	
(a) Machinery and Vehicles	103.56
(b) Fixed improvements	7.54
Management Costs	48.52
Other overhead costs	10.20
	169.82
Total Production Costs (A+B)	637.67

Having worked out the costs we examine Policy priority ranking of crops. So for the Government ranks maize the highest priority to ensure self-sufficiency. The basis for our judgement is a normally expected return for most investers in Zambia based on the interest rates for borrowing.

In 1981 we used the following rates of returns:

Crop	80/81	81/82
Maize	25.5	37.00
Sunflower	12.0	12.00
Groundnuts	14.0	14.00
Soyabeans	16.0	16.00
Rice	18.2	18.00
Wheat	18.0	18.00
Cpttpm	6.0	6.00

We compute the net return to capital as below:

Capital Employed

(a) Machinery and vehicles	517.80
(b) Fixed improvements	150.82
	668.62

Net return to Capital $\frac{668.62 \times 37}{100} = 247.39$

Price to be recommended $= \dfrac{\text{Total costs of production + net return to capital}}{\text{yield per ha.}}$

$$= \frac{637.67 + 247.39}{55 \text{ bags/ha.}}$$

$$= \frac{885.06}{55}$$

Recommended Price per bag = K16.09

You will note that there is a generous inclusion of all possible costs and by using top management the smaller farmers tend to benefit those because they do not have high fixed capital costs.

This method is based on the cost studies begin in 1976 which are updated annually. The figures may not completely take into account the small percentage of farms which are heavily capitalized, but on the average they give a fairly realistic cost estimate for the majority of commercial farmers. We are continuing our efforts to improve our information on costs of production but often large commercial farmers will not provide us with accurate yet they are often the first to discredit the government on agricultural price policies. The Ministry of Agriculture & Water Development submits its recommended prices to the Cabinet which in turn request advice of the Prices and Wages Commission. The latter applies several criteria including a comparison with prices in bordering countries. The Ministry of Agriculture and Water Development recommendations along with advice of the Prices and Incomes Commission is used by the Cabinet in making its final decision.

2 (b) The Government's policy with regard to maize prices is to immediately align the producer price (the price at which Namboard purchases maize from farmers), with the wholesale price (the price at which Namboard sells wholegrain maize to millers). This policy began in January 1981, and as noted above, the Government's policy is also to eliminate the maize handling cost subsidy entirely by 1983.

The 1981 projected "subsidy" on maize is primarily the absorption by Government of (a) the handling and storage costs incurred by Namboard estimated at K40,000,000 and (b) the maize price differential for imported maize (the difference between the landed cost and the wholesale price) estimated at K15,000,000. The Government has decided to eliminate completely this K55,000,000 maize subsidy from its budget by April 30, 1983.

No. SF/310

REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE

P.O. BOX 50062
LUSAKA

July, 8 1981

Mr. John A. Patterson,
AID Representative,
Agency for International Development,
P.O. Box 32481,
LUSAKA.

Dear Mr. Patterson,

In accordance with the 1981 GRZ/AID Commodity Import Program agreement signed by our two governments on February 4, 1981, the following is a status report on the implementation of paragraph 3. of the "Support Measures" of the loan agreement:

The Government has decided to gradually eliminate the maize subsidy by 1983. The Government also announced on May 22, 1981 an increase of K2.50 per 90 kg. bag in the maize producer prices for the 1981/1982 crop procurement season. We expect to purchase at least 8 million bags in 1982. The additional cost of the increase to the GRZ and Namboard will therefore be K20 million. In accordance with the intent of the agreement, the GRZ will therefore apply the entire Kwacha equivalent of $15 million (or K12.5 million) which is attributable to this loan to partially offsetting the producer and/or consumer price increase, e.g., the cost of the transport and handling of maize.

Yours sincerely,

F. S. KAZUNGA
PERMANENT SECRETARY
MINISTRY OF FINANCE

c c Namboard File

OO RUEHNR
DE RUTAOH #2925K 1911330
ZNR UUUUU ZZH
O 101245Z JUL 81
FM AMEMBASSY LUSAKA
TO AMEMBASSY NAIROBI IMMEDIATE 9027
BT
UNCLAS LUSAKA 2925

ANNEX D

REDSO

10 JUL 81
TOR: 1430
CN: 22634
CHRGE: AID

AIDAC

NAIROBI FOR REDSO/EA

E.O. 12065: N/A
SUBJECT: CIP ATTRIBUTIONS

FOLLOWING REPORT RECEIVED FROM GRZ MORNING OF JULY 11, 1981

QUOTE

BUDGET HEADS ELIGIBLE FOR LOCAL CURRENCY ATTRIBUTION UNDER AID PROGRAM LOAN 611-K-004/003/002.
GOVERNMENT OF THE REPUBLIC OF ZAMBIA ANNUAL ESTIMATES OF REVENUE AND EXPENDITURES, CAPITAL BUDGET EXPENDITURES
ELIGIBLE BUDGET HEADS

	1980 K
320 (OFFICE OF THE PRIME MINISTER)- RPOVINCIAL ADMINISTRATION AND LOCAL GOVT. DIVISION LOANS AND INVESTIMENT	8,896,533
321 MINISTRY OF FINANCE - LONAS AND INVESTMENTS	445,403,950
ELIGIBLE BUDGET HEADS	
329 PROVINCIAL ADMINISTRATION & LOCAL GOVERNMENT DIVISION (OFFICE OF THE PRIME MINISTER)	1,622,906
338 NATIONAL COMMISSION FOR DEVELOPMENT PLANNING (OFFICE OF THE PRIME MINISTER)	1,603,280
344 MINISTRY OF LABOUR AND SOCIAL SERVICES	143,578
346 MINISTRY OF HEALTH	3,307,412
351 MINISTRY OF POWER, TRANSPORT AND COMMUNICATIONS	3,530,593
364 MINISTRY OF WORKS AND SUPPLY	46,363,996
380 MINISTRY OF EDUCATION AND CULTURE	6,260,305
385 MINISTRY OF LANDS AND NATURAL RESOURCES	1,546,964
389 MINISTRY OF AGRICULTURAL & WATER DEVELOPMENT	20,766,970
TOTAL	539,446,487

CERTIFICATION OF ATTRIBUTION OF ZAMBIA KWACHA COUNTERVALUE GENERATIONS UNDER AID PROGRAM LOAN NUMBER 611-K-004/003/002 (FOR BUDGET YEAR ENDING DECEMBER 31, 1980)

1. TOTAL ACTUAL CAPITAL BUDGET EXPENDITURES FOR ELIGIBLE BUDGET HEADS	539,446,487
2. LESS: AMOUNTS FUNDED BY EXTERNAL ASSISTANT OTHER THAN AID	214,952,822
3. SUN TOTAL	324,493,665
4. AMOUNT OF COUNTER-VALUE ATTRIBUTED	34,209,941

611-K-004 - 12,665,172

611-K-003 - 17,074,456
611-K-002 - 4,470,313

I CERTIFY THAT THE ABOVE IS AN ACCURATED AND CORRECT STATEMENT OF THE KWACHA COUNTERVALUE ATTRIBUTED TO THE AID PROGRAM LOAN NO. 611-K-004/003/002.

(SIGNED) AUTHORIZED GOVERNMENT OF ZAMBIA REPRESENTATIVE.
10.7.81

END QUOTE.
EGAN
75
#2925

NNNN

ANNEX E

ANALYSIS OF NAMBOARD FERTILIZER SALES, IMPORTS, AND BEGINNING STOCKS

1. Summary and Conclusions

The GRZ aims to stock a minimum in-country supply of fertilizer equivalent to roughly 25 per cent of the previous year's sales, but prefers to maintain a one year supply composed of in-country stocks and shipments in the pipeline. This is justified in view of Zambia's long history of difficulties in having adequate supplies available to meet farmers' needs on a timely basis. The reasons for maintaining such an inventory and pipeline level are based upon i) historical problems in obtaining necessary foreign exchange; ii) in-land transportation obstacles; and iii) problems of internal distribution and timing of in-country arrivals due to the limitations in domestic transportation capacity. The termination of the Zimbabwe war has decreased in-land transport problems although foreign exchange availability and in-country distribution remain significant bottlenecks.

An analysis of Zambia's projected 1982 sales, beginning stocks, fertilizer in the pipeline, and identified resources to purchase the remainder to meet projected 1982/83 requirements shows that (as of June 1981) there has been insufficient foreign exchange identified or allocated by the Central Bank to purchase enough fertilizer to meet even fifty percent of projected sales.

The $10.0 million loan can finance around 33,000 MT of finished fertilizer products. Given the large amount of urea required for the 1982/83 season, a substantial portion of the loan is expected to finance urea. The U.S. financed fertilizer imports would constitute roughly 15 percent of the total projected import requirement for the 1982/83 season. As in the past, most of Zambia's fertilizer consumption is in the form of urea and NPK compounds.

As the transfer of responsibilities for fertilizer distribution shift from NAMboard to the Cooperatives over time no substantially greater difficulties are foreseen in comparison with previous years.

II. Past Trends and Experience

Table 1 summarizes Zambia's total fertilizer supply and utilization from 1977 thru 1983. Noticeable is the marked increase in beginning stock figures beginning in 1979 This is primarily the result of NAMboard's action to overcome the long history of problems it has faced in meeting farmers fertilizer needs on a timely basis.

Firstly, NAMboard has not received the necessary foreign exchange on a timely basis to finance in-land transport. Furthermore, once the foreign exchange has been obtained, NAMboard may not get the required rail or truck space because "higher" priority items (i.e. maize) have been allocated most of the available space. Thirdly, if NAMboard does not have the fertilizer in the major depots ready for rural distribution by June-July, then NAMboard underutilizes its transport. That is, during June-August trucks should go into the rural areas partially full with agricultural inputs and come out full with newly harvested maize. Yet, when the needed fertilizers finally arrive in country, trucks again go into the rural areas to distribute the fertilizer and this time return empty since most of the maize has already been harvested and sold to NAMboard (August-September.) Finally, if the fertilizer has not been delivered into the rural areas by the start of the rains, it will not be delivered for that crop year. This also raises NAMboard's fertilizer costs and losses until the fertilizer is sold the following crop year.

For these reasons NAMboard has tried to maintain a stock of at least 25 percent of the previous year's sales in-country at all times, and prefers to maintain a one year's supply composed of in-country stock and shipments in the pipeline. With more fertilizer readily available NAMboard is better able to satisfy the farmers'fertilizer needs on a timely basis. In addition, NAMboard would be utilizing its transport more effectively thereby reducing the per unit costs. Thus NAMboard's seemingly high stock position is actually a better business practice for the nation until conditions improve.

III. Current and Projected Positions

It is estimated that current (July, 1981) in-country stocks are 231,000 MT with another 15,000 MT in the pipeline. Projected sales for 1981 are 215,000 MT. Given the traditionally heavy fertilizer sales during October through December and the arrival of most of the stock in the pipeline, NAMboard estimates beginning stocks for 1982 will be about 114,000 MT (see Table 1).

For the 1981/82 crop year the producer price for maize has been increased 18.5 percent (to K16.00). This coincides with producer price increases of 12 ot 51 percent for various other agricultural crops. The 1981/82 crop year also shows an average increase in the fertilizer price of K2.15 per 50 Kg bag (around 19 per cent.) However, the increases in producer prices per bag of maize are roughly six times greater than the estimated increased cost of fertilizer per bag of maize. This calculation is based on the limited information currently available and on estimated costs of production for commercial farmers available. However, the impact of this fertilizer price increase on the various classes of farmers (traditional, emergent, and commercial) is to be the subject of a MAWD study in the near future. For this reason and because of the GRZ's positive performance over the last several months towards agriculture, NAMboard expects fertilizer consumption to continue at its historical growth rate of between 9.5 and 10.0 percent per annum (See Table 2).

Given the large number of variables which have recently changed in production incentives for Zambia's agricultural sector, AID/Zambia feels the estimates of 1982 sales are reasonable.

Table 3 summarizes 1982 fertilizer imports by type. No dramatic percentage changes should occur in the composition of 1982 forecasted fertilizer imports compared to the average of the previous several years.

As noted in the FY 81 CIP loan proposal, the GRZ had decided to shift NAMboard's rural distribution responsibility to local cooperatives and only maintain its 14 major depots throughout the country.* This transfer of responsiblity was to have been completed by March 31, 1981. However, as forecast in last year's loan proposal, the targeted date was unrealistic because few details of how the system would work have been developed. Moreover, most of the cooperatives still lack sufficient resources and trained personnel required to rapidly assume the task of servicing all of the rural areas.

To date, the cooperatives focus more heavily on purchasing crops than on selling inputs. A recently published report shows that 46 percent of all officially purchased maize nationwide is bought by cooperatives, leaving the balance of 54 percent to NAMboard. In the four provinces where the cooperative unions operated, they accounted for 83 perent of all official maize purchased. However, in fertilizer sales, the unions accounted for less than 15 percent nationwide.

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* NAMboard had the primary responsibility for fertilizer distribution and operated 14 major depots and 467 permanent rural depots. In addition, this system was supplemented by the provincial agricultural cooperative unions. The Northern Province Cooperative Marketing Union, for example, reportedly operates 500 permanent and seasonal pick-up and delivery points.

Currently there are five provincial marketing cooperative unions. The provincial unions ranked in terms of their capability to continue crop procurement and to assume NAMBOARD's distribution responsibility from the provincial level down, are; Eastern, Southern, Northern, Luapula, and North-western provinces. Membership is estimated to be around 100,000 farmers out of a total of nearly 600,000. The cooperatives' greatest constraint, as viewed by the Marketing and Cooperatives Division (MAWD), is the limited capability of the lower echelon personnel.

During the 1981 fertilizer marketing year (April-November), cooperative unions in Southern, Central, Eastern and Northern provinces are expected to distribute all ferilizer on the local level. NAMboard's rural distribution depots have been turned over to the cooperative unions. Some NAMboard ex-personnel from these depots have been hired by the cooperative unions to assume the responsibility of local fertilizer sales and distribution. If problems with sales and distribution do arise, NAMboard has stated that it expects the GRZ to order them to re-enter the pertinent area and re-assume fertilizer sale and distribution responsibilities. Difficulties and problems are expected, yet NAMboard does not think it will be necessary to re-enter many areas, as the situation should stabilize quite quickly.

IV. Analysis by Fertilizer Type

The major fertilizer sold by NAMBOARD are urea, compounds R, X, and D, and ammonium nitrate. These are used for a number of crops, primarily maize, wheat, cotton, rice and soybeans. Table 4 summarizes the beginning inventory, imports, and sales figures for these fertilizers and those which are less important in terms of volume.

Urea is the largest single required item. Between 1975 and 1978 NAMBOARD sold between 27,500 and 47,700 MT annually, but entered each year with inventories ranging between only 1,000 and 15,500 MT. NAMboard had to rely considerably on imports to meet its yearly sales volumes. In the summer and fall of 1978, severe inland transportation problems beset Zambia so that much of the imported urea did not arrive in country until after the planting season and had to be carried as inventory into 1979. Similarly much of the 39,000 MT imported in 1979, all under AID financing, arrived in Zambia too late for the planting season and was sold for use in the 1980 growing season. Urea imports for 1981 declined to 15,000 MT due to a shortage of foreign exchange. This will result in a much lower (than preferred) beginning stock for 1982. Imports have been planned at 84,000 MT to rectify this imbalance. This is the commodity for which financing is most urgently needed.

The largest selling fertilizer compound is 'D' with sales during the 1975-1978 period ranging between 24,700 and 31,700 MT per year. Over these years, the beginning stock and late arrival of imports paralleled that for urea. In 1979 beginning stocks exceeded sales by about 15,100 MT. Much of the 57,400 MT imported in 1978, including the 40,200 MT of AID-financed product, appeared as beginning inventory in 1979. The planned increase in imports for 1982 reflects NAMboard's desire to build up stocks of this important fertilizer for maize production.

AID financed all of Zambia's imports of compound 'X' in 1979. This decreased to about one fourth of all 'X' imports planned for 1980. As evidenced from the 1979 and 1980 beginning stock figures in Table 4, imports of the compounds 'X' in 1978 and 1979 arrived in Zambia prior to the planting season.

The statistics for compound 'R' also indicate timely arrival of product. In 1978 and 1979 AID financed about one half and one quarter, respectively, of Zambia's imports of compound 'R'. In 1980 all planned imports of compound 'R' were AID financed.

NAMboard procures ammonium nitrate locally from Nitrogen Chemicals of Zambia Ltd. (NCZ). Ammonium nitrate is not subject to the vicissitudes of overland transport as are the imported products. Since 1977 NAMboard has procured approximately one half of NCZ's ammonium nitrate production. When NCZ's new ammonium nitrate facility starts production, NAMboard will need to import even less urea than before (ammonium nitrate can be substituted for urea).

The "Others" category of fertilizers relatively high stock position reflects the decline and leveling of demand since 1975 when sales were over 20,000. Fertilizers in this category are primarily used for tobacco and cotton.

TABLE 1

TOTAL FERTILIZER SUPPLY AND UTILIZATION IN ZAMBIA 1977-82

(000 MT)

Year(cy)	Beginning Stocks	Imports	Production	Sales	Exports
1977	88.0	157.9	28.9	164.5	0.0
1978	98.2	198.1	25.6	129.6	0.0
1979	183.3	95.2	25.3	145.3	0.0
1980	160.6	157.1	25.0	196.4	0.0
1981(Est)	144.0	161.0	25.0	215.9	0.0
1982(For)	114.2	237.1	25.0	237.0	0.0
1983(For)	139.3	N/A	N/A	260.7	0.0

(Est) - Estimate (For) Forecast

TABLE 2

GROWTH IN FERTILIZER SALES, 1977-83

YEAR	PERCENT CHANGE FROM PREVIOUS YEAR	
1977	12.7	
1978	21.0	(a)
1979	12.1	
1980	35.2	(b)
1981	9.9	
1982	9.7	
1983	10.0	

(a) Reduced sales were primarily due to late arrival of fertilizer because of inland transport problems (See Section IV below).

(b) Increase in sales partially reflects a response to a 33% increase in the maize producer prices from K9.00 per 90Kg bag to K11.70.

Source: NAMBoard (June, 1981)

TABLE 3

FERTILIZER IMPORTS BY TYPE, 1979-82

Ferilizer Type	1979	1980	1981	1982
Urea	30.0	54.0	15.0	84.0
'D'	0.0	45.0	45.0	60.0
'R'	36.4	40.6	40.6	56.5
'X'	20.0	37.5	45.0	30.0
Other	0.0	5.0	6.0	6.6

Source: NAMBoard (June, 1981)

TABLE 4

HISTORICAL FERTILIZER SUPPLY AND UTILIZATION TABLES, 1977-82

(000 MT)

Fertilizer Type	Year	Beginning Stocks	Imports	Sales
Urea	1977	13.4	49.8	47.7
	1978	15.5	72.6(a)	27.5
	1979	60.6	30.0	42.4
	1980	57.0	54.0	57.2
	1981(Est)	54.0	15.0	63.0
	1982(For)	6.1	84.0	69.2

(a) 39.0 USAID financed

Compound 'D'	1977	33.6	14.0	36.7
	1978	15.9	57.4 (a)	30.2
	1979	43.1	0.0	28.0
	1980	15.1	20.0	28.9
	1981 (Est)	6.2	45.0	32.9
	1982 (For)	18.2	60.0	36.2

(a) 40.2 USAID financed

Fertilizer Type	Year	Beginning Stocks	Imports	Sales
Compound 'R'	1977	3.1	29.1	23.5
	1978	8.7	24.0 (a)	16.7
	1979	16.0	36.4 (b)	26.4
	1980	26.0	40.6 (c)	39.0
	1981(Est)	27.6	40.6	42.9
	1982(For)	25.3	56.5	47.2

(a) 12.0 USAID financed

(b) 10.5 USAID financed

(c) 40.6 USAID financed

Compound 'X'	1977	10.7	30.0	30.1
	1978	10.6	20.0 (a)	20.2
	1979	10.4	20.0 (b)	20.0
	1980	10.3	37.5 (c)	35.5
	1981 (Est)	12.2	45.0	37.1
	1982 (For)	16.2	30.0	47.2

(a) 10.0 USAID financed

(b) 20.0 USAID financed

(c) 10.0 USAID financed

ANNEX F

ANALYSIS OF THE PROGRESS AT THE FERTILIZER PRODUCTION FACILITY OF NITROGEN CHEMICALS OF ZAMBIA, LTD

Under the FY 1980 and FY 1981 CIP loans, the Government of the Republic of Zambia is being provided over 43,000 metric tons of raw material for the manufacture of fertilizer compounds. Channelled to the parastatal organization Nitrogen Chemicals of Zambia, Ltd (NCZ), these materials are to be used to produce over 95,000 metric tonnes of compounds.

Due to significant delays in "off site" construction and commissioning, the new fertilizer factory "on site" construction and commissioning is not scheduled for completion until the end of 1981. The previously scheduled completion date was July 1981, (as of the last quarter of 1980.) The delays were due to a number of factors; lack of foreign exchange to purchase imported materials, poor planning and transport bottlenecks. These problems have led to subsequent delays in the production of fertilizer compounds. The consequence is that the raw materials supplied under the FY 1980 and FY 1981 CIP loans will not be fully utilized, according to NCZ projections, until March 1983.

NCZ has taken delivery of the roughly 7,000 MT of raw materials provided under the FY 1980 CIP loan. Under the FY 1981 CIP loan about 15,000 MT are contracted for arrival at the Kafue facility in September 1981, and the balance of 21,000 MT is due to arrive in-country by January 1982.

Production is projected by NCZ to reach 60% of nameplate (manufacturer's estimate) production for fertilizer compound during CY 1982 or roughly 85,000 MT. In CY 1983 this is expected to increase to 75% of nameplate capacity or 106,000 MT, and thereafter annual production is projected at 90% or 128,000 MT. These figures are contingent on a large number of variables and should be considered rough estimates only.

Yet utilizing these projections, it is apparent that the USAID CIP loans for raw materials are sufficient to produce approximately 95,500 MT of fertilizer compound (imported raw materials will make up 45% of the total weight). According to NCZ, the current and expected raw materials will carry them through to March 1983. It is therefore believed that no raw materials need be supplied to the NCZ fertilizer facility under the FY 1982 CIP loan.

The estimated costs of production for compound fertilizers at constant 1980 prices per MT and excluding depreciation (a non-cash expense), as provided by NCZ, are K624 in the first year of production and K551 at full production (see Table 3). On a percentage basis, these costs are 21% and 11% above the current costs of U.S. fertilizer compounds (approximately K490 per MT, ex-Lusaka). Although NCZ is not projected to show a profit until 1987, Zambia will reap other benefits not reflected in the Profit and Loss Statements. Imported raw materials and their transport will make up less than 50% of the total production. This represents a significant, major savings in foreign exchange (nearly U.S.$18,000,000 at full production in 1980 prices).

Dependence on foreign sources for materials will be lessened. The reduction in transport requirements for fertilizer (lessened by 55%) will save foreign exchange and help ease the burden on transport facilities and equipment. Some 800 new jobs will be created (projected level at full production) and the existing factory's full productive capacity can be exploited.

Any further support of the NCZ factory should be weighed and analyzed when production and actual costs are available. At that time it should be apparent whether further U.S. assistance to NCZ is warranted and in-keeping with overall program priorities.

The following tables provide a statistical review and appraisal of past production and projected performance. The tables of projections should be considered conservative in nature and a reflection of the understandable bias of NCZ (i.e., desire to reach and surpass performance figures, obtain additional Government support, avoid taxes). The tables shown are as follows:

TABLE I - Expansion Commissioning Progress
Demonstrates the stages of the construction of the new fertilizer facility.

TABLE II - Production History
Showing the production of "past" products.

TABLE III - Current and Expected Products
Showing all facilities at full production by 1984.

TABLE IV - Cost of Production
Showing projected costs of production for all outputs.

TABLE V - Projected Compound Fertilizer Prodduction in 1984
Showing the breakdown by compound fetilizer at full production.

<u>TABLE VI</u> - Imported Raw Material Requirements
Showing import needs at various levels of production.

<u>TABLE VII</u> - Actual and Projected Profit and Loss
Showing gross expense categories over six years.

<u>TABLE VIII</u> - Actual and Projected Balance Sheets

S/NO.	UNITS	DEPRESER-VATION	PRECOMMIS-SIONING	COMMISSION-ING	REMARKS.
	ON SITES				
1.	Air Compressor	complete	complete	-	
2.	Air Seperation plant	complete	complete	-	
3.	Nitrogen Holder	complete	complete	complete	Operational
4.	Coal preparation plant	complete	complete	complete	"
5.	Wash water system	complete	complete	complete	"
6.	Gasification plant	complete	started	-	
7.	Electrostatic Precipitator	complete	started	-	
8.	Raw Gas Compressors	complete	complete	-	
9.	Nitrogen Compressors	complete	complete	-	
10.	Methanol storage	complete	complete	complete	Operational
11.	Rectisol wash H_2S removal	complete	started	-	
12.	Reetisol wash CO_2 removal	complete	started	-	
13.	Co-conversion	complete	started	-	
14.	Liquid Nitrogen wash	complete	started	-	
15.	Synthesis Gas Compressors	complete	complete	-	
16.	Ammonia synthesis	complete	-	-	
17.	Ammonia storage	complete	complete	complete	Operational
18.	Methanol synthesis plant	complete	complete	complete	Operational
19.	Klaus Kiln Plant	started	started	-	
20.	Nitric Acid plant	complete	started	-	
21.	Ammonium Nitrate plant	complete	complete	started	
22.	Unloading & storage facility for Raw materials	complete	complete	started	
23.	Off products reclaim facility	-	-	-	
24.	Raw material transfer facility to NPK plant	-	-	-	
25.	Sulphuric Acid storage	complete	complete	complete	Operational
26.	Ammonium Sulphate plant	started	-	-	
27.	NPK plant	started	-	-	
28.	Bagging plant	-	-	-	

Depreservation refers to the removal of covers, oil , preservatives.
Precommissioning refers to non-operational testing.
Commissioning refers to actual operations and production.
Off Sites refers to the interface construction between the existing and the new plant.

TABLE II

NITROGEN CHEMICALS OF ZAMBIA LIMITED

PRODUCTION HISTORY

(000 MT)

YEAR	AMMONIA	NITRIC ACID	AMMONIUM NITRATE
1971-72	15.0	25.4	32.5
1972-73	14.3	24.5	29.3
1973-74	26.4	48.4	53.4
1974-75	26.1	47.6	52.1
1975-76	22.4	40.3	44.0
1976-77	24.4	44.8	49.1
1977-78	24.0	44.1	47.5
1978-79	24.8	44.7	48.8
1979-80	23.9	43.7	46.9
1980-81	19.5	35.5	36.4

Source : N C Z

Note: The drop in production in 1980-81 was due to the time lost in production (105 days) when certain pipes, connections and integrations were made between the new fertilizer production facility and the old plant. Normal repairs, maintenance and overhaul periods are roughly 30 days per annum for mechanical equipment.

Also since 1974-1975 the production of ammonium nitrate has declined, mainly because of the use of low-grade coal from Maamba in the gasification process.

TABLE III

NITROGEN CHEMICALS OF ZAMBIA LIMITED

CURRENT AND EXPECTED PRODUCTS

(000 MT)

Material	Current Production 1980-81	Expected Production by 1984-85	Production Increase
1. Ammonia	19.5	78.4	58.9
2. Nitric Acid	35.5	99.8	64.3
3. Ammonium Nitrate	36.4	112.4	76.0
4. Sulfuric Acid	0	51.0	51.0
5. Ammonium Sulfate	0	46.8	46.8
6. Compound Fertilizers	0	134.9	134.9

2/ The carbon dioxide generated in the coal gasification process is captured and sold to the local beverage industry.

1/ Ammonia is an input into the production.

Note: These figures, provided by NCZ, are considered very optimistic. A reduction of about 20% provides figures for 1984-1985 that are more in-keeping with past performance and roughly 75% production capacity of "nameplate" specifications. Nameplate specifications refer to the manufacturer's estimates of optimal productive capacity.

NITROGEN CHEMICALS OF ZAMBIA LIMITED

COST OF PRODUCTION PER M.T.

1981/82

		R.M.	DIRECT COST	FIXED COST	TOTAL
Ammonium Nitrate		70.45	59.52	289.99	419.96
Ammonium Sulphate		235.57	59.52	289.99	585.08
Compound	C	368.89	59.52	289.99	718.40
	D	337.50	59.52	289.99	687.01
	R	325.11	59.52	289.99	674.62
	X	266.66	59.52	289.99	616.17
Nitric Acid		35.41	42.44	289.99	367.84

1982/83

		R.M.	DIRECT COST	FIXED COST	TOTAL
A Nitrate		70.45	57.01	308.11	435.57
A Sulphate		235.57	57.01	308.11	600.69
Compound	C	368.89	57.01	308.11	734.01
	D	337.50	57.01	308.11	702.62
	R	325.11	57.01	308.11	690.23
	X	266.66	57.01	308.11	631.78
Nitric Acid		35.41	40.74	308.11	384.26

1983/84

		R.M.	DIRECT COST	FIXED COST	TOTAL
A Nitrate		70.45	51.58	266.53	388.56
A Sulphate		235.57	51.58	266.53	553.68
Compound	C	368.89	51.58	266.53	687.00
	D	337.50	51.58	266.53	655.61
	R	325.11	51.58	266.53	643.22
	X	266.66	51.58	266.53	584.77
Nitric Acid		35.41	35.13	266.53	337.07

1984/85

		R.M.	DIRECT COST	FIXED COST	TOTAL
A Nitrate		70.45	46.56	229.64	346.65
A Sulphate		235.57	46.56	229.64	511.77
Compound	C	368.89	46.56	229.64	645.09
	D	337.50	46.56	229.64	613.70
	R	325.11	46.56	229.64	601.31
	X	266.66	46.56	229.64	542.86
Nitric Acid		35.41	30.42	229.64	295.47

S U M M A R Y

PROJECTED COST OF PRODUCTION PER M.T.

		1981/82	1982/83	1983/84	1984/85
Ammonium Nitrate		419.96	435.57	388.56	346.65
Ammonium Sulphate		585.08	600.69	553.68	511.77
Compound	C	718.40	734.01	687.00	645.09
	D	687.01	702.62	655.61	613.70
	R	674.62	690.23	643.22	601.31
	X	616.17	631.78	584.77	542.86
Nitric Acid		367.84	384.26	337.07	295.47

PROJECTED AND ACTUAL COST OF PRODUCTION

ACTUAL COST OF PRODUCTION PER M.T.

1978/79	1979/80	1980/81

NOTES

R.M.: This refers to raw materials which are all shown at constant 1980 prices, delivered in Lusaka.

DIRECT COST: This category refers to expenses that are proportional to production volumes. This figure is highly unreliable, as the level of production for each product is different and, therefore, it is highly unlikely that the direct cost could be identical for all products.

FIXED COST: The fixed cost refers to overhead, interest charges, administrative services, depreciation, etc. As in direct costs, it cannot be equally proportional for all products but it has been done here.

TOTAL: As rough estimates these figures can be used to show trends (costs decreasing after March 1983), but are otherwise quite unreliable. It is suggested that they reflect certain 'hidden agendas' of the NCZ, i.e., their desire to persuade the GRZ to increase control prices, to minimize taxes, to project goals that can be improved upon easily.

The crudity of the figures is an out-growth of accounting practices used by NCZ. Profit and cost centers are not separated and the entire plant is viewed as an entity. No separate allocations are made. Separation of costs by product is not done, as the complex is viewed as an integral unit. Given this attitude and approach (which is questionable), the distinct costs by product cannot be delineated in any other than a very rough estimation.

TABLE V

NITROGEN CHEMICALS OF ZAMBIA LIMITED

PROJECTED COMPOUND FERTILIZER PRODUCTION IN 1984

GRADE	MT/DAY	PRODUCTION DAYS	ANNUAL PRODUCTION/MT
A	460	-	-
C	460	30	13,800
V	400	-	-
D	440	120	52,800
R	330	60	19,800
X	485	100	48,500
		310	134,900

Source : N C Z

Note: This figure of 134,900 tonnes p.a. is based on a production of 95% of nameplate capacity (142,500 tonnes). It is considered overly optimistic, as past performance has shown that the existing plant has never (in ten years) approached that level of efficiency. Not even in private conversations with the NCZ Chief Engineer has this level of optimism been expressed (he stated that he hoped, by 1984, to be operating at 90% of plant capacity). It is felt a more conservative appraisal would suggest a figure of roughly 75% of plant capacity as a more realistic goal.

TABLE VI

NITROGEN CHEMICALS OF ZAMBIA LIMITED

IMPORTED RAW MATERIAL REQUIREMENTS

METRIC TONNES

	PRE COMMISSION-ING 1981/82 3 MONTHS	POST COMMISSION-ING 1982/83	FULL PRODUCT-ION 1983/84
Borax	169	48	68
MOP	480	255	361
SOP	5,660	9,889	14,009
SSP	2,540	1,498	2,122
TSP	4,900	16,130	22,851
DAP	11,800	15,752	22,815
Coating agent	460	479	679
TOTALS	27,029	44,051	62,905

Source: N C Z

Note: The requirements are based on a very large buffer stock (about 50% of annual requirements) and optimistic production levels. A 17% reduction should be made for all figures.

TABLE VII

ACTUAL AND PROJECTED PROFIT AND LOSS FOR NCZ

(April 1979 thru' March 1981, are drawn from Audits and rounded)

in K,000'.

	FY79-80	FY80-81	FY81-82	FY82-83	FY83-84	FY84-85
SALES & OTHER INCOME	18,218	16,027	36,298	84,841	98,762	114,336
DIRECT COSTS	12,581	13,733	17,075	47,224	52,491	60,355
FIXED COSTS	2,361	3,688	26,044*	62,382*	59,297*	58,999*
NET PROFIT (LOSS)	3,276	(1,394)	(6,821)	(24,765)	(13,026)	(5,018)

* K22,307,000 is in depreciation expense.

TABLE VIII

ACTUAL AND PROJECTED BALANCE SHEETS FOR NCZ

(April 1979 thru' March 1981, are drawn from Audits and rounded)

in K,000's

	FY79-80	FY80-81	FY81-82	FY82-83	FY83-84	FY84-85
ASSETS						
CURRENT	20,686	15,838	32,766	32,681	36,553	37,851
FIXED	242,337	264,930	303,337	283,030	262,723	242,416
LIABILITIES						
CURRENT	7,193	10,477	12,903	18,748	16,902	21,940
LONG-TERM DEBT	238,226	229,080	195,485	194,013	192,450	173,421
OTHERS	17,604	41,211	127,715	102,950	89,924	84,906

ANNEX G

Local Currency Generations and GRZ Accountancy

According to the Ministry of Finance, (MOF) the GRZ's accounting and internal liability structuring differ for local currency generated through grants, PL 480 programs and commodity import programs. All such funds are channeled through the National Bank of Zambia (NBZ) and the MOF. They may be then given as credits to a particular Ministry or to parastatal organizations. These credits may be in local currency or in foreign exchange.

The following description of funds flow and accounting is for a parastatal body which has received foreign exchange credits from a donor/loaning agency for a specific purpose.

The use of these foreign exchange credits, whether used to purchase consumable materials or capital expenditure items (non-recurrent costs), obligates the parastatal to the Ministry of Finance, which in turn is obligated to the NBZ. The nature of this obligation is determined by the Ministry of Finance and can take the form of immediate repayment (by the parastatal), installments paid over set period of time, or by the GRZ assuming increasing equity in the parastatal.

When the funds are utilized for the purchase of consumable materials (like maize, fertilizer, spare parts, other food stuffs, etc) and/or transport costs for these goods, repayment is demanded by the MOF in Kwacha equivalents when these consumables are sold.

The draw-down of hard currency is shown as a debit to the recipient's account (parastatal) on the MOF's books and the MOF appears as a creditor (or long term debt) on the parastatal's books. The only exception may be when the donor's terms are totally 'untied' and funding is in the form of a grant. In all cases, the terms of repayment are set by the MOF.

For most commodity loans, the parastatal's repayments to the MOF are immediate upon the sale of the commodities by the parastatals. The utilization of these local currency repayments by the parastatal to the MOF and deposited with the NBZ is determined in the loan/grant agreement between the GRZ and lending/donor agency. This agreement may stipulate that local currency generations (repayments by the parastatal) be put into a special account maintained separately for discretionary use, may stipulate that the funds be attributed to certain Ministries for special purposes or budgetary items or may stipulate that they be earmarked for specific projects or programs. Such usages are determined in the GRZ - Lender/Donor agreement.

When the loan/grant funds are used to purchase capital equipment items (such as tractors, machinery, construction of buildings, etc.) for a parastatal organization, normally the GRZ has the parastatal sign a contract for repayment to the GRZ that has identical terms to those terms agreed upon by the GRZ and lending/donor agency. Sometimes the GRZ may elect to shoulder the full responsibility of repayments to the lending agency and the value of the capital items is utilized to increase GRZ's equity in the parastatal. Generally there are no local currencies generated (or only indirectly) when capital expenditure loan/grants are made.

(deleted)

ANNEX H

DETERMINATION OF CATEGORICAL EXCLUSION

Project Country:	Zambia
Project Title:	Zambia Commodity Import Loan
Funding:	FY 82 $ 10,000,000 (Loan)
Period of Project:	The terminal date for requesting disbursement authorization is 12 months from the date of the loan agreement. The terminal disbursement date is 18 months from the loan agreement date.
Determination made by:	John A Patterson, AID Representative

Concurrence: AFR/DR/SDP: BBoyd 10/14/81
AFR/SA: TMorse 10/16/81
GC/AFR: EDragon

Section 216.2 of AID Regulation 16 provides that certain classes of action do not require an initial Environmental Examination. Among these classes is the following:

AID does not have knowledge of or control over, and the objective of AID in furnishing assistance does not require either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID.

Section 216.2 (c) (2) provides that the origination of program determines in writing the extent to which a class of categorical exclusions applies to such program. This written determination is to be concurred in by the Bureau Environmental Officer.

This Annex constitutes the written determination by the AID Representative that the above quoted categorical exclusion applies to this project and an Initial Environmental Examination need not be made.

I. Description of Project

Zambia is currently facing serious balance of payments deficits as a result of overdependence on copper mining. Depressed copper prices plus declining production volumes have eroded Zambia's historically favorable current account position and led to extensive external borrowing, a decline in foreign reserve holdings and a large accumulation of payments arrears on imports. The GRZ is undertaking appropriate economic and financial measures to ameliorate the current crisis and has developed the Third National Development Plan (TNDP) which focuses on the diversification of the Zambian economy.

The proposed $ 10,000,000 commodity import loan will provide the GRZ with needed foreign exchange for essential public and private sector imports and will contribute to the GRZ's development program by generating counterpart funds. Commodities financed under the loan will be inputs required by the agricultural sector (excluding pesticides).

II. Recommended Environmental Action

The proceeds of the loan will not be used for specifically identifiable projects or activities over which AID has any knowledge of control over, nor does the objective of AID in furnishing such assistance require any. Therefore, a determination that this program does not require an Initial Environmental Examination because it falls under a categorical exclusion is recommended.

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 Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

   No.

2. FAA Sec. 113. Has particular attention been given those programs, projects, and activities which tend to integrate women into the national economies of developing countries, thus improving their status and assisting the total development effort?

   Yes.

3. FAA Sec. 481. Has it been determined that the government of the 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.

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

   Yes.

5. FAA Sec. 620(c). If assistance is to a 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) the 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.

7. FAA Sec. 620(a), 620(f), 620D; Continuing Resolution Sec. 511, 512 and 513; ISDCA of 1980 Secs. 717 and 721. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos or Vietnam? (Food and humanitarian assistance distributed directly to the people of Cambodia are excepted). Will assistance be provided to Afghanistan or Mozambique without a waiver? Are funds for El Salvador to be used for planning for compensation, or for the purpose of compensation, for the confiscation nationalization, acquisition or expropriation of any agricultural or banking enterprise, or property or stock thereof?

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?

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(k). Does the program furnish assistance in excess of $100,000,000 for the construction of a productive enterprise, except for productive enterprises in Egypt that were described in the Congressional Presentation materials for FY 1977, FY 1980 or FY 1981?

No.

11. 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?

Not applicable

12. FAA Sec. 620(m). Is the country an economically developed nation capable of sustaining its own defense burden and economic growth and, if so, does it meet any of the exceptions to FAA Section 620(m)?

No.

13. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, 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 the Fishermen's Protective Act been made?

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

Not Applicable.

14. FAA Sec. 620(q); Continuing Resolution Sec. 518. (a) Is the government of the recipient country in default for more than six months on interest or principal of any AID loan to the country? (b) Is the country in default exceeding one year on interest or principal on any U.S. loan under a program for which the Continuing Resolution appropriates funds?

No.

15. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, 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 annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Under the FY1980 assessment of defense expenditures as required by Section 620(s), it was concluded that there is no impediment to consideration of economic aid to Zambia. FY 1978 data shows that Defense expenditures as a precentage of Central Gov.t Expenditures were 9.34%. Military imports as a percentage of total imports were 5.6%.

16. 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.

17. 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

18. FAA Sec. 620A; Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which committed a war crime?

No, not to our knowledge.

19. 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. who is present in such country to carry out economic development programs under the FAA?

No.

20. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 102(b)(4). Have criteria been established and taken into account to assess commitment progress of the country in effectively involving the poor in development, on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment and (6) increased literacy.

Not applicable.

b. FAA Sec. 104(d)(I) If appropriate, is this development (including Sahel) activity designed to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production, rural development, assistance to urban poor and through community-based development programs which give recognition to people motivated to limit the size of their families?

Not applicable.

2. Economic Support Fund Country Criteria.

a. FAA Sec. 502B. Has the country (a) engaged in a consistent pattern of gross violations of internationally recognized human rights or (b) made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

No.

b. FAA Sec. 532(f). Will ESF assistance be provided to Syria?

Not applicable.

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?

Not applicable since this is a loan.

d. FAA Sec. 620B. Will ESF be furnished to Argentina?

Not applicable.

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

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

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution Unnumbered; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations Committees 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)?

   (a) See page 254 of the amended version of the Congressional Presentation.

   (b) Yes.

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

   Not applicable.

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?

   Not applicable.

4. FAA Sec. 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?

   Not applicable.

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 and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not applicable.

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No, Not applicable.

7. FAA Sec. 601(a). 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; and (c) encourage development and use of cooperatives, and 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) To some extent.
(b) Yes.
(c) To some extent.
(d) Not applicable.
(e) Yes.
(f) Not applicable.

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).

Yes, U.S. Private enterprise will be involved in the procurement and shipping of the fertilizer.

9. FAA Sec. 612(b), 636(h); Continuing Resolution Sec. 508. 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 in lieu of dollars.

Not applicable.

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

No, Not applicable.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Not applicable.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (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; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Not applicable.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph 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 (a) extent to which activity is specifically designed to increase productivity and income of rural poor; 103A if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

Not applicable.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, (i) extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

Not applicable.

(4) [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; and (ii) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Not applicable.

(5) [106; ISDCA of 1980, Sec. 304] for energy, private voluntary organizations, and selected development activities; if so, extent to which activity is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves; and (c) a cooperative program in energy production and conservation through research and development and use of small scale, decentralized, renewable energy sources for rural areas;

(ii) technical cooperation and development, especially with U.S. private and voluntary or regional and international development, organizations;

(iii) research into, and evaluation of, economic development process and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) 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.

For 5(i) thru 5(vi) the response is not applicable.

c. [107] is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

Not applicable.

d. FAA Sec. 110(a). Will the recipient country 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.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

Not applicable.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The loan will provide finished fertilizer needed by small farmers to increase their production and income from growing maize and other appropriate crops.

g. FAA Sec. 122(b). 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?

Yes.

Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

See pp. 54-55 of the PAAD.

b. FAA Sec. 620(d). If assistance is for any productiv enterprise which will compete with U.S. enterprises, 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?

Not applicable.

Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible does it reflect the policy directions of FAA Section 102?

a. Yes.
b. Yes.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.
These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

   These arrangements will be made by the Office of Commodity Management, AID.

2. FAA Sec. 604(a). Will all procurement 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 commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.?

Yes.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). 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? (Exception where commodity financed could not reasonably procured in U.S.)

Not applicable.

5. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, 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?

No, provided that U.S. flag vessels are available and sufficient to carry the cargo at the time when shipping services are required.

7. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services be furnished from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Not applicable.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S. carriers will be utilized to the extent such service is available?

Not applicable.

9. Continuing Resolution Sec. 505. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests?

Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Not applicable.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Not applicable.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Yes.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?

Not applicable.

4. Continuing Resolution Sec. 514 If participants will be trained in the United States with funds obligated in FY 1981, has it been determined either (a) that such participants will be selected otherwise than by their home governments, or (b) that at least 20% of the FY 1981 fiscal year's funds appropriated for participant training will be for participants selected otherwise than by their home governments?

Not applicable.

5. Will arrangements preclude use of financing:

a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

d. FAA Sec. 662. For CIA activities?

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained.

f. Continuing Resolution Sec. 504. To pay pensions, annuities retirement pay, or adjusted service compensation for military personnel?

g. Continuing Resolution Sec. 506. To pay U.N. assessments, arrearages or dues.

h. Continuing Resolution Sec. 507. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending.)

i. Continuing Resolution Sec. 509. To finance the export of nuclear equipment fuel, or technology or to train foreign nationals in nuclear fields?

j. Continuing Resolution Sec. 510. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

k. Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

For Questions 5(a) thru 5(k), the response is yes.