PD-BAA-086

ZAMBIA

FY 1980 Commodity Import
Loan Paper

Loan No. 611-K-~~004~~ 005

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : AA/PPC, Mr. Alexander P. Shakow

THRU : ES

FROM : AA/AFR, Goler T. Butcher

SUBJECT: Zambia - FY 1980 $20 Million Commodity Import Program Loan

Your approval is required for a Commodity Import Program loan of up to $20 million to the Government of Zambia, from the Southern Africa Program of the Economic Support Fund appropriation. The amount to be obligated in FY 1980 will be subject to the availability of funds. Seventeen million dollars will be authorized under the Continuing Resolution and the balance of $3 million will be authorized upon passage of the FA Appropriations Bill.

Discussion: The proposed loan will, in conjunction with the efforts of other donors, help mitigate Zambia's current balance of payment problems and will generate counterpart local funds to be used for development activities supportive particularly of the agriculture sector. Foreign exchange provided under the loan will be allocated primarily for fertilizers and the balance for agricultural machinery and spare parts. Utilization of these commodities will help increase the yields and total output of Zambia's staple food crops, maize and wheat. In so doing, the commodities financed will contribute towards increasing domestic food supplies and satisfying Zambia's basic human needs.

Counterpart funds generated under the loan will accrue to the GRZ for allocation to development activities included in the GRZ budget. Use of counterpart generated funds will be jointly agreed upon by AID and the GRZ and will be directed towards improving agricultural and rural development activities to the maximum extent possible.

In further support of GRZ-AID development efforts in the agricultural sector, the attached PAAD identifies key sector problem and policy areas which merit GRZ-AID emphasis as AID/Zambia undertakes a program transition from stabilization to development assistance. These are identified in terms of two basic categories. The first relates to problem areas in which there is a general lack of current data and information. These include identification of overall agricultural sector constraints and priority development needs; knowledge of the traditional farmer and small farmer access and use of fertilizer, the most significant commodity financed under this loan, as well as the previous three CIP loans.

The second category discusses Zambian agricultural sector initiatives in the context of self-help measures (PL 480 programs) which the PAAD's analyses endorse. The basic issue related to this second category is the appropriateness of pricing policies which have favored urban consumers at the expense of rural producers. Recent developments have provided encouraging evidence that the GRZ is taking appropriate steps towards alleviating this problem. AID/Zambia is satisfied that sufficient progress is being made on the issue so as not to warrant any additional conditions or covenants under the proposed Loan Agreement. It has also been determined that Zambia is in compliance with the conditions of the current IMF stand-by agreement entered into on April 26, 1978.

Conditions and Covenants: The PAAD includes one condition precedent which stipulates that a detailed procurement plan be prepared by the end of January 1980. This procedure, established under previous CIP loans to Zambia, will expedite implementation and disbursement of the loan.

Drawdowns: Drawdowns of previous AID commodity import loans have been timely and a similar record is expected for this loan.

Waivers: The loan will be funded from the Southern Africa Program of the Economic Support Fund and, therefore, a Presidential waiver is required as Congress has prohibited the use of these funds for Angola, Mozambique, Tanzania and Zambia unless it is determined that such assistance would further the national interests of the United States (FAA Section 533(b)). Since the loan will contribute to the existence of a more stable economic environment for a peaceful transition to majority rule in Southern Africa, a waiver is considered justified and is being submitted, separately, to the

Completed 2-11-80. Letters of transmittal of the determination to the Congress with accompanying justification. [illegible] 2-11

Secretary of State, who is authorized to approve such a waiver.

Justification to Congress: Funding for the originally proposed $25 million loan was requested on page 595 of the FY 1980 Congressional Presentation (Annex 1). However, because of subsequent reductions in Economic Support Funds for the Southern Africa Program, only up to $20 million is now requested for this loan, subject to the availability of funds.

Environmental Analysis: In accordance with AID Regulation 16, paragraph 216.2(f), it has been determined that a negative determination is appropriate regarding the environmental impact of this loan. As the proceeds of the loan will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Environmental Assessment or Environmental Impact Statement is not required.

Recommendation: That you approve this Action Memorandum and sign the attached PAAD, thereby authorizing the proposed activity in the amount of up to $20 million.

Approved: [signature]

Disapproved: ____________

Date: Feb 11, 80

AFR/DR/SAP:APatrick:mj:12/26/79

AK W.W.

Clearances:
DAA/AFR:WHNorth
PPC/RC:MJHeyl MJH
GC/AFR:EADragon
AFR/DP:RStacy E.W. (draft) W.W.
AAA/PPC/PDPR: BSidman
AFR/SA:MDagata (draft) (EW)
GC:NHolmes 12/31/79 *
* subject to waiver approval.
AFR/DR: JWKoehring
AFR/DR: NCohen
H:JMorton for JM

CLASSIFICATION:

AID 1120-1 (8-86)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: AFR Loan No. 611-K-005

2. COUNTRY: Republic of Zambia

3. CATEGORY: Commodity Financing - Standard Procedure

4. DATE: February 11, 1980

5. TO: Douglas Bennet, Administrator, A.I.D.

6. OYB CHANGE NO.: N/A

7. FROM: Goler T. Butcher, Assistant Administrator, Bureau for Africa

8. OYB INCREASE: N/A

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 20,000,000

10. APPROPRIATION - ALLOTMENT: 72-1101037; 037-61-698-00-57-01

11. TYPE FUNDING: XX LOAN ☐ GRANT

12. LOCAL CURRENCY ARRANGEMENT: XX INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: Jan. 1980 to June 1981

14. TRANSACTION ELIGIBILITY DATE: Loan Authorization Date

15. COMMODITIES FINANCED

Commodities for the agricultural sector such as fertilizers agricultural machinery spare parts, and other commodities directly supportive of agricultural development.

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: Loan: $20,000,000	U.S.: $20,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

The loan will provide U.S. Assistance to the Government of the Republic of Zambia (GRZ) to 1) provide short-term balance of payments relief, and 2) support the GRZ's longer run objective to accelerate agricultural development and diversify the structure of the economy. The loan will make available foreign exchange for critically needed public and private sector agricultural imports and related services to be agreed upon by the GRZ and AID.

1. The GRZ shall repay the loan to AID in United States Dollars within forty (40) years from the date of the first disbursement under the loan including a grace period of not to exceed ten (10) years from such date. GRZ shall pay to AID in United States Dollars interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding disbursed balance of the loan.
2. Procurement will be restricted to AID Georgraphic Code 000 (U.S. only)
3. Such other terms and conditions as AID may deem advisable.

AA/AFR, GTButcher	[illegible]	1/3/80
DAA/AFR, WHNorth	[illegible]	1/3/80
AFR/DR, JWKoehring	[illegible]	1/3/80
AFR/DR, NCohen	[illegible]	1/2/80
AFR/SA, MDagata	[illegible]	1-2-80

19. CLEARANCES	DATE
SER/COM/ALI, PHagan [illegible]	[illegible]
AFR/DR/SA: WWolff [illegible]	12-28-79
GC/AFR, JPatterson [illegible]	12-28-79
AFR/DP, RStacy [illegible]	1-2-80
AAA/PPC/PDPR, BSidman [illegible]	1/1/80
AFR/DR/SDP, FDuncan [illegible]	12-31-79

20. ACTION

☑ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: [signature] DATE: [illegible] FEB 19[illegible]

Douglas J. Bennet, Jr.
Administrator, AID

TITLE

CLASSIFICATION

ZAMBIA

COMMODITY IMPORT LOAN

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ANNEXES

PAAD Design Team

Economist and Team Coordinator: Forest Duncan, AFR/DR/SDP

Agricultural Economist: Dirk Dijkerman, REDSO/EA

Commodity Management Specialist: Peter Hagan, SER/COM/ALI

Agriculturalist: Calvin Martin, RELSO/EA

Economist: Helen Soos, REDSO/EA

DEFINITIONS AND TERMS

Zambia Fiscal Year: January 1 to December 31

Recent Exchange Rates for the Zambian Kwacha:

January–July 1976	Kwacha = US$1.55
July 1976 – March 1978	Kwacha = US$1.25
March 1978 – October 1978	Kwacha = US$1.20
October 1978 – Present	Kwacha = US$1.25

Land Unit; 1 Hectare = 2.47 acres

Unit of Measurement for Maize: 1 Bag = 90 Kilograms

ZAMBIA: COMMODITY IMPORT LOAN

I. Summary

A. Problem

A major objective of U.S. foreign policy is to support a peaceful transition to majority rule in southern Africa. Towards pursuing this objective, the U.S. is assisting those countries bordering Zimbabwe-Rhodesia which are sustaining economic losses by enforcing sanctions against Zimbabwe-Rhodesia. One of these states is Zambia which borders Zimbabwe-Rhodesia along the Zambezi River and was previously joined with Southern Rhodesia and Malawi, then Nyasaland, in the Federation of the Rhodesias and Nyasaland (1954-1963).

Although Zambia has had to bear an extremely heavy financial burden to maintain sanctions, Zambia's President, Kenneth Kaunda, has consistently supported a political solution on Southern Rhodesia and has provided moderate leadership for African efforts to bring about a negotiated settlement. Most recently, President Kaunda was influential in bringing about the breakthrough in negotiations in London, and it can be expected that President Kaunda will play an important role in the continuing efforts to bring about a political solution to the Zimbabwe-Rhodesia conflict.

President Kaunda's continued ability to play a constructive and moderating role in the Zimbabwe-Rhodesia situation has in part been udermined by Zambia's worst economic crisis since independence. The crisis originated in the extremely dualistic structure of the economy which has traditionally relied heavily on copper earnings for government revenues and foreign exchange. This structure was inherited at independence and has been maintained since then despite stated national objectives to correct imbalances. In 1975, world copper prices plummeted and remained low through 1978. The resulting losses in revenues and foreign exchange earnings, coupled with the high costs of maintaining economic sanctions against Zimbabwe-Rhodesia -- particularly those related to transportation -- are basically the factors explaining the current financial crisis.

These adverse economic developments have had a particularly acute impact on the balance of payments. Since 1975, the current account has averaged a deficit of more than SDR 330 million a year. To finance these deficits, external borrowings have increased dramatically such that at the end of 1978 total external debt was about US$ 1.4 billion, and the debt service ratio (the relationship of annual external debt payments to merchandise export earnings) had reached 28%.

The crisis has forced the GRZ to strictly limit its imports causing marked reductions in productive capacity throughout the economy. In addition, numerous planned development projects have been postponed due to the lack of financial resources.

In response to the crisis, the government has been taking bold corrective measures. To meet the most immediate need for achieving economic stabilization, the GRZ in April 1978, negotiated a two-year stand-by arrangement with the International Monetary Fund. The government's financial performance under the stabilization program has been largely successful, and should copper prices continue improving as has occurred over the past few months, Zambia's most pressing financial difficulties should be greatly alleviated by the end of 1982.

Despite these prospects, Zambia's longer term and more basic structural problems are far from being resolved. The copper industry remains the primary determinant of Zambia's economic and financial performance, and a major effort is required to diversify the economy and thereby protect it against the volatile financial instability characteristic of the past.

Toward this end, the GRZ's Third National Development Plan (1979-1983) places highest priority on developing the agricultural sector. With large areas of uncultivated fertile land, the absence of population pressures in rural areas, and favorable growing conditions, Zambia's agricultural sector offers great potential for further development. Government efforts are now being taken to reorient economic policies and redirect resources to exploit this sector's vast potential.

Thus, over the next two to three years, the GRZ aims to continue its stabilization program. At the same time, it is setting the stage for a major long-term effort to diversity the economy via the agricultural sector. To assist in this effort, the government is requesting international donor assistance. Both program and project assistance is required. However, for the immediate future, financial conditions dictate that balance of payments support receive first priority. As economic recovery continues, the need for project assistance is expected to grow accordingly.

B. <u>U.S. Response</u>

In consideration of the GRZ's balance of payments difficulties and long-term development objectives as described above, AID proposes to loan the Government of Zambia US$ 20 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. In addition, a special effort has been made to make the loan supportive of the GRZ's longer run objective to accelerate development of the agricultural sector.

Basic to the rationale of this proposed loan is the changing emphasis of the AID economic assistance program to Zambia. As economic recovery continues, U.S. aid is gradually undergoing a transition from non-project economic stabilization assistance to a project-based program directed toward agricultural and rural development. This transition is being initiated in FY-1980 with projects in institutional development and manpower training and agricultural research and extension.

Because AID has only begun staffing an office tailored to the needs of an emerging development program, AID's knowledge of Zambia's agricultural sector is quite limited. Therefore, a current overview of the sector is included herein as Annex C to permit a more informed judgment as to the appropriate composition of commodities financed under the loan, and to identify basic problem and policy areas that AID should encourage the GRZ to actively address with the view to improving the prospects for agricultural development.

The analysis in Annex C looks at the sector's potentials and constraints and identifies priority development needs. It is emphasized that this is only a preliminary review which must be further developed through subsequent analyses such as the upcoming CDSS exercise, special agricultural sector-related studies being planned as part of AID/Zambia's overall program planning, and the design of the FY-1980 projects. Nevertheless, the analysis provides an adequate perspective within which to satisfy the purposes of this activity as just stated above.

On the basis of the GRZ's official requests (Annex B) and the analysis contained in Annex C, it is proposed that the foreign exchange provided under this loan be allocated primarily to fertilizers and the balance towards agricultural machinery and spare parts. As fertilizers have represented such a substantial part of previous loans and the present proposed loan, Annex D is included herein to provide a closer examination of Zambia's fertilizer consumption, supply, use and distribution. Utilization of these commodities will help increase the yields and the total output of Zambia's staple food crops, maize and wheat. In so doing, these commodities will contribute towards increasing domestic food supplies and satisfying Zambia's basic human needs.*

While there was agreement among key GRZ officials that fertilizers and spares were of highest priority, other commodities suggested as possibilities for loan financing included onion seeds and phosphates used for blending with other locally available fertilizer compound elements. Although it is believed that loan proceeds will most likely be used as officially requested, the loan allows flexibility should needs of higher priority in the agricultural sector arise. In any case, commodity selection will be directly supportive of agricultural sector development and must basically represent large volume purchases and a small number of commodity categories in view of the limited commodity management support available to administer and implement the loan.

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* In the GRZ's official request for assistance (Annex B), road maintenance equipment and spare parts were specifically noted for loan financing. AID and the GRZ subsequently agreed to substitute "agricultural machinery and spare parts" in order to more directly link commodity financing to support the agricultural sector.

In a departure from PAADs prepared for previous CIP loans to Zambia, this paper seeks to identify key problem and policy areas in the agricultural sector which merit GRZ emphasis and further study as AID undertakes its transition to a project-based development assistance program in Zambia. On the basis of the analyses in Annexes C and D, problem and policy areas are identified in terms of two basic categories. The first relates to problem areas in which there is a general lack of current data and information. The second discusses Zambian agricultural sector initiatives in the context of self-help measures (PL-480 programs) which this paper's analyses endorse.

Under the first category, the following areas requiring examination were recommended on the basis of discussions with GRZ officials: identification of overall sector constraints and priority development needs; knowledge of the traditional farmer; and small farmer access and use of fertilizer. The latter area of investigation carries particular significance to this as well as the previous three CIP loans. In response to the need for such information, it is expected that such studies will be funded and undertaken by AID and the GRZ in FY 1980, subject to the availability of funds.

Illustrative of the studies which should be undertaken are the following:

(1) A broad, intensive study of the agricultural sector to examine key policy issues such as pricing and credit and how they impact on the various categories of farmers (commercial, emergent, traditional); analyze major constraints such as storage, marketing, research and extension; and assess the Ministry of Agriculture and Water Development's (MAWD) program planning and project implementation capacity.

(2) A companion survey of the smallholder to gain a better understanding of the primary target group. The survey would describe the smallholder's aspirations, income and expenditure pattern, level of farming technology, and receptivity to change. The survey should be undertaken in conjunction with the agricultural sector analysis.

(3) A study to determine how the traditional farmer's use and access to fertilizers can be improved. Such a study would look at problem areas such as road access, transport capability, distribution, credit availability, pricing of inputs and outputs, the "economics" of fertilizer use at both the macro and small farmer levels, and the traditional farmer's understanding of proper fertilizer use and application. An institution such as the International Fertilizer Development Center (IFDC) would be an appropriate agency to contract for such a study.

In addition to the knowledge and guidance such studies would provide for program development, the collaborative participation of the GRZ in these endeavors would be particularly valuable in the design, implementation, and evaluation activities ultimately stemming from them.

In addition to these studies, a number of Zambian domestic initiatives have been proposed for consideration in the yet to be negotiated PL 480 Title I Program for FY-1980 (referred to as self-help measures - see pages 26-29 of the PAAD). These have been reviewed and this paper is supportive of them. The basic issue related to these initiatives is that of pricing and subsidization policies which have favored the urban consumer at the expense of the rural producer. Recent developments have provided encouraging evidence that the GRZ has taken steps to correct this inequity and the deteriorating financial condition of the heavily subsidized National Agricultural Marketing Board (NAMBOARD). Although continuing efforts are required, AID/Zambia is satisfied that sufficient progress is being made so as not to warrant any additional conditions or covenants in the proposed loan agreement.

Counterpart funds generated under the loan will accrue to the GRZ for allocation to rural and agricultural development activities included in the GRZ budget. Use of these monies will be jointly agreed upon by AID and the GRZ. An illustrative list of possible counterpart uses is shown in Section VIB. Annex E shows GRZ budget line items against which counterpart generations were applied under Loan 611-K-003.

The loan will be administered in accordance with AID Regulation I, will use standard commodity financing Procedures, will be restricted to Code 000 source and origin procurement (U.S. only), and will strive for disbursement within 18 months after the loan agreement is signed.

In view of the recent war-related disruptions in Zambia's major supply routes, inland transportation is a major problem. However, initiatives are being taken to overcome the transport crisis, and, hopefully, major rail bottlenecks will have been alleviated by June 1, 1980, the date fertilizer shipments are expected to begin. If necessary, critically needed spare parts can be airfreighted.

The loan is expected to have both short and long term beneficial effects on the U.S. balance of payments, and AID will coordinate closely with the Export-Import Bank and the U.S. Embassy of Lusaka to assure that the loan does not finance items which the Export-Import Bank has already agreed to finance. The PAAD includes one condition precedent which stipulates that a detailed procurement plan be prepared by the end of January 1980 to expedite purchases under the loan.

C. Recommendations

It is recommended that AID authorize a US$20 million loan to the Government of the Republic of Zambia subject to the following terms:

a) Repayment to A.I.D. in U.S. dollars within forty (40) years after the first disbursement, including a grace period not to exceed ten (10) years.

b) Interest payable to A.I.D. in U.S. dollars at two percent (2%) during the grace period and three percent (3%) 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).

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-Rhodesia 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 and established the British South African Company to exploit the region's mineral wealth. Present-day Zambia and Zimbabwe-Rhodesia 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 involving insistent African demands for greater participation in government and the fears of the Europeans 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 a 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 the 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 philosophy, the Government's constitution provides extensive guarantees for the protection of basic human rights. These guarantees have not been seriously impaired despite the continuing state of emergency decreed necessary because of the armed struggles for majority rule and self-determination in neighboring Zimbabwe-Rhodesia and Namibia. Governmental policies relating to the fulfillment of such initial needs as food, shelter, health care and education have been particularly favorable. The GRZ's policies are heavily weighted toward the welfare of the citizen and nearly 40% of recurrent expenditure in the 1978 budget was earmarked for education and health.

In foreign affairs, Zambia follows a policy of non-alignment and its major foreign policy concern is to promote a peaceful transition to majority rule in South Africa, Namibia (South West Africa) and Zimbabwe-Rhodesia. The Portuguese coup of April 1974 opened the way to independence for the neighboring Portuguese possessions of Angola and Mozambique. Since then, Zambia has been active in efforts to effect a peaceful change in these countries and in those still under white minority rule. Zambia has taken a leading role in working for a merger of black nationalist movements in Zimbabwe-Rhodesia and in encouraging them to seek a political settlement. Most recently, President Kaunda's influence was instrumental in concluding the breakthrough agreement providing for supervised elections involving all major parties.

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, enforces economic sanctions against Zimbabwe-Rhodesia 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 U.S. has consistently encouraged a peaceful transition to majority rule in southern Africa. In pursuing this objective, the U.S. is assisting countries bordering Zimbabwe-Rhodesia which are sustaining economic losses by enforcing sanctions against Zimbabwe-Rhodesia. Although Zambia has had to bear an extremely heavy financial burden to maintain sanctions since Southern Rhodesia's Unilateral Declaration of Independence (UDI) in 1965, President Kaunda has consistently supported a political solution in Zimbabwe-Rhodesia and has provided moderate leadership for African efforts to bring about a negotiated settlement.

President Kaunda's continued ability to play a constructive and moderating role in the Zimbabwe-Rhodesian situation has in part been undermined by Zambia's worst economic crisis since independence. The crisis is primarily attributable to the continued heavy cost of sanctions against Zimbabwe-Rhodesia and to the rapid decline in copper prices since mid-1975.

2. Economic Stability and Development

The Zambian economy, particularly its agricultural sector, has great developmental 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.

3. U.S. Business Investments

U.S. commercial firms have made significant investments in the Zambian economy since independence in 1965. The contribution that U.S. economic assistance will make towards achieving political and economic stability will serve to protect U.S. commercial interests, and may encourage further U.S. investment.

D. U.S. Economic Assistance Program

1. A.I.D. Strategy

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 the financial crisis triggered by the sharp plunge in copper prices in 1975. This is being done by providing balance of payments support through the Commodity Import Program (CIP) and PL 480 assistance. 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 development program. This program will support the Government's Third National Development Plan (1979-1983) which aims to diversify the economy by giving priority developmental emphasis to agriculture and rural development. A.I.D. strongly endorses this approach, and the A.I.D. program is now being restructured to place special emphasis on the agricultural sector and rural development. This re-direction of A.I.D.'s assistance will help Zambia move away from complete reliance on copper resources thereby cushioning future development efforts against the volatile financial fluctuations characteristic of the past.

2. A.I.D. Program Elements

a. Commodity Import Program

A.I.D. initiated a program commodity assistance to Zambia in FY 73. Since then resource transfers under this program have totaled US$ 75 million. In more recent years, a US$ 30 million loan was provided in FY 1978 and another US$ 20 million loan was negotiated for FY 1979. This US$ 20 million loan is being proposed for FY 1980. 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. The sale of these commodities also generate local currency to support the GRZ's development budget.

b. PL 480

From a US$ 200,000 program in FY 1975, PL 480 assistance increased sharply to US$ 5.6 million in FY 1977, US$ 8.5 million in FY 1978, US$ 10 million in FY 1979 and US$ 12.5 million for FY 1980. This program helps Zambia reduce its requirement for hard currency and provides essential food supplies. 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 transition to a development assistance program is being initiated in FY 1980 with projects in institutional development and manpower training and agricultural research and extension. These activities focus primarily on strengthening the capacity of institutions supporting the agricultural sector.

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 5.5 million (1978 estimate) growing at an average rate 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.*

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*During the period 1963-74, the population in urban areas grew at the rate of 7.9% 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.

Mining continues to be the most important sector and accounted for almost 33% of gross domestic product (GDP) in 1973-74. However, in recent years, mining's relative share of GDP has fallen to about 12% (1978 estimate) as a result of the depressed world market demand for copper, sharply declining copper prices, and production difficulties. Despite its reduced relative contribution to GDP in recent years, the copper industry remains the primary determinant of Zambia's economic and financial performance. Other major contributors to GDP in 1978 included manufacturing, 17%; agriculture 17%; services 17%; and commerce 14%.

Total GDP was estimated at K2.3 billion in 1978. On a per capita basis, this would be about US$ 520* 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-oriented modern sector, dominated by mining and the rural agricultural sector. Indicative of urban-rural income disparities is a 1972-73 survey which shows that average annual household income in urban areas was over four times that in rural areas. Economic developments since 1973 would suggest that this ratio has not changed appreciably. Other socio-economic indicators show the per capita calorie supply as a percent of total requirements at 85% (1973); literacy at 43% (1974); and life expectancy at 45 years (1975).

b. Potentials and Constraints

Zambia's vast mineral resources and large fertile land area offer 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. However, this estimate ignores the possibility of the discovery and development of new sources of ore reserves. In the past, new discoveries outpaced the rate of depletion and, while this trend cannot continue indefinitely, it is likely that current reserve estimates are understated.

Zambia's large land area and low population density of 18.9 persons per square mile (1978 estimate) also offer good potential for agricultural development. Of the total land area of 290,410 square miles, about 90% is potentially suited to agriculture. However, only 3 to 5% of this potentially arable land is under crops at any one time. Moreover, subsistence farmers using traditional practices account for 85% of total cereal production and 90% of all cattle slaughtered. Therefore, significant production increases are possible through both the expansion of areas suitable for cultivation and through higher levels of productivity as traditional farmers adopt more modern technological practices. Further enhancing this potential is 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 significant reserves of mineral deposits, large areas of

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* Converted at the rate of K1 = US$ 1.25

uncultivated arable land, the absence of population pressures in rural areas, and favorable growing conditions, Zambia has the potential for rapid economic development.

While possessing this great potential, Zambia also faces formidable 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 more difficult.

Transportation also is a major problem for landlocked Zambia. Because of political developments in southern Africa, border closings have cut off traditional less costly routes to the sea and operational inefficiencies plague the alternative routes.

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 which presents yet another dimension to Zambia's development challenge.

c. Major Productive Sectors

1) Mining

Zambia's economy is dominated by the mining sector. Until recently, it generated about 30% of total wage employment, contributed about 50% of government revenues, and, in 1976, it accounted for 98% of export earnings. It also contributed in the same year about 23% to GDP.* Mining activities consist mainly of copper mining and smelting, with zinc, lead and cobalt as by-products. Copper production reached 565,000 tons in 1978, down from the peak level of 748,000 tons mined in 1969. In terms of world ouput, 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 unassisted by either animal or mechanical power. About half of the subsistence farmers produce primarily for their own requirements; the other half earn cash incomes of about K50-60 per year from farming. The major crops they produce are maize, cassava, millet, groundnuts, sorghum and free-grazed beef. Despite their

*This relative share compares with a peak of 33% in 1973-74 to a low of 12% in 1978.

small share of marketed production, small-holders account for a large share of total production, estimated for example, at 85% of all cereals (80% of maize) and 90% of all domestic cattle slaughtered.

At the other extreme are large state farms and some 400 commercial farmers including about 100 Zambians. These are generally located on the best soil and are mainly near the line of rail or other major arteries with access to markets. Commercial farmers use modern, increasingly capital-intensive methods to produce cereals, dairy produce, beef, poultry and eggs for the urban market and tobacco for export. State farms are engaged mainly in maize, beef and dairying.

Between the subsistence and commerical 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, emergent, and state farms supply over 55 percent of 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.

3) Manufacturing

Compared to 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, thus, 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-Metallic 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 manages large state farms, runs the railway network, and owns over 51% interest in 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 (over 90%), zinc, lead, cobalt, and tobacco. Major imports include machinery and transport equipment (38%), manufactured goods (23%), and foodstuffs (8%). The country's main trading partners are the U.K., Japan, South Africa, U.S. and FRG.

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 1888. 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) 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 custom 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 Rhodesians 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 line 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 from 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 manufacturers from Southern Rhodesia, South Africa and Britain because of the underdevelopment 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 the 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 the white settlers and the mining industry. Much of the government revenues generated by Northern Rhodesia's mines were used to develop Southern Rhodesia; and, except for their use as mineworkers and farm labours, Africans were left out of the mainstream of development.

b. <u>1965-1976: Independence and Slow Economic Growth</u>

1) <u>Development Program Strategy and Objectives</u>

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 slow. In fact, most of the conditions to be corrected became worse. On the positive side, major physical infrastructure had been laid to promote future growth, and social services, particularly education, were significantly expanded. However, in 1976, real per capital income was only US$ 250 per annum compared to US$ 243 per annum in 1965; the economy continued to be dominated by the mining sector which contributed 23% to GDP in 1976 compared to 41% in 1965;* and the gap between urban and rural incomes was wider than it had been at independence.**

Basically, the major reasons explaining the slow pace or lack of progress were the economic dislocations and costs -- particularly transport -- associated with the struggle for majority rule in southern Africa; the continuing dominance of copper mining; the orientation of investment priorities and economic policies towards developing the urban sector and parastatal enterprises; and the political power of the urban classes which made the Government unwilling to inflict the sacrifices or devote the resources necessary to bring about long-term rural development. The sharp fall in world copper prices in 1975 and their continued low levels through 1978 brought into sharp relief the vulnerability of the economy's narrow economic structure and plunged the nation into a major economic and financial crisis.

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* Primarily offsetting this decline in mining's relative share of real GDP was the services sector which rose from 26% in 1965 to 40% in 1976. Thus, this does not result in a significant diversification of the productive sectoral structure of the economy. In general, the GRZ did far better in providing services over this period than it did in encouraging productivity.

**The IBRD estimates that 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.

B. Current Economic Crisis

1. Principle Causes

Zambia's current economic crisis originates in the dualistic structure of the economy which has traditionally relied upon copper earnings for government revenues and foreign exchange. Although the government's development strategy was to use the financial resources generated by the mining sector to diversity the economy, the allocation of these resources tended to reinforce the dualistic structure of the economy rather than mitigate it.

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

Because of the skewness of the investment pattern favoring the industrial sector, Zambia's high agricultural potential has been barely tapped, and agricultural production and income has failed to keep pace with the growth in population. Consequently, urban-rural income disparities have remained wide,* and the economy has continued to rely heavily on earnings from copper, a commodity susceptible to volatile price fluctuations on the world market.

The vulnerability of the economy to this overdependence on copper became evident in 1975 when the price of copper plummeted and remained low through 1978. The repercussions in the Zambian economy were increasingly felt owing to the modern sector's heavy reliance on imported goods both for consumption and as inputs into the industrial and agricultural sectors. By 1976, Zambia was faced with a major economic crisis as government revenues fell, the balance of payments deficit deepened, and the demand for essential imports could not be met.

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, 1969/1970 and 1973/1974. In early 1974, prices rose to a post-independence high of $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 $0.56 per pound. In real terms, this was the lowest price since 1957.

* In 1976, the IBRD estimated that average wages for miners were 160% the average national wages, while farmers earned only 40% of the national average.

Unlike previous copper price cycles, the current cycle remained low for over four years. In 1977, the average price was \$0.59 per pound, and in 1978, it rose to only \$0.62 per pound. However, in terms of the SDR, to which the Zambian kwacha is pegged, the price of copper declined by 2.7% in 1978. Largely due to this sharp decline in copper prices, the terms of trade have declined by over 50% since the early 1970's. Since February 1979, prices have risen and currently stand at about \$0.90 per pound.

Transportation bottlenecks caused by instability in southern Africa also worsened Zambia's economic situation during this period. Landlocked deep within the African continent, Zambia has always paid dearly for the transportation of its imports and exports. Until 1973, Zambia had four access routes to the sea: (1) the rail route through Zimbabwe-Rhodesia to ports in Mozambique and South Africa; (2) a road and rail route through Malawi to ports in Mozambique; (3) a road route through Tanzania to the port in Dar es Salaam; and (4) a rail route through Zaire to the port of Lobito in Angola.

In January 1973, Zambia lost the southern route when the border with Zimbabwe-Rhodesia was closed; this route carried 60% of trade in 1972. Most of the traffic was diverted to the Lobito route, which in 1974 carried 50% of trade. In August 1975, the Lobito route was closed owing to civil war in Angola. Thereafter, Zambia relied on ports in Mozambique (through Malawi) and in Kenya and Tanzania (through Tanzania). In early 1976, Kenya ports, as well as trade with Kenya, were cut off by the closure of the Kenya/Tanzania border.

The Tanzania-Zambia Railway (TAZARA) was opened in August 1976, and during its first year, TAZARA and the Tanzania road route carried about 83% of Zambia's trade. However, both of these northern outlets have also been frought with difficulties. The TAZARA route has suffered from congestion at the Dar es Salaam port, as well as from a shortage of rail wagons and locomotives, and poor maintenance capacity. Most recently, Rhodesian forces bombed two bridges along the line. Use of the road route has also declined because only 130 of 480 government-operated trucks were operable in 1978.

In response to the deterioration of the transport situation, the Zambian authorities reopened the rail route through Zimbabwe-Rhodesia in October 1978 for both copper and other essential goods such as maize imports and fertilizer. Yet, even the use of these routes are now being restricted and menaced by Zimbabwe-Rhodesia military forces.

Overall, transportation difficulties have cost Zambia millions of dollars in scarce foreign exchange over the past several years. Major outlays have been required to construct alternative rail and road routes to the north and freight costs have been much higher to move trade over these extended routes. Costs have also been 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.

2. Balance of Payments

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

During the years 1968-74, the trade surplus was sufficient to cover large invisible payments, leaving a small current account surplus. During 1975-77, however, the current account averaged a deficit of more than SDR 330 million a year (see Annex A, Exhibit 2). After borrowing heavily in 1975, the net capital inflow fell considerably in 1976-78, resulting in large overall deficits which led to an accumulation of external payments arrears of SDR 495 million at the end of December 1978.

The most important factor contributing to this deterioration in the BOP position was the decline in the real copper price which fell by 50% 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 (see Annex A, Exhibit 3) and are estimated at only 600,000 tons for 1978. Due mainly to these factors, exports fell from a high of about SDR 1,150 million in 1974 to an estimated SDR 688 million in 1978.

On the imports side, there was also a sharp decline from SDR 942 million in 1975 to an estimated SDR 625 million in 1978. However, in terms of volume, the level of imports in 1978 was just about half that prevailing during 1969-73. Since 1975, the composition of imports has improved, with consumption of food, clothing and transport declining from 28% to 20% of total imports (see Annex A, Exhibit 4). Both intermediate and investment goods increased as a proportion of imports to 55% and 75% of total imports respectively.

In the services account there has been some improvement since 1975. Although investment income rose from a net outflow of SDR 96 million between 1975 and 1978, private transfers and other services decreased by about SDR 40 million. Government transfers showed the greatest improvement, from a net flow of SDR 4.3 million to SDR 19.5 million over the four-year period.

The overall terms of trade have deteriorated significantly and seemingly permanently during the 1970's. If 1969-73 is taken as a base of 100.0, the terms of trade have 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 will be somewhat improved for 1979 with the increase in copper prices, it is unlikely that it will attain the average of the early 1970's since world-wide inflation will continue to be felt through import prices.

In the capital account, transactions for both the public and private sectors have been reversed from an outflow of SDR 273 million in 1975, to an estimated net inflow of SDR 39 million in 1978. However, external debt has increased dramatically at over 20% per annum since 1973 (see Annex A, Exhibit 5). In 1977, external debt stood at $1.4 billion, or 55% of GDP. The debt service liability in 1977 was $180 million, or 20% of total export earnings. Preliminary estimates for Zambia's external debt position at the end of 1978 show a decline to 41% of GDP, with debt service payment at $240 million, or about 28% of export receipts. Projections for debt servicing payments are estimated at $265 million, or 22% of exports in 1979, and are projected to decline thereafter as large Eurodollar loans contracted in 1973-75 are repaid.

3. Public Finance

The financial position of the government reflects the difficulties which the economy has experienced during the present decade. 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% and 28% respectively in 1972 and 1973 (see Annex A, Exhibit 6).

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. In 1977 and 1978, there was virtually no revenue from the mining sector. Projected mining tax revenue for 1979 stands at about K9 million, or less than 2% of total revenue.

Since 1976, the government authorities have been successful in diversifying the sources of revenue. Taxes on domestic goods and services increased from K86 million in 1974 to K210 million in 1978, and taxes on income have nearly doubled to K218 million over the same period. Thus, total revenue since the 1974 peak has never declined to pre-1974 levels in absolute terms.

Performance on the expenditure side was less successful during the mid-1970's than for revenue-generation. Expenditures were not adjusted downward when revenues declined in 1975-1977. Large government deficits during the period averaged 16% of GDP of which the domestic banking system financed over 80%. In 1978, expenditures rose slightly owing to increased government lending; however, in real terms, expenditures fell by 4%. The budget deficit fell from K260 million to K194 in 1978. Government agricultural subsidies totaled K66 million in 1977, while debt service payments were K62 million (see Annex A, Exhibit 7).

In 1979, additional revenue will be raised from beer and petroleum taxation, and increased taxes on cobalt production. However, the budget also includes adjustments to reduce company and personal taxation, as well as indirect taxation of clothing and other consumer goods, to provide relief from inflation.

Government expenditures in 1979 are budgeted at 1978 levels, with significant shifts in composition. Agricultural subsidies for consumers are projected at K30 million, down 33%, while debt service payments are projected to increase to K117 million. Security expenditures will also expand. Government lending is also projected to decline as parastatals find themselves in improved positions owing to changes in pricing policies and tightened loan terms. The overall budget deficit for 1979 is projected at K197 million.

4. Monetary Developments

Zambia's banking system consists of the Bank of Zambia which acts as the central bank, and four commercial banks of which these 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 expansion in domestic credit owing 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, Exhibit 8).

In 1978, the government undertook a stabilization program to restrict credit, especially by 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 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. Combined with the contractionary influence of the balance of payments deficit, money supply declined by 8% during the year. Monetary policy has, thus, played a major role in restricting overall demand within the economy, and in containing rising inflation.

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. However, in 1977 and 1978, real GDP declined by 4.1% and 0.3% respectively. For 1979, real GDP is forecast to grow by about 1%.

In terms of sectoral performance, mining showed the sharpest decline with its relative share of GDP falling from 33% of GDP in 1974 to 12% in 1978 (estimate) (see Annex A, Exhibit 1). Over the same period, agriculture's share rose from 11% to 17%, manufacturing from 13% to 17%, and services from 13% to 17%. These shifts primarily reflect the disproportionate sharp decline in the mining sector's share rather than offsetting increases in other sectors. For example, over this period, the rate of increase in agricultural output fell from 5% to 2%; manufacturing registered a 6% growth in 1978 (estimate) after three consecutive years of negative growth; and services declined from 8% to a minus 1% (see Annex A, Exhibit 9).

In the agricultural sector, weather conditions, inappropriate prices, the lack of spare parts, credit, transport and marketing and input delivery were among the problems impeding the growth of this potentially dynamic sector. These problems are discussed in further detail in Annex C.

The mining sector is now showing signs of recovery due to recent increases in copper prices and cost saving measures to improve the efficiency of mining operations. The latter have included cost reductions in the labor force and outside contracting, reductions in the scale or cessation of operations at high cost sites, and improved procurement. These efforts have been more successful than originally envisaged and projected losses of K114 million were converted to profits of over K5 million in 1978. Nonetheless, transport problems have resulted in a stock accumulation of 170,000 tons, representing an unwanted inventory of K100 million, and copper production in 1978 stood provisionally at 655,800 tons, or 4,000 tons below 1977 figures.

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

C. Corrective Measures

The Government has undertaken a series of corrective measures to stabilize the economy since the onset of the economic crisis in 1976. These have included an initial stabilization program in 1976, a stand-by arrangement with the IMF (April 1978), and a World Bank sponsored Consultative Group meeting (June 1978). In addition, the Third National Development Plan (1979-83) has laid the basic groundwork for diversifying the economy, and Zambia is continuing its efforts to promote political stability in southern Africa . Achievement of the latter objective would greatly reduce the heavy financial burden of maintaining economic sanctions.

1. Stabilization Program

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.

These initial efforts met with only limited success, and in April 1978, the Government concluded a two-year stand-by arrangement with the International Monetary Fund. This program made available SDR 250 million in IMF credits. The stand-by arrangement supported a comprehensive stabilization program, of which the main objectives were to eliminate gradually the balance of payments deficit, reduce inflation, resume economic growth, and set the basis for diversification of the economy through efficient resource allocation, especially in terms of fiscal performance.

The performance of the Zambian government and economy in implementing the provisions and goals of the stand-by arrangement has been largely successful (see Annex A, Exhibit 9). The decline in real GDP appears to have been arrested, with a 1% real growth rate projected for 1979. Domestic demand in real terms was restricted by 7% in 1978, with favorable effects on the balance of payments, inflation and the domestic credit and money supply situation. Civil Service salaries were held constant and private and parastatal salaries were contained to an average 5% increase, despite the 16% increase in consumer prices. Consumer price increases were largely attributable to specific stabilization measures such as the 10% devaluation of March 1978, reduction of consumer subsidies for agricultural products, and increased prices for locally manufactured goods.

The improved performance of the economy is directly attributable to four areas of focus around which the stand-by arrangement was structured. These areas were: (1) public finance, with the objectives of reducing deficit financing and diversifying the revenue sources of the government; (2) restriction of domestic demand and credit to reduce inflation and the demand for imports; (3) restoration of efficiency/profitability of the mining sector through comprehensive reform; and (4) domestic economic policy changes to stimulate agricultural production and to restore the profitability of the manufacturing sector, primarily through more favorable price control levels. Improvements in these four areas have been made, and the economy is beginning to develop a sound basis for long-term economic development. The area most in need of further improvement, according to the 1979 Article IV Consultation of the IMF, is the agricultural sector, specifically extension services, project implementation and investment reorientation. 1/

Despite this improved performance, major economic developm :t problems still must be resolved. Price policy and subsid ation problems continue to plague the agricultural and manufacturing sectors. Some parastatal enterprises, in particular, continue to operate inefficiently and require subsidization for a variety of reasons. The prime example of such deficit-operated parastatals is the National Agricultural Marketing Board (NAMBOARD). NAMBOARD is the victim of contradictory price and subsidization policies, agricultural credit difficulties, transport and distribution problems, and unrealistic expectations with respect to its role in agricultural marketing. Because of NAMBOARD's deficit, the Zambian government was unable to contain its borrowing from the banking system during the second half of 1979.

Efficiency and optimal resource allocation also constitute continuing challenges for both the government and parastatal sectors. As foreign exchange becomes available for increased imports, including spare parts for existing capital stock, resource allocation will become vitally important. Complementing the implementation of the stand-by arrangement, the World Bank sponsored a Consultative Group meeting in Paris in June 1978. The result of the meeting was significant donor assistance including a pledge of about $100 million of U.S. assistance over a three-year period. This donor assistance has served to reinforce the stabilization program.

2. Peace Efforts in Southern Africa

In landlocked Zambia, transportation represents a major constraint to development even in the best of times. Compounding this natural constraint is the continuing political turmoil in southern Africa which has rendered the transport situation both volatile and costly. Should the Zimbabwe-Rhodesia conflict be resolved, this would impact not only on the stability and consequent economic evolution of the region, but would also serve to stabilize Zambia's transport situation. Similarly,

1/ IMF Report SM/79/222, August 17, 1979, p. 5.

settlement of Angola's internal strife would lessen Zambia's transportation constraints by opening the Benguela Rail Line. Therefore, the economic implications of GRZ efforts to promote a peaceful political settlement of the strife in southern Africa must not be overlooked or underestimated.

3. 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 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 including:

- 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 appears to be an ambitious undertaking and unrealistic in terms of the resources likely to be available for implementing it.

On the latter point, the plan projects total investments 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 serious balance of payments constraints foreseen in the coming years.

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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.

In view of the shortfall in financial resources suggested above, a more realistic investment plan is required. Such a plan has not been developed, and this has been the subject of considerable debate within the GRZ. In short, the TNDP provides a useful framework within which general development efforts can proceed, but a more refined spending program is required to efficiently allocate still scarce resources.

D. Prospects for Economic Recovery

Although Zambia's economic development potential in the long-term is extremely high, the medium-term prospects are considerably tempered by the exigencies of the current economic situation. The stabilization effort undertaken by the Government has halted the decline in real GDP, and has restored domestic equilibrium, but at a low level of economic activity. Imports have been controlled and domestic demand has been restricted. The Government plans to maintain equilibrium by continuing to restrain domestic demand, but with emphasis on expanding the supply of goods and services. This attention to the supply side of the equation is being stressed in order to allow for a more complete utilization of the economy's existing productive capacity, and to expand employment opportunities more rapidly.

The continuing low level of imports is the critical constraint in expanding supply and reviving the utilization of unused productive capacity. Imports are needed in the form of spare parts for almost every sector of the economy, including agricultural machinery, road construction and maintenance, transportation and social services. Imports are also needed as inputs for agriculture and many industries.

It is difficult to estimate the optimal value of imports to regenerate economic activity to its potential levels because of the structural changes which have occurred within the economy since 1975, and the high level of exchange and import restrictions. Recent analysis by the IMF* suggests that the decline in gross fixed investments has probably reduced economic capacity below 1971-1974 levels. Assuming this to be the case, the IMF projected Zambia's BOP position to 1982, further assuming that imports would rise to their former 1971-74 level (see Annex A, Exhibit 10). This projection showed that gross external borrowing requirements for 1980-82 would be about SDR 7.5 billion, an amount clearly beyond Zambia's ability to borrow and service. The fund made a second set of projections based on a 10% increase in imports per annum, or about 70% of 1971-74 levels. In this case the gross borrowing requirements from 1980 to 1982 were SDR 1.7 billion. While the latter figure still represents a heavy burden, any slower import growth rate would conflict with the need to bring about a higher utilization of existing productive capacity.

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* IMF, SM/79/222, 1979 Article IV Consultations, August 1979, pp 11-14

The second set of projections also indicate that the current balance will be negative at about SDR 220 million per annum through 1981, and will be positive at SDR 40 million in 1982. The debt service ratio will average 18% of exports in 1980 and 1981, and will decline to 14% in 1982. These projections are based on copper prices of $0.85 in 1980, $1.00 in 1981, and $1.25 in 1982.

The above forecasts, thus, suggest that economic recovery is possible within the next two to three years. However, they assume that: 1) austerity will prevail in both public and private consumption; and 2) the political instability in southern Africa does not burden Zambia with unforeseen costly outlays such as those for security and for transportation. Recent events in southern Africa suggest that these assumptions may not hold true. Therefore, despite the fact that 1979 copper prices are slightly higher than projected, it appears unlikely that Zambia's economic growth rate over the next 4-5 years will begin to approach the 6% target set in the TNDP.

E. Other Donor Assistance

Zambia received over $300 million in loans and grants during 1978. The United Kingdom continued to be the most significant donor and provided $56 million. The World Bank made commitments of $34 million. Other major donors included Germany ($38 million), Sweden ($34 million), Japan ($26 million) and Netherlands ($12 million). The United States provided about $38 million in the form of a commodity import program and PL 480 food assistance. The U.S. has also provided Export-Import Bank loans and guarantees ($180 million since 1970), and OPIC guarantees.

Donor assistance in 1980 is expected to remain at similarly high levels. In addition, new donors may include some of the oil-rich middle eastern countries. Iraq, for example, has already agreed to provide US$ 30 million for 1980.* Major donors in the agricultural sector over the next few years are likely to include the World Bank, the African Development Bank, UNDP, the European Community, Germany, Canada, and the Netherlands. The Scandinavian countries also have plans for supporting rural development activities.

*This will be a commodity import loan to help finance Zambia's balance of payments. Iraq gave Zambia a similar US$ 7 million grant in 1979.

IV. Proposed Commodity Import Loan

A. Rationale

In consideration of the GRZ's balance of payments difficulties and long-term development objectives as described above, AID proposes to loan the Government of Zambia US$ 20 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. In addition, a special effort has been made to make the loan and this documentation supportive of the GRZ's longer run objective to accelerate development of the agricultural sector.

Basic to the rationale of this proposed loan is the changing emphasis of the AID economic assistance program to Zambia. As economic recovery continues, U.S. aid is gradually undergoing a transition from non-project economic stabilization assistance to a project-based program directed toward agricultural and rural development as described in Section IID above. Accordingly, the proceeds of this proposed loan will be used exclusively to support Zambia's agricultural sector.

Because AID has only begun staffing an office tailored to the needs of an emerging development program, AID's knowledge of Zambia's agricultural sector is quite limited. Therefore, a current overview of the sector is included herein as Annex C to permit a more informed judgment as to the appropriate composition of commodities financed under the loan, and to identify basic problem and policy areas that AID should encourage the GRZ to actively address with the view to improving the prospects for agricultural development.

The analysis in Annex C looks at the sector's potentials and constraints and identifies priority development needs. It is emphasized that this is only a preliminary review which must be further developed through subsequent analyses such as the upcoming CDSS exercise, special agricultural sector-related studies being planned as part of AID/Zambia's overall program planning, and the design of the FY 1980 projects. Nevertheless, the analysis provides an adequate perspective within which to satisfy the purposes of this activity as just stated above.

B. Commodities to be Financed

On the basis of the GRZ's official requests (Annex B) and the analysis contained in Annexes C and D, it is proposed that the foreign exchange provided under this loan be allocated primarily to fertilizers and the balance towards agricultural machinery and spare parts. Utilization of these commodities will help increase the yields and total output of Zambia's staple food crops, maize and wheat. In so doing, these commodities will contribute towards increasing domestic food supplies and satisfying Zambia's basic human needs.*

*In the GRZ's official request for assistance (Annex B), road maintenance equipment and spare parts were specifically noted for loan financing. AID and the GRZ subsequently agreed to substitute "agricultural machinery and spare parts" in order to more directly link loan financing to support the agricultural sector.

Under the past two CIP loans to Zambia, fertilizer materials have accounted for 30 to 35% of the country's total requirements. In view of the significance of fertilizer in past loans and the present proposed loan, Annex D is included herein to provide a closer examination of Zambia's fertilizer consumption, supply, use and distribution.

According to this analysis, Zambia's annual requirements are over 200,000 metric tons (M/T) consisting primarily of NPK compounds and urea. At present, the country has a carry over stock of 50,000 M/T and the estimated 60-70,000 M/T that will be provided under this loan will represent about 35% of next year's total projected requirements.

While there was agreement among key GRZ officials that fertilizers and spares were of highest priority, other commodities suggested as possibilities for loan financing included onion seeds and phosphates used for blending with other locally available fertilizer compound elements. Although it is believed that loan proceeds will most likely be used as officially requested, the loan allows flexibility should needs of higher priority in the agricultural sector arise. In any case, commodity selection will be directly supportive of the agricultural sector and must basically represent large volume purchases and a small number of commodity categories in view of the limited commodity management support available to administer and implement the loan.

C. Agricultural Problem and Policy Concerns

In a departure from PAAD's prepared for previous CIP loans to Zambia, this paper seeks to identify key problem and policy areas in the agricultural sector which merit GRZ-AID emphasis as AID undertakes the transition to a project-based development assistance program in Zambia. The basis for addressing these concerns within the context of this CIP activity can be explained in terms of AID/Zambia's overall approach to program development.

AID/Zambia believes that in order to launch a successful development program in Zambia, both project and non-project assistance activities cannot be fruitfully implemented and maintained after external assistance is withdrawn unless such assistance is undertaken within a policy environment conducive to their long-term viability. This concern takes on particular relevance in Zambia where major efforts are underway to diversity the economy and lessen its dependence on copper.

The reorientation of development and investment priorities associated with such changes is often difficult because this process involves losses and gains among the different sectors and "players" affected. Such difficulties are now evident in Zambia in terms of deliberations over: 1) whether an alternative investment plan is required to supplement the admittedly ambitious TNDP; 2) the appropriateness of pricing policies and subsidization of key commodities and elements of the society; and 3) the allocation of budgetary resources. The outcome of these deliberations will determine whether structural change actually occurs in Zambia on whether stated national objectives will remain largely unfulfilled.

Thus, it is essential that AID/Zambia support those positive initiatives undertaken in just recent years to promote economic diversification and a greater participation of all Zambians in the benefits and costs of development and growth. Such efforts are within the best interests of developing a successful AID program in Zambia and, of course, the country itself.

It is, therefore, AID/Zambia's hope that in a planned, phased, and linked manner a continuing dialogue can be established with the Government on the question of agricultural sector "bottlenecks" whether discussed in terms of program or sector loans, PL 480 programs or specific development projects. This, then, is the context within which the agricultural sector overview is presented in Annex C and the problem and policy matters are discussed below.

On the basic issue of agricultural pricing policies, recent developments have provided encouraging evidence that the GRZ has taken steps to correct the deteriorating financial condition of NAMBOARD. A decision has been taken to reorient the policy of agricultural pricing so as to provide improved incentives for production as well as sufficient margins for NAMBOARD to break even in its operations without the need for budgetary subsidies, except in the case of fertilizers; resale and consumer prices for maize have been raised significantly (64 percent), as have fertilizer prices (31 percent); NAMBOARD's accounting procedures are being revised; the number of crops handled by it is being reduced and the practice of selling on credit has been largely discontinued. This change in orientation is heartening and indicative of the GRZ's good faith in addressing the concerns of most donors including AID but, particularly, the IMF and World Bank. Although full implementation of these measures remains, the government's very positive actions to date remove AID's major concern over differences in agricultural policy. AID/Zambia has reviewed the exchange of correspondence between the GRZ (19 September 1979) and the IMF (11 October 1979), outlining these measures and is satisfied that sufficient progress is being made on the issue so as not to warrant any additional conditions or covenants in the proposed project agreement.

Given the significant support this proposed loan will give to increasing agricultural yields and production in the year ahead, it represents a major element of AID/Zambia's program transition strategy. Moreover, it provides a basis for further developing and continuing a dialogue with the GRZ on key agricultural sector problem and policy concerns.

On the basis of the analyses in Annexes C and D, the agricultural problem and policy areas meriting GRZ-AID emphasis are identified below in terms of two basic categories. The first relates to problem areas in which there is a general lack of current data and information. The second category discusses Zambian domestic initiatives in the context of self-help measures (PL-480 programs) which this paper's analyses endorse.

Under the first category, the following areas requiring examination were recommended on the basis of discussions with GRZ officials: identification of overall sector constraints and priority development needs; knowledge of the traditional farmer; and small farmer access and use of fertilizer. The latter areas of investigation carries particular significance to this loan because fertilizer is the most significant commodity financed under this as well as the previous three CIP loans. In response to the need for such information, it is hoped that plans will be developed to undertake such studies to establish a stronger information base upon which an Agricultural Development Program can be made. It is expected that such studies will be funded and undertaken by AID and the GRZ in FY-1980, subject to the availability of funds.

1. Agricultural Program Planning

Illustrative of the studies under the first category which should be undertaken are the following:

a. In view of the limited current knowledge of the agricultural sector in Zambia, a broad intensive study of the agricultural sector should be undertaken to examine key policy issues such as pricing and credit and how they impact on the various categories of farmers (commercial, emergent, traditional); to analyze major constraints such as storage, marketing, research and extension; and to assess the Ministry of Agriculture and Water Development's (MAWD) program planning and project implementation capacity. It is expected that such an analysis will suggest the most appropriate mode of development assistance -- sector program or project specific activities -- and help establish priorities in accordance with agricultural development needs.

b. Smallholder Survey

As little information is available on the small farmer in Zambia, a companion survey of the smallholder should be made to gain a better understanding of the primary target group. The survey will describe the smallholder's aspirations, income and expenditure pattern, level of farming technology, and receptivity to change. The survey should be undertaken in conjunction with the agricultural sector analysis. In addition to the knowledge and guidance these two studies will provide for program development, collaborative participation of the GRZ in these endeavors will be particularly valuable in the design, implementation, and evaluation activities ultimately stemming from them.

c. Fertilizer Distribution and Use Study

Under this and previous CIP program loans to Zambia, the bulk of commodity financing has been for fertilizers. However, no analysis has been undertaken with respect to its use and distribution. On the basis of limited data collection and discussions with GRZ officials, it appears that most of U.S.-provided fertilizers is used on the production of food staples by the state, commercial, and emerging farm sub-sectors. Comparatively, little seems to reach the traditional farmer.

In view of the need to improve the traditional farmer's access to fertilizer inputs, a study will be undertaken to determine how the traditional farmer's access can be improved. Such a study will look at possible problems such as road access, transport capability, distribution, credit availability, pricing of inputs and outputs, the economics of fertilizer use at both the macro and smallholder levels, and the traditional farmer's understanding of proper fertilizer use and application. An institution such as the International Fertilizer Development Center (IFDC) would be an appropriate agency to contract for such a study.

2. Zambian Domestic Initiatives

A number of Zambian domestic development initiatives have been proposed for consideration in the yet-to-be negotiated PL 480 Title I program for FY 1980 (referred to as self-help measures). These proposed initiatives have been reviewed and this paper is supportive of them. These measures are the following:

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

1) designate a unit within the Ministry of Agricultural and Water Development to undertake a comprehensive study of the agricultural price policies of the GRZ and their relationship to costs of production, returns to producers, and level of domestic agricultural production. The study will provide guidance to the GRZ during future decisions on pricing policy and subsidy adjustments;

2) determine and publish, on a timely basis, producer prices which are related to costs of production and which insure an adequate return on investment;

3) adopt a selective approach to subsidization of input costs which will provide emerging small and medium-size farmers with the necessary incentives to increase production of food crops; and

4) adjust consumer subsidies on basic commodities, including maize, to align retail prices more closely to import parity and producer prices.

b. Adopt procedures within the Ministry of Agricultural and Water Development to improve the gathering, analysis, and publication of agricultural statistics. In addition, the Ministry will establish a market development unit to advise on marketing policies, develop marketing course, and establish a market news service.

c. Provide up to $2.0 million dollars funding to the Zambian Agricultural Development Bank for the specific purpose of providing credit to small farmers for the purchase of production inputs. In addition, the GRZ will support World Bank technical assistance efforts for continuous review of credit delivery, repayment criteria and loan supervision, and the drafting/improvement of a credit, staff, and physical facilities operations plan for the Agricultural Development Bank.

d. Improve plant protection and grain storage facilities to reduce production and storage losses. This effort will include expansion of the storage and handling facilities of the cooperative unions and NAMBOARD and the upgrading of extension efforts in grain storage management.

e. Provide adequate budget allocations to the agricultural extension service to expand present training opportunities for small-scale producers. As part of this effort, the GRZ will:

1) increase training opportunities for emergent farmers offered by the Kalulushi Farm College, Chipembi Farm College, and the Zambezi Training Farms.

2) continue support for the demonstration, training and extension activities offered through the ox cultivation scheme as part of the GRZ's efforts to increase the supply and use of oxen by small-scale producers.

3) increase the number of 2-year extension agents actively involved in support of the emergent farmers in the Kabwe and Mkushi rural districts. Emphasis by these extension agents will be placed on improving and expanding maize production.

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

In implementing the above self-help measures, specific emphasis will be placed on contributing directly to the development progress in poor rural areas and on enabling the poor to participate actively in increasing agricultural production through small farm agriculture. In undertaking the measures, the GRZ is expected to provide adequate financial, technical, and managerial resources for their implementation.

V. Loan Administration

A. Status of Existing Commodity Import Loans

The FY 1977 Commodity Import Loan Agreement ($20 million) was signed in December 1976. The first Letter of Commitment was opened in March 1977 with the first shipment taking place in May 1977. The loan is fully disbursed. Among the commodities purchased were fertilizer, animal feed, land clearing equipment and coal mining equipment/spare parts.

The FY 1978 Commodity Import Loan Agreement ($30 million) was signed in March 1978. The first Letter of Commitment was issued in July 1978 and the loan is presently fully committed. As of September 30, 1979, there was an undisbursed balance of approximately $3.6 million which should be fully disbursed well within the scheduled March 30, 1980 terminal disbursement date. Major commodities imported under this loan included fertilizers ($18.2 million), animal stockfeed, locomotive spares, vegetable seeds and transport/tractor spares.

The FY 1979 Commodity Import Loan Agreement ($20 million) was signed on February 26, 1979. The GRZ requested that the entire loan proceeds be utilized for the purchase and shipment of fertilizer. The first Letter of Commitment was issued in June 1979 and a total of 70,000 metric tons of fertilizer was purchased and shipped to designated Southern and East African ports. With the exception of approximately 15,000 metric tons remaining to be transported inland to Zambia from the port of East London, South Africa, the purchased fertilizer has arrived in Zambia without any noteworthy transport problems.

As a result of appreciable savings on ocean freight (approximately $300,000), the GRZ has requested that this amount and a small remaining uncommitted balance (approximately $188,000) be utilized for the procurement of critically needed equipment spares which would be purchased on a proprietary basis by a private sector company. As of September 30, 1979, the undisbursed balance under this loan is $1.6 million. It is anticipated that the loan will be fully disbursed well within the scheduled terminal disbursement date of August 25, 1980.

As indicated above, the disbursement rates have been very acceptable for these three commodity import loans, particularly the current loan. This performance can be attributed mainly to the inclusion of a requirement for a detailed procurement plan as a Condition Precedent (CP). The identification and discussion with A.I.D. commodity specialists of commodity needs at an early stage has been beneficial. The selection of commodities which can be purchased and shipped promptly has accelerated the disbursement process. This has been very evident under the FY 1979 loan with disbursement records indicating that 92% of loan proceeds were disbursed within the first six months after the loan agreement was signed. As with the previous commodity import loans, this again emphasizes the continuing critical shortage of foreign exchange.

B. Loan Implementation

1. Procurement Procedures

A.I.D.'s standard Commodity Financing Procedures, as set forth in A.I.D. 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 A.I.D. Regulation 1.

It is anticipated that a portion of the new loan will be allocated to the private sector for the procurement of commodities, particularly agricultural machinery spare parts, which can be purchased promptly. Importers involved (equipment dealers) are familiar with A.I.D. regulations and transactions should proceed efficiently with prompt disbursement.

2. Administrative Responsibility

The administrative responsibility for the loan, which will include preparation of all reports as well as assuring compliance with all A.I.D. requirements, will rest with the Ministry of Finance which will control the disbursement of funds through the issuance of Financing Requests to A.I.D.

Primary responsibility for managing A.I.D.'s implementation functions under the loan will rest with REDSO/EA in Nairobi, Kenya. As with the previous loans, the implementation functions will be closely coordinated with the A.I.D. Representative assigned to Lusaka. Also, AID/W will provide TDY support, if necessary, and will assist the Zambian Embassy to undertake any formal procurements, such as fertilizer.

3. Implementation Schedule

The following is the proposed implementation schedule for the loan:

a. Loan authorization	December 1979
b. Loan signing	December 1979
c. CP's met	January 1980

d. First L/Com opened	February 1980
e. First Commodity Shipment	April 1980
f. First Disbursement	April 1980
g. Final Disbursement	June 1981

The above schedule appears realistic in view of rapid disbursement of previous commodity import loans, particularly the FY 1979 loan.

C. Commodity Eligibility

The GRZ has requested that fertilizer and agricultural machinery and spares be financed under the new loan. Commodity eligibility for these and any other items requested will be restricted to those that are supportive of the agriculture sector.

The authorized source and origin of commodities and related services to be financed under the loan will be A.I.D. Geographic Code 000 (U.S. only). In the two immediately previous loans, a waiver was granted to permit procurement of inland transportation services from Code 935 countries. However, the GRZ refrained from using the loan for such purpose indicating that critically needed foreign exchange should be used only for highest priority items. Thus, it is recommended that such a waiver not be considered for the new loan.

D. GRZ Import Procedures

At present, all imports into Zambia are subject to license control. This involves a process of first applying for a foreign exchange allocation through the GRZ's International Technical Committee and, if successful, then applying for an import license through the Ministry of Commerce. Licenses 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. The actual release of foreign exchange is controlled by the Bank of Zambia; the release need not necessarily be at the time payments are due. However, imports tied to certain foreign loans, such as this one, are handled separately. A ministerial committee will allocate specific amounts for previously agreed upon end uses, and an approved import license will insure the immediate opening of a Letter of Credit against AID-issued Letters of Commitment. Thus, it is anticipated that importers will save a substantial amount of time in getting orders placed and Letters of Credit opened under this modified procedure.

E. Loan Disbursement

The proceeds of the 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 and the terminal date for requesting disbursing authorizations will be set at 12 months from the loan agreement date.

The method of disbursement will be through A.I.D.'s standard Letter of Commitment/Letter of Credit procedure. Direct A.I.D. Letters of Commitment to suppliers will be used for the procurement of fertilizer and/or other selected commodities. The approved applicant for the Letters of Commitment will probably be the National Commercial Bank of Zambia, which is wholly owned by the GRZ, and has been the approved applicant under the last two program loans.

F. Commodity Arrival and Disposition

As a landlocked country, the GRZ has confronted recurrent transportation bottlenecks in the movement of cargoes, both to and from neighboring ocean ports. To further exacerbate the problem, in January 1973, Zambia closed the border with Rhodesia in support of the four Front Line states. As a consequence, Zambia was forced to rely principally on the Benguela Railway through Angola from the port of Lobita and the TAZARA Railway which runs through Tanzania from the port of Dar es Salaam.

In mid-1975, due to internal political problems in Angola, the Benguela Railway, which links northern Zambia to the deep-water port of Lobita, ceased to operate on a regular schedule and eventually ceased operations entirely as a result of extensive track and road-bed disrepair. (However, there is some indication that repairs are nearing completion and service will be resumed in the near future.)

At the time rail service was discontinued through Angola, Zambia was exporting approximately 50% of its copper on the Benguela line. From 1976 to October 1978, Zambia's only direct rail link to an ocean port was the TAZARA Railway, inefficient because of extensive operational problems and congested port conditions at Dar es Salaam. In view of an evolving critical situation, in October 1978, fertilizer shipments were scheduled to be off-loaded at the ports of Nacala and Beira, Mozambique for onward rail and truck transport to Zambia. However, severe congestion at these ports forced off-loading of cargoes at Maputo, Mozambique and at selected South Africa ports, mainly East London for trans-shipment through South Africa and Botswana to Zambia. In the face of failure to provide needed fertilizers to farmers in time for the fall planting season, in October 1978, Zambia decided to permit shipments of fertilizers on South Africa rail lines through Rhodesia. As a consequence, a crisis was averted and much of the fertilizer reached Zambian farmers in sufficient time.

A further exacerbation of Zambia's transport problems was brought about in October 1979, when a key bridge on the TAZARA Railway was heavily damaged. This forced off-loading and transfer of cargoes from rail cars to trucks since the bridge was impassable.

Repairs to the bridge are not expected to be completed for at least 90 days. Although a pending Ex-Im Bank loan is in process to finance importation of 200 truck tractors (trailers to be manufactured locally in Zambia), the transport sector is continuing to have extreme difficulty coping with the situation.

With the recent encouraging political developments concerning Zimbabwe-Rhodesia negotiations, and the possibility that the Benguela Railway soon will resume service to Zambia, it is anticipated that inland transportation will be somewhat normalized by the time shipments are scheduled to begin under the new loan. The GRZ has indicated that they would like to procure fertilizer and some agricultural machinery equipment and spares. In the interim, critically needed spares could be airfreighted. It is anticipated that fertilizer shipments would begin around June 1, 1980 by which time, hopefully, major rail transport bottlenecks will have been alleviated.

VI. Other Considerations

A. Impact on U.S. Balance of Payments

The short-run impact of this loan on the U.S. Balance of Payments position will be minimal and will depend on the types of commodities imported. 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. Utilization of the loan for imports by U.S. firms already operating in Zambia could result in some minor substitution for commercial U.S. exports, but any substitution should be minimal given the tight foreign exchange situation. The overall impact of the loan will be favorable since imports by agents of U.S. firms will enable them to maintain the market position of U.S. equipment suppliers. Additionally, U.S. equipment purchased under the loan will result in follow-up orders for U.S. spare parts.

B. Counterpart Generation

The Kwacha counterpart generated by private and public sector imports under the loan will accrue to the GRZ for allocation to agricultural and rural development activities included in the GRZ budget. Some areas where local currency generations may be used are the following:

(1) increasing training activities for the emergent farmer at Kalulushi Farm College, Chijsembi Farm College, and Zambegi Training Farms;

(2) increasing the number of two-year extension workers actively involved in support to emergent farmers efforts to increase maize production;

(3) financing increased/improved storage facilities for the cooperative unions, NAMBOARD, and on farm storage;

(4) assisting in irrigation development, especially the expansion of the 50 hectare irrigation schemes discussed in the TNDP; and

(5) increasing professional assistance toward strengthening the rural credit institutions operations and the new agricultural development bank.

Budget line items against which counterpart generations were applied under Loan 611-K-003 are shown in Annex V.

Since the GRZ budget is based on the calendar year, and given that most of the counterpart should be generated in 1980, the bulk of the counterpart funds is likely to be utilized to support the 1980 and 1981 budgets.

C. Use of U.S. Government Excess Property

Given the nature of the items the Zambians are interested in purchasing, it is unlikely that U.S. government excess property would be appropriate for financing under this loan. However, A.I.D. will review the possibilities for the financing of excess property under the loan.

D. Relation to Export-Import Bank Credits

The EXIM Bank has traditionally provided substantial financing for mining and transport equipment for Zambia. EXIM Bank has not extended any new credits to Zambia for several years, due primarily to Zambia's financial crisis. Possibilities for financing include U.S. railway signal equipment and U.S. aircraft for Zambia Airways.

VII. Conditions and Recommendations

A. Conditions Precedent

It is proposed that the Loan Agreement include a condition precedent that the GRZ prepare a detailed procurement plan by the end of January 1980. This procedure was established under past CIP loans and has expedited implementation and disbursement of those loans as described in Section VI.A. above.

B. Recommendations

It is recommended that AID authorize a US$ 20 million loan to the Government of the Republic of Zambia subject to the following terms:

(a) Repayment to A.I.D. in U.S. dollars within forty(40) years after the first disbursement, including a grace period not to exceed ten(10) years.

(b) Interest payable to A.I.D. in U.S. dollars at two percent(2%) during the grace period and three percent(3%) 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).

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

ANNEX A

Statistical Tables *

* Tables extracted from recent IMF documents.

Zambia: Gross Domestic Product by Industrial Origin, 1972-78

(In millions of kwacha)

	1972	1973	1974	1975	1976 1/	1977 1/	1978 1/
				(At current prices)			
Agriculture, forestry, and fishing	172.2	180.9	199.4	206.4	273.3	321.5	382
Of which: subsistence sector	(105.5)	(117.4)	(132.0)	(143.5)	(178.0)	(211.5)	(245)
Mining and quarrying	324.4	520.8	616.2	215.2	341.8	235.6	277
Manufacturing	181.4	195.3	237.5	250.3	275.6	314.0	394
Electricity, gas, and water	30.7	36.0	41.2	43.0	47.8	50.5	48
Construction	99.8	103.0	127.0	151.2	184.9	186.0	170
Commerce 2/	170.7	185.4	220.2	199.5	224.5	258.5	318
Transport, communications, and storage	63.5	64.5	75.5	88.5	118.5	135.5	144
Financial services 3/	79.7	89.3	101.5	120.5	141.4	155.5	167
Community, social, and personal services	193.4	208.7	235.0	268.5	309.3	345.5	382
Import duties	44.4	38.1	55.4	62.0	45.4	46.0	50
Less: imputed bank service charges	22.4	33.7	36.0	34.0	39.0	38.0	39
GDP	1,337.8	1,588.3	1,872.9	1,571.1	1,923.5	2,010.6	2,291
				(As per cent of total)			
Agriculture, forestry, and fishing	12.9	11.4	10.6	13.1	14.2	16.0	16.6
Of which: subsistence sector	(7.9)	(7.4)	(7.0)	(9.1)	(9.3)	(10.5)	(10.7)
Mining and quarrying	24.2	32.8	32.9	13.7	17.7	11.7	12.1
Manufacturing	13.6	12.3	12.7	15.9	14.3	15.6	17.2
Electricity, gas, and water	2.3	2.3	2.2	2.7	2.5	2.5	2.1
Construction	7.5	6.5	6.8	9.6	9.6	9.3	7.4
Commerce 3/	12.8	11.7	11.8	12.7	11.6	12.9	13.9
Transport, communications, and storage	4.7	4.0	4.0	5.6	6.2	6.7	6.3
Financial services 4/	6.0	5.6	5.4	7.7	7.4	7.7	7.3
Community, social, and personal services	14.4	13.1	12.5	17.1	16.1	17.2	16.6
Import duties	3.3	2.4	3.0	3.9	2.4	2.3	2.2
Less: imputed bank service charges	-1.7	-2.1	-1.9	-2.0	-2.0	-1.9	-1.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, Monthly Digest of Statistics; data provided by the Zambian authorities; and staff estimates.

1/ Provisional.
2/ Including hotels and restaurants, and business services.
3/ Including insurance and real estate.

ANNEX A
EXHIBIT 2

Zambia: Balance of Payments 1975-78

(In millions of SDRs) 1/

	1975	1976	1977	Preliminary 1978
Exports, f.o.b.	659.7	901.5	767.6	687.5
Imports, c.i.f.	-942.4	-737.8	-711.2	-624.9
Trade balance	-312.7	163.7	56.4	62.6
Investment income	-96.0	-132.2	-113.7	-102.8
Other services	-81.9	-50.2	-57.8	-62.3
Private transfers	-106.5	-103.6	-82.7	-84.8
Government transfers	4.3	9.2	12.6	19.5
Total	-280.0	-276.7	-241.6	-230.4
Current account balance	-592.7	-113.0	-185.2	-167.8
Capital transactions				
Government, net	108.5	34.2	16.8	53.1
Private long-term, net	209.8	70.4	-0.4	-38.1
Private short-term, net	15.6	-62.9	21.6	-18.0
Other 2/	-60.7	-94.1	-95.3	-36.2
Total	273.2	-52.4	-57.3	-39.2
Overall balance	-319.5	-165.4	-242.5	-207.0
Net foreign assets (increase -)	193.7	48.3	74.7	105.0
Payments arrears (decrease -)	130.5	125.8	170.2	102.0
Valuation adjustment	-4.7	-8.7	-2.5	--

Source: C.S.O. and staff estimates.

1/ Conversion rates 1975: K = SDR 1.278; 1976 K = SDR 1.2143; 1977 K = SDR 1.0848; and 1978 K = SDR 1.0034.
2/ Including errors and omissions.

ANNEX A
EXHIBIT 3

Zambia: Exports of Principal Commodities, 1974-78

(Values in millions of kwacha; volumes in thousands of tons; and unit value in kwacha per ton)

	1974	1975	1976	1977	1978 (Preliminary)
Copper					
Value	838.5	472.0	688.6	645.9	598.5
Volume	673.0	641.0	746.0	666.6	599.5
Unit value	1,245.0	736.0	923.0	969.0	998.0
Zinc					
Value	25.2	20.3	26.6	17.9	17.6
Volume	50.2	41.3	51.2	34.9	35.5
Unit value	502.0	492.0	520.0	513.0	496.0
Lead					
Value	7.2	5.7	4.4	5.7	3.3
Volume	18.8	19.4	14.8	10.9	6.7
Unit value	383.0	294.0	297.0	523.0	493.0
Cobalt					
Value	7.9	7.1	15.9	15.3	36.7
Volume	1.9	1.3	2.3	1.6	1.8
Unit value	4,158.0	5,462.0	6,913.0	9,562.0	20,389.0
Tobacco					
Value	5.8	5.0	5.1	5.8	3.7
Volume	4.9	5.3	4.6	3.5	...
Unit value	1,184.0	943.0	1,109.0	1,657.0	...
Other, value	20.5	10.9	11.3	17.9	23.6
Total, value	905.1	521.0	751.9	708.5	683.4

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

ANNEX A
EXHIBIT 4

Zambia: Imports by End-Use Categories, f.o.b., 1974-77

	1974	1975	1976	1977 (Preliminary)
	(In millions of kwacha)			
Total	506.6	597.6	468.7	530.0
Consumption, private and government	142.1	129.5	92.6	104.4
Food, beverages, and tobacco	38.1	30.1	20.5	21.0
Clothing and footwear	25.7	17.2	10.9	9.2
Fuel and light	1.5	1.5	2.1	5.1
Furniture and household equipment	22.8	19.5	17.1	22.7
Transport and communications	28.0	27.3	19.4	20.9
Other	27.0	33.9	22.6	25.5
Intermediate goods	258.0	334.7	266.4	289.6
Agriculture, forestry, and fishing	14.2	30.6	30.3	17.9
Mining and quarrying	27.7	37.0	27.6	28.5
Manufacturing	147.5	186.7	151.1	170.8
Construction	49.2	53.0	32.0	43.8
Electricity and water	7.6	8.7	9.6	9.8
Transport and communications	9.4	16.2	13.7	15.4
Other	2.4	2.5	2.0	3.4
Investment goods	106.5	133.4	109.7	136.0
Agriculture, forestry, and fishing	5.5	6.7	4.7	6.1
Mining and quarrying	24.6	35.0	37.8	41.4
Manufacturing	20.4	24.4	21.0	28.7
Construction	4.5	5.4	6.0	7.6
Electricity and water	7.0	8.8	8.4	10.9
Transport and communications	31.3	38.2	22.7	21.2
Other	13.2	14.9	9.1	20.1
	(Percentage distribution)			
Total	100.0	100.0	100.0	100.0
Consumption, private and government	28.1	21.7	19.8	19.7
Of which:				
food, beverages, and tobacco	(7.5)	(5.1)	(4.6)	(4.0)
clothing and footwear	(4.9)	(2.9)	(2.3)	(1.7)
transport and communications	(5.5)	(4.6)	(4.1)	(3.9)
Intermediate goods	50.9	56.0	56.8	54.6
Of which:				
agriculture	(2.8)	(5.1)	(6.4)	(3.4)
mining	(5.5)	(6.2)	(5.9)	(5.4)
manufacturing	(29.1)	(31.2)	(32.3)	(32.2)
construction	(9.7)	(8.9)	(6.8)	(8.3)
Investment goods	21.0	22.3	23.4	25.7
Of which:				
agriculture	(1.1)	(1.1)	(1.0)	(1.2)
mining	(4.9)	(5.9)	(8.1)	(7.8)
manufacturing	(4.0)	(4.1)	(4.5)	(5.4)
construction	(0.9)	(0.9)	(1.3)	(1.4)

Zambia: External Public and Publicly Guaranteed Debt, 1/ 1973-77

(In millions of U.S. dollars)

	1973	1974	1975	1976	1977
Debt disbursed and outstanding 2/	655.2	762.2	1,098.8	1,251.1	1,392.0
By type of debtor					
Government	454.7	531.3	636.4	683.2	719.0
Mining companies	69.6	74.6	232.5	285.5	276.7
Others	130.9	156.3	229.9	282.4	396.3
By type of creditors					
International organizations	93.1	137.6	195.8	265.9	310.0
Foreign governments	189.1	294.0	374.2	445.2	480.9
Financial institutions	268.9	240.6	402.2	407.4	373.9
Suppliers' credit	69.6	63.8	104.0	113.7	205.9
Others 3/	34.5	26.2	22.6	18.9	21.3
Total debt service	362.5 4/	105.6	88.4	112.7	180.7
Amortization	274.7	61.9	45.0	55.5	120.3
Interest	87.8	43.7	43.4	57.2	60.4
of which obligations due to					
Financial institutions	27.0	60.8	41.9	62.1	114.9
International organizations	9.6	13.3	15.6	18.9	25.8
Foreign governments	6.1	6.5	10.5	16.0	20.2
Suppliers' credit	12.6	14.4	19.1	14.6	18.4
Memorandum items:					
Outstanding debt/GDP	26.8	26.2	45.0	46.2	54.6
Total debt service/exports 5/	14.3	7.6	11.0	10.8	20.2

Source: International Bank for Reconstruction and Development.

1/ Debt with original maturity of one year and over.

2/ End of period.

3/ Mainly bonds sold in the United Kingdom.

4/ Of which US$200.5 million are due to payments of obligations rising from the nationalization of the mining companies in 1969.

5/ Excluding payments related to nationalization.

ANNEX A
EXHIBIT 6

Zambia: Central Government Finance, 1972-79

(In millions of kwacha)

	1972	1973	1974	1975	1976	1977	1978 1/	1979 Budget
:nue	298.9	386.9	651.0	462.3	462.0	510.7	582.9	615.0
.xes on mining	(55.7)	(110.6)	(339.2)	(59.3)	(11.6)	(0.1)	(—)	10.0
:her	(243.2)	(276.3)	(311.8)	(403.0)	(449.2)	(510.6)	(582.9)	605.0
.l expenditure and :t lending	476.9	516.2	566.6	776.2	731.9	770.1	779.2	849.7
:rrent expenditures	330.6	373.3	404.3	531.8	562.4	593.6	580.1	735.5
:pital expenditures	103.2	97.7	112.8	143.6	122.8	92.3	91.7	86.2
:t lending	43.1	45.2 2/	49.5	100.8	46.7	84.2	107.4	28.0
Current surplus or deficit (-)	-31.7	13.6	246.7	-69.5	-100.4	-82.9	2.8	-120.5
Overall surplus or deficit (-)	-178.0	-129.3	84.4	-313.9	-269.9	-259.4	-196.3	-234.5
:ncing	178.0	129.3	-84.4	313.9	269.9	259.4	196.3	234.5
:t foreign borrowing	15.4	41.7 3/	37.1	84.8	30.1	19.0	52.4	137.2
:t domestic borrowing	126.6	87.6	-121.5	229.1	239.8	240.4	139.8	94.7
Of which:								
banking system	(116.2)	(61.7)	(-127.0)	(239.7)	(237.2)	(219.8)	(93.0)	(94.3)
nonbank	(4.8)	(25.7)	(40.2)	(17.7)	(2.6)	(20.6)	(14.9)	(23.0)
others	(41.6)	(0.2)	(-34.7)	(-28.3)	(—)	(—)	(36.0)	(20.0)

:urces: Ministry of Finance, Financial Reports (Annual), 1972-77; Estimates of Revenue and :nditure, 1978; and data provided by the Zambian authorities.

' Preliminary estimate.
' Excludes ZIMCO bond redemption of K 149.8 million.
' Excludes Eurodollar loans of K 97 million used for ZIMCO bond redemption.

ANNEX A
EXHIBIT 7

Zambia: Budgetary Subsidies, 1972-79

(In millions of kwacha)

	1972	1973	1974	1975	1976	1977	1978 1/	1979 Budget
'otal subsidies	33.3	37.0	47.4	82.8	59.8	66.2	42.1	30.7
Maize subsidy	8.4	10.1	12.3	19.8	22.0	26.4	18.0	12.0
Fertilizer subsidy	3.7	2.7	8.4	32.9	22.1	17.7	12.1	6.4
Other	21.2	24.2	26.7	30.1	15.7	22.1	12.0	12.3
Of which:								
tobacco	1.6	0.1	2.9	3.4	2.2	2.3	3.0	3.5
Rural Development Council	—	2.6	1.0	1.1	0.7	1.1	1.0	1.1
Marketing agencies 2/	9.9	3.9	6.8	3.8	9.5	15.9	6.0	6.3
Cold storage Board	—	1.6	0.8	2.3	1.0	2.0	2.0	1.4

Sources: Ministry of Finance, Financial Report 1972-78; Estimates of Revenue and xpenditure, 1979; and data provided by the Ministry of Finance.

1/ Provisional.
2/ Covers subsidies on a variety of crops and agricultural inputs, mostly channeled hrough rural cooperatives.

ANNEX A
EXHIBIT 8

Zambia: Monetary Survey, 1976-79

(End of period)

	1976	1977	1978 Mar.	1978 June	1978 Sept.	1978 Dec.	1979 Mar.	1979 June 1/	1979 Sept. 1/	1979 Dec. 1/
	(Percentage changes from previous year)									
Domestic credit	33.2	29.9	30.8	26.9	22.3	18.0	9.7	14.5	11.8	8.8
Government 2/	(79.7)	(38.5)	(33.7)	(27.1)	(16.9)	(11.8)	(4.7)	(5.6)	(6.4)	(5.9)
Mining companies 2/	(6.8)	(75.1)	(96.8)	(127.5)	(94.1)	(73.0)	(77.8)	(30.4)	(14.8)	(7.4)
Others	(-1.3)	(8.3)	(4.7)	(-12.5)	(-2.3)	(--)	(-8.0)	(24.9)	(21.1)	(19.9)
Money	26.5	12.1	7.7	-2.7	-8.7	-8.5	-7.4	14.0	19.1	25.1
	(Contribution to growth in money supply) 3/									
Net foreign assets	-8.1	-11.0	-2.1	-8.0	-14.4	-18.3	6.8	--	-3.0	-6.1
Payments arrears 4/ (+ = decrease)	--	--	--	--	--	--	5.6	13.4	15.8	18.1
Domestic credit	48.1	50.3	12.9	14.8	22.7	32.6	-0.2	11.4	15.3	20.5
	(Changes in per cent of GDP) 5/									
Domestic credit	12.3	15.5	3.8	4.4	6.8	9.7	--	2.7	3.7	4.9
Money	6.8	3.7	0.4	-1.3	-2.1	-2.5	0.7	4.6	5.0	6.1

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

1/ Projections based on the policies included in the 1979 financial program.

2/ On April 1, 1978 debts of the mining companies to the Bank of Zambia and commercial banks amounting to K 178 million were consolidated and taken over by the Government. In calculating percentage changes the amount consolidated has been excluded from credit to Government and included in Bank of Zambia lending to the mining companies.

3/ Cumulative changes from the end of the previous year in per cent of the money supply outstanding at that time.

4/ Calculated for 1979 only, since the exact amount of commercial bank liabilities on account of external payments arrears is not known for the period prior to October 1978.

5/ [illegible]

ANNEX A
EXHIBIT 9

Zambia: Performance Under the Stand-By Arrangement

	1978			1979					
	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
				(In millions of kwacha)					
Net domestic assets of the banking system during the period ending:									
Ceiling	1,375	1,435	1,490	1,559	1,559	1,559	1,607	1,607	1,607
Actual	1,365	1,420	1,484	1,526	1,525	1,483	1,482	1,496	1,514
Net bank credit to the Government during the period ending: 1/									
Ceiling	1,023	1,043	1,068	1,102	1,102	1,102	1,117	1,117	1,117
Actual	1,015	1,026	1,063	1,084	1,086	1,065	1,086	1,090	1,108
Bank of Zambia lending to the mining companies during the period ending:									
Ceiling	77	102	120	150	150	150	150	150	150
Actual	77	101	119	112	112	96	85	80	80
				(In millions of SDRs)					
External payments arrears outstanding at the end of period:									
Ceiling	477	442	495	--	--	485	--	--	470
Actual	478	505	495	498	502	464	462	417	411

Sources: Zambia - Request for Stand-By Arrangement, EBS/78/190 as modified in EBS/78/422 and EBS/79/194; and data provided by the Zambian authorities.

1/ Defined as claims on Government minus government deposits plus any net use by the Government of the local currency counterpart related to the past and future purchases from the Fund as well as any borrowing on commercial terms for balance of payments purposes, i.e., not specifically linked to investment [illegible]

ANNEX A

Exhabit 10

Zambia: Balance of Payments Outlook, a Scenario for 1980-82

(In millions of SDRs)

	1980	1981	1982
Trade balance	53	84	284
Exports	954	1,108	1,447
Imports	901	1,024	1,163
Current balance 1/	-220	-221	40
Gross borrowing requirements 1/	577	675	409
Memorandum items:			
Volume of imports (1971-74 = 100)	65	69	75
Debt service ratio (in per cent)	18	17	14
Payments to cover elimination of arrears and scheduled IMF repurchases	188	278	178
Borrowing needed to bring external reserves to two months' imports	45	45	45

Note: The export forecast is based on the mining companies' estimates of production and the following world market price assumptions (US$ per pound):

	1980	1981	1982
Copper	0.85	1.00	1.25
Cobalt	30.25	33.28	36.60

Import prices expressed in SDR are assumed to rise by 6 per cent a year. A U.S. dollar/SDR rate of SDR 1 = US$1.30 is applied.

1/ Inclusive of interest payments on new borrowing.
2/ Required to finance the current account deficit, loan repayments, and the gradual elimination of external payments arrears, as well as to achieve the balance of payments target.

MF/L&T/IN/536

(3)

26th October, 1979

His Excellency Frank G. Wisner
United States Ambassador
LUSAKA

Your Excellency

A I D PROGRAMME LOAN

Zambia's economic development would largely depend on the success of our agricultural industry and the exploitation of the productive potential in our rural sector. In the light of our Third National Development Plan objectives and the sustained resource mobilisation efforts we have been following in the past, we request the United States Government to continue to extend maximum possible development assistance to Zambia during the 1979/80 fiscal year.

Your Excellency, Zambia is immensely grateful to the United States Government for the significant programme loan assistance we have received in the past which has resulted in a quick transfer of US resources vitally required for our agricultural and transportation sectors.

Our requirement of imported fertilisers for the year 1980 is estimated to cost about US$46m on the basis of global tenders just adjudicated. Possible bilateral aid from the other sources may cover supplies up to US$20 million, leaving a gap of US$26 million to be arranged for. Considering US supplies from past experience, this may have to be adjusted up to about US$28 million for price variations and freight differentials. We would also like the US Government to consider covering under the Commodity aid about US$2 million worth of road building and maintenance machinery and related spare parts.

Your Excellency, my officials are standing by to discuss any aspects of this request for US$30 million programme loan with the representatives of the US Government with a view to our being able to conclude an agreement in the matter as soon as possible.

Assuring Your Excellency of my highest consideration.

Yours sincerely

ANNEX C

Agricultural Sector Overview

An overview of Zambia's agricultural sector was presented in Section III A of the PAAD. Not unlike other countries at this stage of development, Zambia has a number of opportunities and constraints in its agricultural sector. Only those assessed as key areas are reviewed here. These assessments are based on discussions with and research by the GRZ, IMF, World Bank, AID, and others. Areas reviewed are land use, traditional and emergent farmers, credit, extension, commodities, research, fertilizer usage, parastatals, transport, pricing policy, and the GRZ agricultural development budget.

I. Opportunities and Constraints

A. Land Use

Zambia's total land area is about 74.3 million hectares. Of the 68 million hectares which is potentially arable, an estimated 18 million is currently available for agriculture. Presently, 14 million hectares is intermittently cropped and of this, only 2.1 million hectares is harvested annually. Thus, an average of 3% of the potentially arable land is under crops at any one time.

There are no near-term problems due to population. Approximately 3.4 million reside in the rural areas with a growth rate estimated (1976) at 1.6 percent. The subsistence sector rate is lower at 0.9%. These rates compare with a growth rate of about 3.0% nationwide. Rural-to-urban migration is the primary reason explaining the comparatively lower rates in the rural sector.

Research results suggest the technical viability of irrigation in certain areas. Estimates of potentially irrigable land range from one to ten million hectares. A line marked from the northeast corner across to Lusaka and south to Livingstone defines the upper limit of the high quality land. Irrigation would be used to supplement normal rainfall in selected areas north of the line which has been assessed as having significant production potential. The net result is that Zambia has production potentials far in excess of those needed to meet its own consumption needs.

B. Traditional and Emergent Farmers

Presently there are over 600,000 traditional and emergent farm families. They farm 78% and 18%, respectively, of the total harvested area. The remaining 4% is farmed by the large scale commercial farmers and parastatals.* A traditional farmer is defined by the GRZ as an operator depending on hoe cultivation with some animal power. Their production is primarily for home consumption with small amounts marketed through commercial channels. The emergent farmer employs either animal or tractor power and markets a large percentage of his/her crop. Lastly, the large scale commercial farmers and state farms utilize modern mechanized machinery and market all production. Agricultural production is generally diversified with food staples being the most important crops.

To illustrate the production potential of small holders, maize cultivation can be cited as an example. Maize yeilds are estimated at 8.5 bags or over 765 kilos per hectare for the traditional farmers. The mechanized farmers produce over 22.2 bags or around 2,000 kilos per hectare.** If the present low yields by the small farmers (traditional) are slightly increased, the results on total production would be significant since these farmers account for an estimated (1974) 78% of total harvested area.

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* Current estimates place the number of commercial farmers at around 400; of these about 100 are black Zambians and the rest are whites of which most have lived in Zambia for many years.

** The yield estimates used above were those used in the TNDP. Research, extension, and various other GRZ officials estimated the yields to be much higher. They feel the traditional farmer produces an average of 38.8 bags or 3,500 kilos per hectare, and the commercial farm yields about 72.2 bags or 6,500 kilos per hectare. Whichever set of yield estimates is used, the base relationship between the two groups remains the same.

Research and extension personnel believe the traditional farmers perceive the hybrid as a cash crop, thus producing it only as a relatively small percentage of their total maize crop. Adoption rates, they say, are increasing as more ground maize is distributed into the rural areas. Grinding corn is a laborious chore carried out by the women and is avoided whenever possible by selling the bagged corn and buying ground maize, called mealie meal, in return.*

The general constraint to improving maize yields and production is the lack of confirmed knowledge about the small holder's production process. More research is needed toward analyzing this sector which accounts for almost 96% of the farming operations and over 80% of the total area annually harvested. Other constraints are the current limitations of the extension, transport, and credit systems. These are discussed in further detail below.

The effect of pricing policy on maize production is an area of much confusion. It is not clear that prices for the traditional farmers are too low or appropriate. The REDSO team's analysis has yielded no clear cut results. The GRZ strongly feels small holder production costs are lower per hectare than those of the state and commercial farms. Furthermore the official maize price is determined by the cost of production on commercial farms. This coming crop year, the Ministry of Agriculture recommended an official price of 10.21 kwacha per bag; * however, the GRZ review process involving a number of ministries finally placed the price at 11.70 kwacha per bag. Given from whom the GRZ expects the increase in maize production from, pricing does not seem to be a problem. However, this topic of pricing policies is discussed in detail below.

C. Agricultural Credit

During the Second National Development Plan (1972-1976) agricultural credit was expanded with the result that over 90% of the Agricultural Finance Company Limited (AFC) offices lost money. Operations have been continually subsidized by the government through administrative grants.

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*No outside research was found to support or contradict the GRZ's scenario. The IMF, World Bank, and A.I.D. documents agree a potential for increasing production of traditional farmers exists, though none mentioned by what means this is to be accomplished.

*This includes a 12% rate of return on investment.

Problems with the credit program include lack of training facilities for those receiving loans, lack of manpower within AFC to adequately manage those loans, and insufficient resources to meet demand. Management problems were most prevalent with the accounting, processing and recovery of loans.

Realizing the importance of credit for the small holder, the government is planning to make the entire delivery system more effective by adding personnel, strengthening training, and by integrating the problem with other agricultural development activities. The credit revitalization program is an overly optimistic one which needs further support if any significant improvements are to be realized.

D. Extension Service

The GRZ's extension infrastructure, located throughout Zambia in over 450 locations, (called "village camps"), has the potential of reaching the majority of the traditional and emergent farmer groups. It is an institution staffed at the district, provincial and national levels of government. The Department of Agricultural Extension Services (Ministry of Agriculture and Water Development) currently employs about 1,200 people, of which 35 are agricultural university graduates, with the balance being either diploma or certificate level graduates.* Table I describes the breakdown of personnel by job classification.

Table I

Extension Service Employees by Job Classification

Job	Percent
Administration **	17
Professional Staff	5
Technical Staff	34
Field Staff	44
Total	100

*The SADAP review found that over 33 percent of the field staff had no secondary education. The discrepancy remains one of definition. As is discussed below, the problem is one of quality.

** includes secretarial and clerical personnel. Source: Mr. Mukutu, Chief, Agricultural Extension Services and AID/Zambia estimates

The current ratio of field staff per farm is one per 800. This ratio is projected to be reduced to one per 400 by 1983, the end of the TNDP. Given the annual attrition rate (5%) and the annual numbers of agricultural graduates qualified for the field staff position (approximately 140), the staffing goal is potentially within reach, though optimistic.

However, despite the service's suitable location and penetration possibilities, several areas of concern exist. These fall into the areas of expertise of all levels, nature of training received, role of women, and transportation equipment. Though the TNDP proposes to reduce the extension-to-farmer ratio from 800 to 400, it is still far from an acceptable ratio. Further work is needed to determine how the field staff can be increased above projected levels without excessive costs or an appreciable drop in quality. This is an area where AID could work collaborating with the GRZ to seek an acceptable solution.

Presently the extension system suffers from numerous field staff with inadequate education and on the job training. Though the ability of the technical staff is adequate, they evaluate their workloads as overwhelming. They generally request further training to improve their effectiveness in the areas of management, education and specific agricultural skills. Unless the level of field expertise is improved, the presence of the extension personnel will have minimal effect toward reaching TNDP goals. The lack of in-service training has the additional effect on stifling staff moral by denying access to the latest techniques and opportunities to improve their skills and thus their advancement aspirations.

The nature of training is also a serious problem. Two primary concerns noted by recipients are the redundancy of information and the importance of women in the agricultural production process. Training has also been criticized as being either too broad or too technical for general use.

A significant proportion of the food grown by Zambian farmers for domestic consumption is raised by women. In the rural areas women outnumber men two to one, with more than 20% of rural households having women as the only adults present. Further investigations are required to determine means of transfering improved technology to this group. REDSO is currently conducting a WID review in Zambia and AID/GRZ collaboration is feasible.

Another constraint on the extension service is the lack of communication facilities. Primarily, the field staff lack transport vehicles to get to the farmers. Bicycles, motorcycles, and spare parts for these and the existing transport fleet are sorely needed.

E. Commodities

The commodities reviewed are those where significant increases in production are possible, relative to the various alternatives available. They are maize, oilseeds, vegtables and beef cattle.

Maize This crop which is planted on about 50% of all harvested land has become the government's first priority for increasing food production. Though not neglecting the state and commerical farms, the emphasis will be on the emergent and traditional farmers. Since this crop was extensively discussed above, it is not repeated. The TNDP plan proposes to increase yields by one bag (90 kilos) per hectare. Its impact on marketed production is not clear though indications suggest it will increase* thus measurably helping ease Zambia's staple food problems.

The Department of Agriculture and Water Development has published a pamphlet titled "Crop Memo" which outlines a range of cultural practices for growing maize. The cultural practices recommended are based on the results derived from maize research conducted in Zambia. One of the recommended practices for farmers to increase maize production is the utilization of fertilizer materials. It is recommended that farmers apply approximately 200 kilograms of fertilizer materials to each hectare of land at planting time. Fertilizer treatment at the time of planting should be a compound of NPK -10-20-10. Later on during the growing season the maize should receive a side dressing of about 300 kilograms of urea.

By following the recommended levels of fertilizer treatments and utilizing hybrid seed a farmer can expect to receive a total yield of between 2 to 7 tons of maize per hectare. For illustrative purposes the potential impact in increased fertilizer usage is analyzed. The maize yields of the traditional farmers in Zambia range from 800 to 1,000 kilograms per hectare. In view of the relatively low yields being attained by traditional farmers a modest projected increase of about 1,000 to 1,200 kilograms of maize per hectare by applying a recommended rate of fertilizer materials and using improved seed is postulated. Consequently, if the current commodity import program

*Estimates of the percent of marketed production of total varies considerably from 40% to 80%. The various divisions within the GRZ differ on this point.

finances about 70,000 tons of fertilizer materials, it could be possible to fertilize about 140,000 hectares of maize land, following the application rates of the Ministry of Agriculture and Water Development.

This amount of land planted to maize under normal farming conditions where little or no fertilizer materials is applied usually will produce about 112,000 to 140,000 tons of maize. However, if fertilizer materials (procured through this loan) are applied to the maize crop, production can be expected to increase by 1,000 to 1,200 kilograms per hectare, or a total yield of 280,000 to 420,000 tons of maize from the 140,000 hectares receiving fertilizer applications. Therefore, if the 70,000 tons of fertilizer materials were applied by traditional small farmers to maize land , it would be possible to increase their total production by 168,000 to 280,000 tons. Though this is an illustrative example, increased fertilizer usage will contribute significantly to increasing maize production.

Oilseeds: The oilseed crops can together fill a void in Zambian agriculture. Past experience has shown that farmers respond rapidly to price incentives in these crops. For example, sunflower production increased rapidly from 16 tons in 1971 to over 15,000 tons by 1976 in response to price increases. When Zambia meets its oil needs, it will also result in a near self-sufficiency in stockfeed. Research shows the most promising crops to be sunflowers, groundnuts, and cottenseed Soybean, a relatively new crop in Zambia, also is showing favorable prospects.

Vegetables: Since NAMBOARD no longer sets prices for vegetables, free market forces have begun to respond. The constraints preventing larger production increases are related to transport and the availability of seeds at the appropriate time. Various agencies and donors are working on these problems.

Beef Cattle: It is believed that Zambia's natural resources give it a comparative advantage over surrounding countries in beef production. The TNDP plans to expand their livestock services, which currently reach 3% of the producers, and finance expansion in some remote regions. In spite of the boost livestock production has received, due to government pricing policies and gaps in the tax laws, experts still assess the beef cattle sector as one with great potential.

The constraints to increasing production of these commodities, briefly listed, are:

Maize:

(i) difficulty in obtaining agricultural credit;

(ii) late payments to farmers by GRZ after purchasing crop resulting in cash flow problems for small farmers;

(iii) transportation difficulties in getting the inputs to the farmer at the appropriate time and bringing the production out..

Sunflower:

(i) generally the same problems as maize

(ii) pricing relative to beef and maize is suggested by the World Bank and AID research to be the primary problem.

Other Oilseeds: input constraints, seeds;

Vegetables: input constraints, primarily seeds.

Beef Cattle:

(i) Technical and managerial problem in remote areas;

(ii) Manpower (extension reaches only 3% of cattle producers);

(iii) Transport

In addition, substantial production decreases were attributed to the unusual weather patterns which have occurred.

F. Research Program

The Minstry of Agriculture and Water Development (MAWD) has a major research station located at Mount Makulu and another eleven smaller experiment stations strategically located in provinces throughout the country. The research program at these various stations tends to specialize a number of constraints affecting production of cereal grains and oil seed crops.

Although Zambia has benefited from a long history of agricultural research, there has been a dearth of emphasis on the problem of small holders. Research results which were productive for large-scale commerical farmers generally led to problems when trying to transfer them to the small farmer groups. There has been a lack of coordination between the extension service and the research program which in part is due to short term contracting of expatriate experts. This problem is being directly addressed by the Mission's planned agricultural research and extension PID team arriving in early December.

Improvements are also needed in developing continuity and priorities in the research program and linking it with extension. Some improvements may result upon the return of several Zambian's now receiving advanced training overseas.

G. Transportation

A principle constraint on the agricultural sector is transportation, both roads and vehicles. Given the TNDP emphasis on expanding production of the small farmers, who are generally not located on the line of rail or paved road, the feeder roads need to be expanded and maintained and vehicles are needed to distribute inputs and collect production.

The Roads Department does not have the resources to maintain rural roads. This responsibility has been delegated to the provincial level where the resources do not exist either. Roads are generally not maintained. Those which need rebuilding have been financed by the already stapped MAWD. More funds are required just to prevent the present situation from deteriorating.

Given current production levels, NAMBOARD complains of the transport constraint of getting inputs in at the appropriate times and production out. If production increases, then there will be an even greater need for operating vehicles. Investment in the private or public transport sector is essential if Zambia's food production goals are to be realized and maintained. The World Bank is helping in this regard with a highway maintenance loan.

H. Pricing Policy

This area continues to be a sensitive and controversial topic of concern for both AID and GRZ. Uniform pricing of commodities, like maize, exacerbates transport and storage facilities preventing locational and regional advantages from being developed. The levels of producer consumer and input prices remain the most controversial aspect. Though the GRZ has eased pricing controls on several commodities and has decreased input subsides, the major staple, maize, continues to be closely controlled. The government has realized the impact of its policies and is moving toward decreasing the distortions caused by those policies. The impetus for those movements has come from the IMF, ILO, and World Bank recommendations and GRZ budget constraints.

More research is needed to determine if price adjustments are needed for all controlled commodities, and how much. Recalling the above discussion on maize, for example, suggests that maize pricing may be sufficient and no further adjustments are necessary until the cost relations change. However, to evaluate the effect of this year's pricing policy changes, close monitoring of the other factors bearing on production must be undertaken while waiting for next year's harvest. This could be undertaken by a joint AID/GRZ team as part of agricultual sector analysis. Pricing policies must not be blamed for low production when other factor's such as transport, credit, and lack of imputs actually may be the major causes. Nevertheless, Zambia's history of rapid production responses to price adjustments in certain commodities requires that price policies be carefully examined.

I. Agricultural Budget

Public outlays for agriculture in 1978 were proposed to be 17.8% of the total budget. This was a significant increase over the 1977 budget allocation of 12.8%. Prospects for the overall budget in 1979 show no planned increase; however, there has been a considerable relative shift among budget categories. Agriculture's share (48 million kwacha) has increased significantly, bringing it to about 24% of total outlays. This proposed increase will help, though planned requirements far exceed those needed in agriculture. Donor assistance can contribute towards filling the resource gap, but the more important factor is the commitment of the government to develop the agriculture sector. From 1972 to 1976 the precent of actual expenditures to planned outlays averaged 81% and actual expenditure to authorized outlays averaged 91.5%. Based on AIL/Zambia research and discussions, there is no reason to expect a downward shift in the near future.

II. Government of Zambia's Agricultrual Strategy

This section presents the GRZ's agricultural sector development strategy and priorities. The TNDP covers almost all possible areas of endeavor. It has, and justly so, been evaluated as an overly optimistic plan. However, the GRZ officials state that within the plan, the priorities of the government are clear. After briefly introducing the overall goals of the agricultural sector, the discussion focuses on those areas where the GRZ has placed their top priorities.

The Third National Development Plan (TNDP) sets forth rural development as the highest priority:

> "Rural development which has been given the highest priority in the TNDP calls for coordinated programs of development in the fields of agriculture, agro-industries, feeder roads, provisions of education and health facilities and such other activities as have bearing on the level of living in rural areas. The objectives of rural development in this chapter related to agriculture are:
>
> (1) To achieve self-reliance and self-sufficiency in staple foods, both nationally and regionally where feasible and to provide raw materials for the agro-industries:
>
> (2) To stimulate and increase production for exports;
>
> (3) To increase the contribution of the rural sector to GDP and to promote diversification of the rural economy;
>
> (4) To improve rural standards of living and nutritional status and to create a self-reliant and progressive rural society; and
>
> (5) To create new employment and income opportunities in rural areas in order to counteract rural-urban migration and to improve infrastuctural services related to increased productivity."*

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*Republic of Zambia, Third National Development Plan 1979-83, October, 1979 pp 143-144

A major strategy element toward achieving the above objectives will be the GRZ's efforts to encourage increased production by emergent and traditional farmers. The national agricultural research stations will engage in experimental activities concerning variety screening, fertilizer treatment, pesticide controls and husbandry practices to make them more appropriate for small holders.

The Ministry of Agriculture and Water Development will facilitate the transfer of new production technology by improving its ongoing extension service program. The extension service has agents assigned at the district, provincial and national levels. It is anticipated that field extension agents will be able to assist a large percentage of the traditional farmers to move from the traditional category to the emergent category. The TNDP call for the emergent farmer group to increase from its current 18% of total farmers to around 40% by 1983.

In addition to the regular extension program, the MAWD is continuing the support of the Lima Program. This specific program has been designed for the purpose of increasing maize production on the farms of traditional farmers. The Lima Program is primarily a "package of practices" type activity. The package includes improved seed, fertilizer materials, pest control chemicals and cultural guidelines for growing improved maize.*

Agricultural research at Mount Makulu, the main research station, and the eleven other provincial level stations is to be expanded. The future plans of the research network is to organize a number of multi-disciplinary research teams to deal with the following areas: (1) cereals,(2) farm machinery and tillage, (3) soil fertility, (4) oilseeds, (5) grain legumes, (6) plant protection, (7) tubers (8) fruit and tea, and (9) irrigation.

Support for credit institutions will be expanded and reorganized. A new agricultural development bank will be established to take over the functions of the existing Agricultural Finance Corporation (AFC) and the Cattle Finance Corporation (CFC) Courses and other training schemes are also planned.

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*The campaign type program is designed to assist the small holders to increase their maize production by encouraging the cooperating farmer to plant one-fourth of an acre to hybrid maize in rows using recommended levels of fertilizer, plant protection pesticides and improved husbandry practices

Though presently not a signficant constraint, storage facilities will also be expanded to accommodate the planned production increase.

The transport sector, separate from the MAWD, also has numerous planned activities. However, this sector's implementation rate was approximately 63% during the 1972-1976 period. Many of their plans remain overly optimistic in view of past experience.

The TNDP covers numerous other areas besides those discussed here. However, those summarized here are those which are most likely to receive the firm commitment of the GRZ's scarce resources.

III. Zambia's Priority Agricultural Needs

Since there are limitless needs, those assembled here are those which AID/Zambia and GRZ officials agreed as priority needs.

For the farmer to be able to increase maize production, fertilizers and credit facilities must be made available to the traditional and emergent farm sectors. This is not to be done at the expense of the commerical sector since they do produce over 30% of the marketed domestic maize crop. Present TNDP activities in these areas need further support if Zambia is to realize a significant part of its agricultural sector goals.

To make effective use of the expanded credit plans, the extension, financial and research organizations need to work more closely to produce an integrated production strategy. The distribution and collection system cannot be ignored. Failure to supply the needed inputs at the appropriate time disrupts producer confidence in government actions and directly reduces the quantity available for the large urban sector.

Maize pricing is not a settled issue. Further work is needed to study the small holder sector and determine the actual relationships between production costs and selling prices by farmer types.

In summary based on the above analyses, the potentials exist in the agricultural sector. The top priority of increasing maize production to close Zambia's staple food gap can be realized with increased support in fertilizers, agricultural credit, extension services and transportation improvements. It is not clear cut whether or not the current maize pricing policy is an incentive or disincentive to production. This needs to be monitored closely in the forthcoming months. Above all, it must also be kept in mind that in Zambia, maize is a political crop.

ANNEX D

Fertilizer Consumption, Supply, Use and Distribution

Fertilizer Consumption:

Zambia fertilizer consumption during the last several years has ranged from 150,000 to 196,000 metric tons as indicated below.

Years	Fertilizer Sales by AMBOARD (Metric Tons)
1976	150,774
1977	167,507
1978	196,200
1979	220,240 (estimated)

Source: NAMBOARD

Most of the fertilizer is sold in the southern, eastern, and central provinces.* In 1978, almost 80 percent of the fertilizer supply was sold in these provinces (See Table I.)

Fertilizer Supply:

Zambia's fertilizer production facilities are limited. Over 87 percent of the fertilizer purchased is imported. Almost all of the fertilizer materials imported are NPK compounds and urea. Table II presents Zambia's fertilizer purchased by type from 1975 including 1980's planned figures. Of the 188, 000 metric tons of fertilizer imported during 1978, almost 33 percent or 62,000 tons was financed by C.I.P. funds.

Fertilizer Purchases by NAMBOARD (Metric Tons)

Year	Domestic	Imported U.S.	Imported Total	Total Purchases
1975	19,000	--	121,000	140,000
1976	16,003	--	149,960	165,993
1977	26,866	26,000	198,910	175,776
1978	25,000	62,000	188,100	213,100
1979	N/A	70,000	N/A	N/A
1980 (Planned)	25,000	--	172,200	197,200

This program has become an important source of foreign exchange to finance Zambia's fertilizer imports, particularly NPK compounds. Planned fertilizer purchases for 1980 are below 1978's because NAMBOARD reports it has a 50,000 metric ton carry over from 1979. They say this is due to last year's poor weather which reduced farmer demand for the fertilizer.

Zambia is expanding its fertilizer production facilities. The only production plant, National Chemicals of Zambia at Kafue, currently manufactures an average of 25,000 metric tons of ammonium nitrate per annum. The remainder of Zambia's production potential is allocated toward meeting the domestic mining companies' demand for explosive materials.

New fertilizer facilities are targeted to start production in September, 1980. These facilities will enable National Chemical to increase its fertilizer output from an average of 25,000 to 142,000 metric tons. A major portion of the increases will be NPK mixtures. However, to manufacture those compounds it will be necessary to import large quantities of phosphate and potash.

Negotiations are currently underway to secure import supplies. There are local low grade phosphates potentially available, but initial plans are to import the ingredients to mix with locally produced nitrogen. In summary, to support Zambia's fertilizer consumption, significant levels of foreign exchange will be needed for the foreseeable future.

Fertilizer Use:

The principle crops receiving applications of fertilizer are maize, wheat, sunflower, sugar cane, and vegetable crops. MAWD officials report that the main crops being fertilized by all categories of farmers are maize, sugar cane, and wheat. AID/Zambia was unable to obtain a breakdown of the tonnages of fertilizer used on various crops. Analysis of the types and quantities of fertilizer Zambia is planning to purchase, past fertilizer sales by month, and past annual sales by fertilizer types, suggest that a significant quantity of fertilizer is utilized in staple food production, particularly, maize. This also supports the Government's stated goal of becoming self-sufficient in staple foods. The data analyzed is presented in Tables I thru IV. Table III also provides an example of the "softness" of the number of the numbers provided to AID.

The use of other locally produced fertilizer (i.e. manure) is limited, though research is underway to study the feasibility of expanding its use. Preliminary research, also suggests food production could be substantially increased if the available fertilizer were used properly. However, given the quantities currently utilized, their withdrawal would reduce production significantly below its current levels.

Fertilizer Distribution:

The National Agricultural Marketing Board (NAMBOARD) is the parastatal organization that has the responsibility for the procurement of cereals and the distribution and sale of agricultural inputs. NAMBOARD has a hierarchy at three levels: district, provincial and national. Its staff of trained agriculturalists are available to assist the farmers cooperatives and extension agents on technical production matters.

NAMBOARD is set up to be the sole procurement source for maize and sunflowers. While the NAMBOARD sales and procurement offices do buy other agriculturally produced commodities, they must compete with the private marketing channels available to farmers for marketing a large variety of other commodities, e.g., groundnuts, beans, sorghum, millet. Since these commodity prices are determined by the market, NAMBOARD becomes the residual purchase since their prices are usually lower.

Fertilizer materials are marketed through NAMBOARD which has about 800 sales distribution points (during peak season) strategically located throughout the country. In addition to the NAMBOARD sales outlets, there are several provincal sales and distribution points operated by the Provincial Cooperative Marketing Unions. Consequently, it appears the farmers do have a fairly accessible means to procure needed fertilizer materials.

NAMBOARD is the body which implements government pricing policies on maize. This has placed it into a non-profit position since it must sell maize below its purchase price.

Table I – Fertilizer Usage by Province with principle crops listed.

Province	* Principle Crops (Area in acres) 1970 – 71: Maize	Groundnuts	Sorghum	Bean	** Fertilizer Sales Tons – 1978
Central	203,000	1,000	11,200	1,200	33,083
Copperbelt and Northwestern	43,400	21,700	136,000	2,800	6,074
Eastern	297,300	4,300	2,300	6,500	17,713
Luapula	10,800	10,000	---	1,100	981
Northern	20,200	16,200	14,400	8,100	2,357
Southern	323,600	12,900	41,200	4,200	35,836
Western	124,100	---	10,700	---	1,853
Lusaka	---	---	---	---	12,764
Totals	1,022,400	126,200	104,800	24,000	110,661

* Republic of Zambia, Census of Agriculture 1970-71 (Second report)

** National Agricultural Marketing Board
Fertilizer Accumulative Sales as of 1/12/78

TABLE II

NATIONAL AGRICULTURAL MARKETING BOARD

FERTILIZER PURCHASES FOR 1975-78 AND 1980 PLANNED

	1975			1976			1977			1978			1980 PLANNED
	QUANITY M.T.	UNIT PRICE K.N.	VALUE (K000)	QUANITY M.T.	UNIT PRICE K.N.	VALUE (K000)	QUANITY M.T.	UNIT PRICE K.N.	VALUE (K000)	QUANITY M.T.	UNIT PRICE K.N.	VALUE (K000)	QUANITY M.T.
A	500	186.10	93	---	---	---	---	---	---	---	---	---	---
C	13,000	197.70	2,570	---	---	---	10,000	130.60	1,306	3,000	141.55	425	5,000
V	10,000	184.50	1,845	---	---	---	3,000	131.00	393	---	---	---	1,200
R	15,000	245.00	3,675	25,000	149.00	3,725	29,090	135.20	3,933	24,000	175.61	4,215	35,000
X	---	---	---	29,500	125.20	3,693	30,000	130.40	3,912	20,000	156.57	3,131	45,000
D	34,500	222.00	7,659	40,000	146.00	5,840	14,000	150.07	2,101	57,400	159.33	9,146	20,000
A/N	19,000	169.00	3,211	16,033	210.00	3,367	26,866	243.69	6,547	25,000	251.98	6,300	26,000
S/A	6,000	152.90	917	---	---	---	6,000	69.66	418	8,000	96.78	790	---
UREA	40,000	289.00	11,560	51,140	104.00	5,319	49,820	139.48	6,949	72,600	144.92	10,521	65,000
N/S	1,000	142.20	142	---	---	---	1,000	138.00	138	700	160.98	113	---
S/S	1,000	108.70	109	1,320	76.00	100	---	---	---	900	80.89	23	---
T/S	---	---	---	3,000	139.10	417	6,000	136.83	821	2,500	125.61	314	---
P/C	---	---	---	---	---	---	---	---	---	---	---	---	---
P/S	---	---	---	---	---	---	---	---	---	---	---	---	---
TOTAL	140,000	---	31,781	165,993	---	22,461	175,776	---	26,518	213,100	---	35,028	197,200*

N.B.

1. A/Nitrate is locally produced
2. All items except for A/N which is purchased on F.O.B. Kafue basis are valued landed at Parts

* -- Low figure due to 50,000 MT carry over from previous year. All of the fertilize is to be imported except 25,000 M/T of A/N to be purchased from Kafue.

Source: NAMBOARD

Table III Fertilizer Sales 1978

Month	Cumulative Tonnes	Monthly Sales Tonnes
January	16,591	16,591
February	24,535	7,944
March	31,360	6,825
April	31,125	---
May	34,294	3,169
June	36,502	2,208
July	38,427	1,925
August	41,211	2,784
September	40,652	---
October	60,822	20,170
November	84,024	23,202
December	110,665	26,631
	110,665*	111,449*

Source: Various NAMBOARD documents.

* The totals of the above cumulative and monthly columns should be the same. However, the discrepancy in these totals is not significant enough to question the overall reliability of the data.

TABLE IV

NATIONAL AGRICULTURAL MARKETING BOARD

F.I.P.S. DIVISION

COMPARATIVE FERTILIZER SALES 1976 – 1979 (IN METRIC TONNES)

TYPE	1976	1977	1978 (Est.)	1979 (Est.)
A	NIL	303	600	200
C	3,228	539	5,500	6,100
V	563	4,117	2,000	2,200
R	21,909	23,472	27,500	30,400
X	22,161	30,121	27,500	30,000
D	30,411	31,673	40,000	45,000
UREA	46,780	47,713	55,000	65,000
A/SULPHATE	715	2,197	6,600	8,000
A/NITRATE	17,284	25,339	25,000	25,000
S/NITRATE	708	254	900	1,000
P/CHLORIDE	38	134	100	200
SULPHATE	1	35	100	200
T.S.P.	1,325	1,480	4,400	4,840
S.S.B.	751	130	1,000	1,100
OTHERS	4,900	---	---	---
TOTAL	150,774	167,507	196,200	220,240

6

ANNEX E

USE OF COUNTERPART GENERATION: ZAMBIA CIP LOAN 611-K-003

Budget Heads Eligible for Local Currency Attribution*

Eligible Budget Heads	1978 K
320 Ministry of Local Government and Housing - Loans and Investments	7,543,114
321 Ministry of Finance - Loans and Investments	67,608,227
325 Ministry of Local Government and Housing	2,304,809
338 Ministry of Development Planning	236,762
344 Ministry of Labour and Social Service	153,308
346 Ministry of Health	2,054,994
351 Ministry of Power, Transport and Communications	3,928,515
355 Mechanical Services Department	12,067,431
364 Ministry of Public Works	19,648,032
380 Ministry of Education	7,920,033
385 Ministry of Water and Natural Resources	3,579,294
389 Ministry of Lands and Agriculture	15,339,720
	K 142,384,239

* Of total expenditures of K 142,384,239, K 37,500,000 was funded by counterpart generations under the CIP loan; K 45,576,000 was financed by other external assistance, and the remaining K 49,308,239 was funded by the GRZ.

Annex F
Page 1

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Zambia

Project Title: Zambia Commodity Import Loan

Funding: FY80 $20,000,000 (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.

IIE Prepared By: Forest Duncan, AFR/DR/SDP

Environmental Action Recommended: Negative Determination

Concurrence: AFR/DR/SDP:BBoyd for BB.

AFR/SA:MDagata

Assistant Administrator Decision:

APPROVED

DISAPPROVED

DATE 1/3/80

MEMORANDUM

TO: Warren Weiss AFR/DR/SA Date 12/19/79

FROM: Bruce Blackwell, AFR/DR/SDP

RE: ____ PID Review, ____ PP Review, ____ ECPR, ____ Other PAAD CIP

Country Zambia

✓ I have reviewed the environmental section of the document and find it in order.

____ I have reviewed the environmental section of the document and find it lacking as follows:

____ There is no Initial Environmental Examination (IEE). One will need to be prepared as soon as possible.

____ Other. ____

Other comments/observations: IEE page 68, Annex F recommends Negative Determination

____ I look forward to seeing you at the meeting on ____.

✓ I will be unable to attend the meeting on 12/19. Kindly advise this office of any action taken at the meeting.

For Office use.

IEE completed ____ yes ____ no. Threshold Decision ____ Date ____

Action taken ____.

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 (to less than one month's imports c.i.f.) and a large accumulation of payments arrears on imports. The GRZ has launched a program, including short-run 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 $20,000,000 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

In accordance with AID Reg. 16, paragraph 216-2 (f), it has been determined that a negative determination is appropriate regarding the environmental impact of this activity. As the proceeds of the loan and the companion grant will not be used for the purpose of carrying out a specifically identifiable project or projects, an Environmental Assessment or Environmental Impact Statement is not required.

ANNEX G

CHECKLIST OF STATUTORY CRITERIA

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?	No No
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No
3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	a. No b. Zambia has no ships under its registry. c. The question of Zambian aircraft carrying cargo to or from Cuba has not arisen to our knowled However, Zambia has diplo matic relations with Cuba and would be unlikely to enforce sanctions against Cuba at our behest.
4. FAA Sec 620(c). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	Yes. Secretarial Determi tion No 77-1 dated 10/28/

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

   We are not aware of any such case.

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

   No

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

   No.

   No

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

   (a) No

   (b) No

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

   No

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

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

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

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

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

Not applicable

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

(a) No

(b) No

13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

Under the FY 1976 assessment of defense expenditures as required by Sect. 620(s), it was concluded that there is no impediment to consideration of economic aid to Zambia. In 1976 the GRZ allocated approximately 7.9 percent of its GNP and 7.9 percent of Central Government Expenditures to defen

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

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

Current

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

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

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

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

B. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment: — Not applicable to this loan; however, Zambia's Third National Development Plan addresses most of these issues.

b. FAA Sec. 201 (b) (5), (7) & (8); Sec. 208; 211(a)(4), (7). Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution. — Zambia's Third National Development Plan emphasizes these items.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment. — Not applicable

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(3) Increasing the public's role in the developmental process.	Not applicable
(4) (a) Allocating available budgetary resources to development.	Not applicable
(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.	
(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	Not applicable
(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	Not applicable
c. FAA Sec. 201(b), 211 (a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?	Not applicable
d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?	Not applicable

2. Security Supporting Assistance Country Criteria

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

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?	Yes
c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Not applicable. This assistance is to be a loan.

NONPROJECT CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)	
(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	FY 80 Congressional Notification submitted
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	Yes
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No further legislative action is required to implement the program.
3. FAA Sec. 209, 619. Is assistance more efficiently and effectively givem through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	Not applicable
4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use	(a) Loan will finance import of commodities with long-term objective of increasing Zambia's ability to engage in international trade; (b) under AID Regulation I procedures

	of cooperatives, credit unions and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	private initiative and competition will be fostered; (c) no direct impact; (d) no direct impact; (e) Loan will promote efficiency through imports of needed commodities; and (f) no direct impact.
5.	FAA Sec. 601(b). Information and conclusion on how assistance 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).	Following Regulation I procedures, assumes there will be maximum private participation in transactions financed under the loan.
6.	FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	Not applicable
7.	FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	No. Not Applicable

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?	This loan will assist the GRZ in improving its balance of payments situation. Yes.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity	This loan will finance agricultural inputs to

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will (1) effectively involve the poot in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

assist the GRZ in developing rural areas and increasing food production.

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

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, is full account taken of needs of small farmers;

Not applicable

(2) [104] for population planning of health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

Not applicable

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;	Not applicable
(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	Not applicable
(a) to help alleviate energy problem;	Not applicable
(b) reconstruction after natural or manmade disaster;	Not applicable
(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	Not applicable
(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	Not applicable
(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	Not applicable
c. <u>FAA Sec. 207; Sec. 113</u>. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social develop-	Not applicable

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ment, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. 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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	Not applicable
e. FAA Sec. 201(b)(2)-(4) and (8); Sec. 201(e); Sec. 211(a)(1)-(3) and (8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?	Not applicable
f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.	See page 22, Section IV. A of Loan Paper.

3. Nonproject Criteria for Development Assistance (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

See page 14, Section II. B of Loan Paper

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

See page 16, Section II. E of Loan Paper

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

Not applicable

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

Not applicable

4. Additional Criteria for Alliance for Progress

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

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

Not applicable

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

Not applicable

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STANDARD ITEM CHECKLIST

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	Yes
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	No agricultural commodities are anticipated under this loan.
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	Yes
6. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	No agricultural commodities are anticipated under this loan.
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	Yes, thru the use of Letters of Commitment and Letters of Credit.

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8.	FAA Sec. 608(a). Will U.S. Government excess property be utilized wherever practicable in lieu of the procurement of new items?	Yes
9.	MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on provately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes
10.	International Air Transport. Fair Competitive Practices Act, 1974 If air transporation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?	This program is loan financed.

B. OTHER RESTRICTIONS

1.	FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the United States?	Yes
2.	FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?	Yes
3.	Will arrangement preclude use of financing:	
	a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations of to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations?	Yes
	b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?	Yes

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c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes
d. FAA Sec. 662. for CIA activities?	Yes
e. App. Sec. 103. to pay pensions, etc., for military personnel?	Yes
f. App. Sec. 106. to pay U.N. assessments?	Yes
g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending).	Yes

4.	FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? Can the country borrower service the loan on harder than standard development loan terms?	Yes, the U.S. and other international donors have determined that the GRZ should service loans on concessional terms.

MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

90%

50%