PD BAW 795

ZAMBIA

FY 85 COMMODITY IMPORT PROGRAM

Program Assistance Approval Document (PAAD)

August 1985

PAAD Number: 611-K-602
Project Number: 611-0070

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Larry Hausman

SUBJECT: P.A.A.D. Authorization: Zambia FY 1985 Commodity Import Program Grant (611-K-602) Project No. 611-0070

Problem: Your approval is required for a Commodity Import Program (CIP) grant of $10,000,000 from the Economic Support Fund appropriation to the Government of the Republic of Zambia (GRZ). The entire authorized amount will be obligated in FY 1985.

Discussion: The proposed grant will (1) provide short-term balance of payments relief, (2) provide urgently needed foreign exchange which will enable the GRZ to obtain critically needed commodities, and (3) contribute to the GRZ's objectives of accelerating agricultural development and diversification of the economy.

The FY 84 CIP grant was utilized to procure fertilizer raw materials to be used during the 1986/87 growing season. Since the need for fertilizer raw materials is not as critical this year as last, the FY 1985 CIP grant will be utilized to procure other critically needed agricultural commodities, as well as fertilizer raw materials, which include agricultural equipment, spare parts, tractor and truck tires, and ox-drawn equipment.

In addition, following the ECPR's recommendation, the FY 85 CIP grant may finance petroleum (including crude petroleum, motor oils, and kerosene) up to $10.0 million, the amount to be based on the USAID Director's determination of an acute shortage. Over the past six months, Zambia has experienced periodic shortages of petroleum, which have exacerbated serious economic problems and have had a negative impact on efforts to sustain progress in achieving growth in the agricultural sector. Because of these factors, inclusion of petroleum under this year's CIP is needed if the momentum in agricultural production is to be sustained.

The final mix of commodities to be imported under this year's CIP will be determined by the USAID/Zambia Director, in consultation with the GRZ, depending upon the need for and importance of the commodity in the context of Zambia's requirements. This determination will be documented in project implementation letters.

Each of the CIP activities authorized for Zambia since FY 1981 has contained several support measures which have played an important role in reinforcing the GRZ's determination and commitment to achieve growth in the agricultural sector. The GRZ has made

substantial progress in implementing these support measures which are an integral part of the AID/Zambia program. The FY 85 CIP proposes several support measures intended to maintain progress toward the AID/Zambia and GRZ goals of increased food production and small farmer incomes. The proposed support measures, which must be negotiated with the GRZ, are as follows:

1. Encourage efficiency in marketing by allowing (within one year of signing the Agreement) Cooperative Unions to sell across provincial borders and allowing millers/processors to buy from their preferred source.

2. Encourage efficiency in transportation by eliminating (within two years of signing the Agreement) subsidies to hauling parastatals and requiring that they charge full cost pricing.

3. Allow licensed private trading in all agricultural commodities (within one year of signing the Agreement).

4. Continue to make progress on the support measures initially set forth in the FY 84 CIP Grant Agreement (611-K-601) by following the scheduling plan in annex D of the PAAD.

Any substantive change in these support measures will be referred back to AA/AFR for approval.

The project review process has determined from the analysis in the Program Assistance Approval Document (PAAD) that:

1. The program grant approach is technically and economically sound;

2. The timing and funding of program activities are appropriately scheduled;

3. Sufficient planning has been done for the implementation, monitoring and evaluation of progress under this activity, and

4. All statutory criteria have been met.

An Initial Environmental Examination has been undertaken and a negative determination has been approved. The IEE can be found in Annex E of the PAAD.

Requests for the following waivers are included in the PAAD, annex B, and are attached as Tab B for your approval:

1) Code 941 procurement of ox-drawn animal implements; and

2) Code 941, or Code 899 to the extent that freight tender demonstrates that code 941 flag vessels are unavailable, for ocean transport of fertilizer raw materials. SER/COM's clearance on the PAAD facesheet indicates their concurrence with these waiver requests.

In addition, a waiver for Code 899 procurement of up to $10.0 million of petroleum (including crude petroleum, motor fuels, and kerosene) has been prepared for the Administrator's signature and is circulating separately. A copy is attached as Tab C.

The FY 85 PAAD was initially submitted to AID/W in December 1984, and an issues meeting was held on February 1, 1985. However, the ECPR scheduled at that time was postponed because of issues arising from newly-announced GRZ agricultural policy decisions. AID/Zambia provided updated information on these policy decisions in mid-March. Then, in late April Zambia experienced a severe fuel shortage which had a profound effect on the economy. Because of the need, under these circumstances, to review the recommended commodity mix, the ECPR was again postponed. An ECPR was finally held on June 4, 1985.

This CIP is subject to the mixed credit requirement and the Grant Agreement will contain the prescribed clauses.

No Congressional Notification was submitted as this activity appears on page 545 of the FY 1985 Congressional Presentation.

The USAID/Zambia Mission Director, John Patterson, will be the AID officer responsible for this program in Zambia and the Project Officer in AFR/PD/SAP, Karen Nurick, will be responsible for backstopping the program in AID/W.

There are presently no significant human rights issues in Zambia.

Recommendation: After the Administrator signs the petroleum waiver, that you sign the face-sheet of the attached PAAD, thereby authorizing the proposed activity in the amount of $10,000,000 and approving the requested waivers.

Attachments: Tab A, PAAD facesheet
Tab B, Waiver requests from annex B of the PAAD
Tab C, Copy of waiver for 899 procurement of petroleum PAAD

Clearances:

DAA/AFR/ESA	: E. L. Saiers		Date 8/9/85
AFR/PD/SAP	: W. Stickel		Date
AFR/SA	: R. Carlson		Date 8/5/85
AFR/DP	: H. Johnson		Date 8/6/85
SER/COM/ALI	: P. Hagan		Date 8/5/85
GC/AFR	: M. A. Kleijan	MAK	Date 8/7/85
AFR/PMR/CONT	: FBrown	CTR	Date 8/7/85

AFR/PD/SA:AHarding:ah:7/29/85:0003L

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 611-K-602 Project No. 611-0070
2. Country: ZAMBIA
3. Category: Commodity Financing Standard Proc
4. Date: August 2, 1985
5. To: Mark L. Edelman, Ass't. Admin. for Africa
6. OYB Change Number: N/A
7. From: John A. Patterson, AID Representative
8. OYB Increase: N/A
   To be taken from: FY 85 CSF Account
9. Approval Requested for Commitment of: $10,000,000
10. Appropriation Budget Plan Code
11. Type Funding: ☐ Loan ☒ Grant
12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None
13. Estimated Delivery Period: Oct. 1985-Sept. 1986
14. Transaction Eligibility: Grant Obligatio
15. Commodities Financed

Commodities for the agriculture sector including fertilizer raw materials, agricultural equipment, spare parts, tractor and truck tires, and ox-drawn equipment. In addition this grant may finance petroleum.

16. Permitted Source
    U.S. only $10,000,000
    Limited F.W.
    Free World
    Cash
17. Estimated Source
    U.S. $10,000,000 Code 899
    Industrialized Countries
    Local
    Other

18. Summary Description

The grant will provide: (1) short-term balance of payments relief; (2) urgently needed foreign exchange for critically needed commodities; and (3) assistance in accelerating the GRZ's agricultural development and economic diversification objectives.

Support measures, described on pg 37 and annex D, will encourage: efficient marketing by allowing cooperatives to sell across provincial borders and agro-processors to purchase from their preferred sources of supply; more efficient transportation by eliminating subsidies to transport parastatals; and more efficient market allocation by permitting licensed private trading in agricultural commodities. The Grant Agreement will also reemphasize the support measures agreed to in previous CIP's relating to more economic pricing of farm inputs and crops and elimination of various subsidies.

Local currency from counterpart funds generated by the grant will be used for activities supporting the policy changes designed to enhance agricultural production and small farmer income.

The PAAD includes the following waivers, described in annex B: 1) Code 941 or 899 procurement of ocean transport services for fertilizer raw materials; and 2) Code 941 procurement of ox-drawn implements. In addition, a waiver for Code 899 procurement of petroleum has been prepared for the A/AID's approval.

Clearances	Date
A/AFR: E.L. Selers	
R/PD: L. Hausman	8-6-85
R/COM/ALI: WSchmelsser	
R/SA: RCarlson	8-5-85
R/DP: HJohnson	8-6-85
/PAFD: E.S. Owens	8-9-85
/AFR: MAKleinlan	8-7-85

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: Mark L. Edelman
Title: Assistant Administrator
Date: 8/9/85

1120-1 (5-82)

CLASSIFICATION:

ACRONYMS

AFC	Agricultural Finance Corporation
BOP	Balance of Payments
CCS	Cooperative Credit Scheme (part of ZCF)
CG	Consultative Group (meeting of May 1984)
CIP	Commodity Import Program
CPI	Consumer Price Index
CSO	Central Statistical Office
EEC	European Economic Community
EP	Expenditure Program
GDP	Gross Domestic Product
GDY	Gross Domestic Income
GRZ	Government of the Republic of Zambia
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (part of the World Bank group)
IMF	International Monetary Fund
INDECO	Industrial Development Corporation
IPD	Implicit Price Deflator
Kwacha (K or Kw)	Local currency, K1.95 equals U.S.$1.00 as of November 11, 198
MAWD	Ministry of Agriculture and Water Development
NAMBOARD	National Agriculture Marketing Board
NCDP	National Commission for Development Planning
NCZ	Nitrogen Chemicals of Zambia (Fertilizer Factory)
PCU	Provincial Cooperative Unions
SDR	Special Drawing Rights (1983 average: 1 SDR = $1.069)
SIDA	Swedish International Development Agency
TNDP	Third National Development Plan
ZADB	Zambian Agricultural Development Bank
ZCCM	Zambia Copper Corporation of Mines
ZCF	Zambia Cooperative Federation
ZIMCO	Zambia Industrial and Mining Corporation

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K. Macroeconomic Analysis and Data

PAAD Design Team
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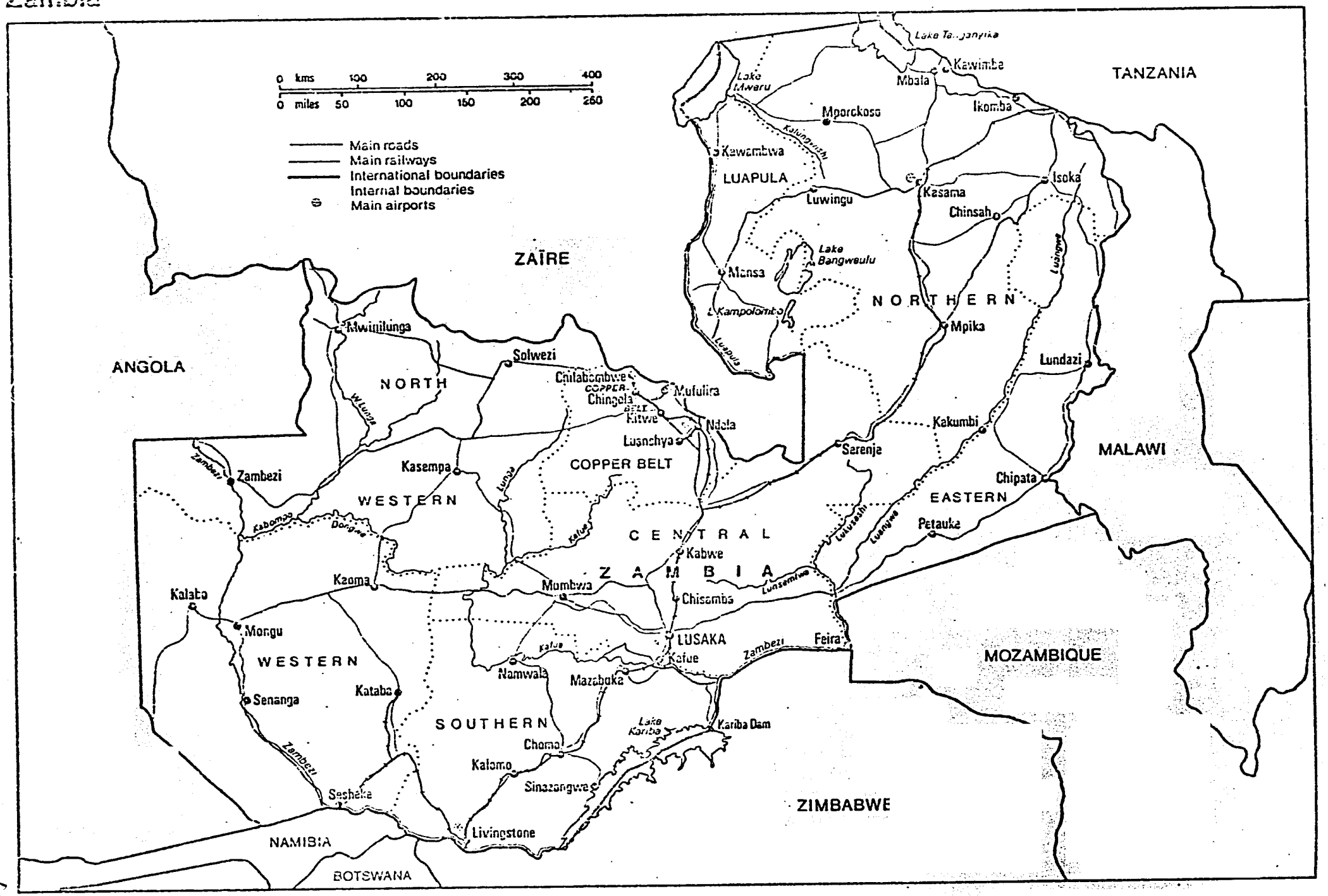
Zambia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Main roads
Main railways
International boundaries
Internal boundaries
Main airports
ZAÏRE
TANZANIA
ANGOLA
MALAWI
MOZAMBIQUE
ZIMBABWE
NAMIBIA
BOTSWANA
Lake Tanganyika
Lake Mweru
Kawimbe
Mbala
Ikomba
Mporokoso
Kawambwa
LUAPULA
Luwingu
Kasama
Isoka
Chinsali
Lake Bangweulu
Mansa
Kampolombo
NORTHERN
Mpika
Lundazi
Mwinilunga
NORTH
Solwezi
Chilabombwe
COPPER BELT
Chingola
Mufulira
Kitwe
Ndola
Luanshya
Kakumbi
Serenje
Chipata
EASTERN
Petauke
Zambezi
Kasempa
WESTERN
COPPER BELT
CENTRAL
Kabwe
ZAMBIA
Kaoma
Mumbwa
Chisamba
Kalabo
Mongu
WESTERN
LUSAKA
Kafue
Feira
Namwala
Mazabuka
Kataba
Senanga
SOUTHERN
Lake Kariba
Kariba Dam
Choma
Kalomo
Sinazongwe
Sesheke
Livingstone
Zambezi
Kabompo
Dongwe
Kafue
Lunga
Luanga
Lufupa
Luanshya
Lufwanyama
Lusemfwa
Luangwa
Lufubu
Kalungwishi

PROPOSED FY 1985 AID COMMODITY IMPORT PROGRAM FOR ZAMBIA

Summary

Zambia's economy depends on metals, primarily copper, which constitute over 90 percent of export earnings. The country's foreign exchange reserves are therefore extremely volatile, dependent on the level of world copper prices. The real purchasing power of Zambia's exports has fallen by 60 percent in the past decade, due to declining real copper prices, and this loss of foreign exchange was offset by heavy borrowing. Some 92 percent of exports now go to debt service. Zambia's adjustment to its worsening terms of trade has been compounded by inappropriate domestic policies in the past in other sectors especially agriculture.

In the face of these overwhelming difficulties, the AID program in Zambia has included a heavy emphasis on balance of payments support, consistent with the recommendations of the May 1984 meeting of the Consultative Group on Zambia, through Commodity Import and Food Aid (PL480) Programs. AID/Zambia has used the leverage of this assistance and complementary projects in Agriculture Planning and Training (611-0075) and Agriculture Research and Extension (611-0201), in concert with pressure from the International Monetary Fund and the World Bank to encourage the GRZ to undertake important macro-and micro-economic policy and technological changes targeted increasing food production and small farmer incomes. One major change recently implemented by the GRZ was increased producer prices for maize for the 1983/84 season, followed by a 22 percent increase in consumer prices for maize meal on July 1, 1984.

The importance of the CIP for Zambia is highlighted by recent IMF findings which concluded that Zambia must obtain additional debt rescheduling and exceptional balance of payments assistance for the next two to five years, and "the success of orderly adjustment policies will hinge largely upon obtaining this aid". A.I.D.'s policy dialogue on adjustment is thus inextricably linked to providing balance of payments support through the CIP.

Therefore, following on similar assistance provided to Zambia since 1977, a quick disbursing, highly visible $10 million FY 1985 ESF-funded commodity import program grant is proposed for obligation. The serious shortage of foreign exchange has limited the GRZ's access to imported materials to carry out normal operations. The CIP-financed inputs, will finance an illustrative list of eligible commodities which include agricultural machinery, spare parts, ox-drawn equipment, tractor and truck tires, and petroleum, including crude petroleum, motor fuels and kerosene.

The support measures and petroleum (Chapter V, Section D.) will encourage more efficient transportation by eliminating subsidies to transport parastatals; and more efficient market allocation by permitting licensed private trading in agricultural commodities. The Grant Agreement will also re-emphasize support measures which were agreed to in last year's CIP (Annex D) and which are to be implemented during 1985-87, relating to more economic pricing of farm inputs and crops, and elimination of various subsidies.

The foreign exchange provided under this CIP grant will finance critically needed commodities which will help Zambia's economy in the short run, and the local currency generated from the sale of these imported commodities in Zambia may be applied to a prioritized list of activities mutually agreed upon between AID/Zambia and the GRZ.

The shortage of foreign exchange has curtailed imports of agricultural inputs, specifically tractors, farm equipment, spare parts, and ox-drawn equipment, as well as equipment and parts for agro-processing, and petroleum. A significant demand exists for expanding tillage power given Zambia's large reserve of arable but uncultivated land, and the list of commodities eligible for financing under this CIP respond to the GRZ's request for assistance in meeting this demand.

The implementing agency for the CIP will be the Ministry of Finance, which will provide a detailed procurement plan prior to any AID disbursements. NCZ fertilizer solicitations, widely advertised in the U.S., will be awarded through formal competitive bidding; Zambian distributorships and other private firms will import most agricultural equipment under negotiated procurement procedures. Suppliers will be paid via U.S. bank letters of credit or by AID direct Letters of Commitment. It is estimated that all shipments will arrive within 12 months of signing the CIP Agreement. Waivers will be requested to permit procurement of petroleum as well as regionally manufactured ox-drawn equipment and, if necessary, non-US shipping services.

Public and private entities receiving foreign exchange allocations under the CIP Grant will be required to deposit equivalent kwacha amounts into a special counterpart fund. The local currency generated from the CIP will be programmed for activities jointly agreed upon by GRZ and AID in support of the economic policy changes sought.

II. Political Background

For the decade 1954 - 1963, Zambia (then Northern Rhodesia) formed part of the Federation of Rhodesia and Nyasaland. Since independence in 1964 Zambia has been led by President Kenneth David Kaunda with a unicameral legislature and independent judiciary. The sole legal party is the United National Independent Party (UNIP). The UNIP Central Committee determines the broad guidelines of national policy which are undertaken by the Cabinet and government.

Although President Kaunda possesses sweeping emergency powers to suspend certain rights in the "interest of state security", basic human rights are generally observed. Zambian institutions such as the judiciary, press, and labor movements have maintained their status and influence. Kenneth Kaunda was the sole presidential candidate in the 1983 elections receiving a "yes" vote of 93 percent, and was reelected for his fifth consecutive five-year term. While a one-party state, elections at the local level are heavily contested and over 760 candidates ran for the 125 national assembly seats in the 1983 Parliamentary elections.

In its international relations, Zambia has long had to pay the price of its sensitive position in the troubled southern African region. This, and the fact that the country is landlocked, have made Zambia's first priority the need to keep open its transportation and communications links with the outside world. Therefore, in foreign affairs Zambia follows a policy of nonalignment. Zambia has concentrated its efforts at gaining independence for the countries of southern Africa and in advocating majority rule in the Republic of South Africa. Zambia played a crucial role in the independence of Mozambique, Angola and Zimbabwe and currently is in the center of discussions among the key parties involved in Namibian independence.

This mediatory role is further reinforced by Kaunda's emergence as one of Africa's elder statesmen, and his active Zambian participation in the Southern African Development Conference (SADCC) and the Preferential Trade Area for Eastern and Southern Africa (PTA), a group of 14 countries which envisage the creation of a free trade area. Zambia is also a signatory to the Lome convention of the European Economic Commission.

Zambian relations with the United States are excellent. The two countries share many basic beliefs and ideals. In the southern African context there are differences of perception regarding U.S. tactics on the Namibian issue as well as the degree of leverage the U.S. can bring to bear on South Africa itself. Nevertheless the U.S. is in agreement with the Government of the Republic of Zambia (GRZ) on the advocacy of peaceful change and the strategy of reaching settlement through negotiations.

U.S. objectives are to encourage Zambian stability, self-reliance, and growth so that the country can pursue economic development despite the political and military turmoil in the region. Given its strategic position in Southern Africa, a secure and prosperous Zambia will help stability in the region as a whole, ensure continued access to Zambia's strategic minerals, and enable the country to continue to pursue actively initiatives aimed at seeking peaceful solutions to the conflicts in the area. As a leading member of the region's front lines states, Zambia plays a vital role in efforts to resolve conflicts in Namibia and Angola.

III. MACROECONOMIC ANALYSIS

A. Background

Zambia has a population of 6.4 million, 40% of which lives in urban areas, one of the most urbanized of African developing countries, increasing 3.1% annually. Since 1960, the population has doubled. Largely because of declining copper prices and rapid population growth, real GNP per capita declined 21% from 1970 through 1983. In spite of the major decline, per capita GNP is higher in Zambia than in most neighboring subsaharan countries. Mining is the key sector of the economy, contributing 25 to 35 percent of value added and 90 percent of foreign exchange earnings. With 65% decline in copper prices since 1970 and the steady rise in prices of imported goods, the terms of trade have become very unfavorable, seriously restricting imports which remain below the peak volume financed in the mid-1970's. Real GDP has remained stagnant since 1978 in both the mining and non-mining sectors, and production and employment have declined in the manufacturing sector which operates at less than 40% of capacity. Agricultural and food production have not kept pace with increases in population since 1978, falling 9% below the 1969-71 average. The rate of annual growth of food and agricultural production was about 50% lower in the 1970's than in the 1960's. In short, economic conditions have deteriorated to a severe foreign exchange and economic crisis (Annex K).

Pricing and subsidy policies have favored the urban consumer at the expense of agriculture, depressing farm income and marketed output. Controlled industrial prices led to low profitability in the manufacturing sector and decreased corporate savings. Tax incentives and low interest rates encouraged capital-intensive investment. An overvalued exchange rate and tariffs that were high on finished products and low or zero on intermediate and capital goods, encouraged use of imported materials and other imports, and discouraged exports and the use of local materials. As a result, the productive structure is capital and import-intensive. Industrial development policy has emphasized import-substitution, primarily production of consumer goods. A recent IBRD study showed that relatively large, early industrial growth in Zambia was achieved at the expense of increasing factor costs. Total factor productivity in manufacturing, i.e. efficiency in the use of capital and labor, declined 3.8% annually from 1965 to 1980 as unit costs

of production in the manufacturing sector have increased. However, development resource costs in production of food products, some textiles, wood products and fabricated metal products are competitive, and many agricultural crops are highly competitive at international prices.

The economy is a mixed, public-private system with emphasis on government participation through parastatal organizations. Over half of the GDP is generated by parastatals which are predominant except in construction and agriculture. Parastatal companies have been major users of foreign exchange, absorbing 40% of merchandise imports in recent years but contributing little to foreign exchange earnings and paying only about 20% of company tax revenues. The Industrial Development Corporation Limited (INDECO), the Government holding company, contributed 75% of industrial output in 1983.

B. Balance of Payments

Balance of payments problems began to emerge in 1975 with current account deficits rising to 76 percent of exports and net factor services in 1981.

CURRENT ACCOUNT BALANCE, 1974-83

($ Million)

Year	Export of Goods, NFS	Current Account Balance	Percent of Exports, NFS
1974	1,467	5	1/
1975-79	1,101	-295	27
1980	1,611	-649	40
1981	1,126	-853	76
1982	1,050	-716	68
1983 2/	1,065	-306	29

1/ Less than 1.
2/ Estimated.

Source: IBRD, Zambia Country Economic Memorandum, April 1984, p.4. See Table K8.

At the end of 1983, total external public debt outstanding was $3.3 billion, external payments arrears were about SDR 635 million, exports were SDR 853 million, and imports were SDR 775 million.[1/] Import restrictions, through import licensing and foreign exchange allocations, became increasingly tight. Spare parts and other maintenance equipment have become scarce, leading to a large backlog of rehabilitation and replacement requirements. Scarcity of imported raw materials and intermediate goods has resulted in substantial idle capacity and unemployment. In nominal terms, imports have declined over 60% since 1980 but the decline has not been sufficient to offset reductions in foreign exchange earnings.

Although diversification and reduced dependence on copper have been national objectives since independence in 1964, copper exports have continued to provide 90% of foreign exchange earnings. Real copper prices are not expected to recover significantly through 1990. Moreover, economically exploitable reserves of copper ore are sufficient only to maintain production for another 15 to 20 years, after which copper production is expected to decline.

To finance current account deficits, medium-and long-term public and publicly guaranteed external loans were increased from an annual average $235 million in 1975-1977 to $700 million in 1979 and 1980, declining to $400 million in 1981 and 1982. The GRZ also resorted more to short-term borrowing. Over 1975-1983, IMF drawings were SDR 987.5 million, the largest, SDR 359.3 million was in 1981, the first year of a three-year Extended Fund Facility program (EFF), which was cancelled in 1982 because agreement could not be reached on a stabilization program. In April 1983, the GRZ and the IMF agreed on a new standby arrangement predicated on policy measures taken in December 1982 and January 1983, including 20% devaluation, general price decontrol, increased interest rates, reduced budgetary deficit, freezing government salaries, a 10% ceiling on other wage increases, debt rescheduling and a flexible exchange rate system. In 1983, the current account deficit improved, reflecting the IMF stabilization program and reduced commercial credit for imports. Arrears were reduced from SDR 947 million in 1982 to about SDR 635 million. A second IMF standby arrangement was approved in July, 1984, for SDR 225 million, and a review in September 1984 indicated that most performance measures had been implemented.

1/ The conversion rate, average for 1983 was $1.069 = 1SDR

Debt service obligations have increased rapidly from less than 8% of export earnings in 1974 to 104% in 1984. In 1983, GRZ was unable to pay debt service obligations fully, and sought debt rescheduling. In May, 1983, agreement was reached with the members of the Paris Club, OECD countries, by which $320 million of debt payments due in 1983 was rescheduled, setting the pattern for rescheduling with non-Paris Club members and other creditors to whom the bulk of the debt is owed. Debt service is expected to average nearly 90% of export earnings over the next five years.

As summarized in the following table, AID, IMF, and the IBRD have encouraged the GRZ to undertake a wide range of economic policy changes since 1982, including a 60% depreciation of the kwacha relative to the dollar, introduction of a flexible exchange rate, increased producer and consumer prices, reduced subsidies, liberalization and privatization of marketing, reforms in the foreign exchange allocation/retention system, increased tariffs on capital imports, increased interest rates, preferential tax treatment of non-traditional exports, and reduced farm taxes.

Orderly implementation of adjustment policies hinges on Zambia's obtaining additional debt rescheduling and balance of payments assistance over the next five or more years, given the magnitude and duration of the foreign exchange crisis. The FY 1985 CIP is proposed in this context.

MAJOR ECONOMIC POLICY CHANGES, 1983 AND 1984, ENCOURAGED BY AID, WORLD BANK, AND INTERNATIONAL MONETARY UNIT

A.I.D.

1 Producer and consumer price of wheat and flour decontrolled

2 Other producer price increases, 7-50%

3 Producer price of maize raised 32%, from K18.50 to K24.50 per 90-Kilo bag, and then and additional 16% to K28.32

4 Maize handling subsidy reduced to K7 million; 30-40% consumer price increase

5 Fertilizer subsidy reduced to K19.9 million; 62% producer price increase from K14.90 to K24.20 per 50-kilo bag, and then an additional; 18% increase to K28.60

6 Provincial cooperative unions given responsibility for buying agricultural commodities, supplying inputs, and permission to sell maize to millers within the province

7 Private marketing of agricultural commodities permitted where NAMBOARD has inadequate facilities.

8 Savings and loan interest levels raised

9 Farm tax rate reduced

10 Kwacha float and devaluation

11 Farmers permitted to retain 50% of foreign exchange earnings

WORLD BANK

1 Wheat prices decontrolled

2 NAMBOARD and PCU's procurement prices increased to full cost recovery by 5/87

3 Tractor hire fees increased to 50% of full cost recovery, with view to increase to 100% recovery

4 Private marketing of maize and fertilizer permitted in areas where NAMBOARD facilities are inadequate

5 1/ Increased emphasis on market rather than administrative resource allocation mechanisms

6[1/] Incentive structure more neutral among producing activities and neutral between import substitutes and exports

7[1/] Selective promotion of new industries

8[1/] Emphasis on industry/agriculture linkages

9[1/] Balance between public/private industrial investment

IMF

1 Prices of beer, maize, fertilizer, petroleum, increased

2 Decontrol of bread and flour prices

3 Interest rates increased

4 Agricultural credit expanded through creation of Zambian Agricultural Development Bank

5 Preferential tax treatment for non-traditional exports

6 Excise taxes introduced on cigarettes, alcohol, petroleum, soft drinks

7 Increased taxes on imported capital goods, with basis changed from f.o.b. to c.i.f.; 10% minimum duty

8 Kwacha devaluation and float

9 Foreign exchange allocation system of import licenses improved, prioritized

10 State mining company ZCCM permitted to retain 35% of foreign exchange earnings

11 Non-mineral exporters permitted to retain 50% of foreign exchange earnings

12 Mineral exploration encouraged through prospecting license reforms; legalization of private sector emerald mining and marketing with 10% foreign exchange retention

13 Government salary increase restricted to 5% applicable only to lowest paid employees; hiring freeze; 10% cap on non-government raises

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1/ Items 5 through 9 have not yet been implemented

C. Policy Reforms

In July 1984, the GRZ agreed with IMF on a stabilization program for 1984-85 to restore financial stability, reduce the balance of payments deficit, strengthen the finances of the public and mining sectors, reduce the immediate burden of external debt obligations, and establish conditions necessary for viable, long term payments performance, diversifying exports while containing domestic demand, particularly consumption expenditure. The GRZ is endeavoring to make Zambian products competitive in world markets and ensure that imports reflect more cost. The kwacha has reached a value at which mining operations are profitable and there is adequate financial incentive for the production of a substantial number of agricultural goods, both for export and import substitution. Because of the limited remaining life of mineral reserves and the uncertain demand for copper, the GRZ has adopted an export diversification program to improve incentives for agriculture and increase efficiency in manufacturing. New producer prices were announced for the 1984/85 crop year with increases averaging 21%, including another 16% increase in the farm price of maize. The import licensing committee is giving high priority to imports of agricultural inputs, since shortages have seriously impaired agricultural output. The availability of agricultural credit is being improved through the Zambian Agricultural Development Bank (ZADB), the role of which is still being formulated. Substantial increases in interest rates were introduced in 1983 and 1984 to provide incentives for domestic savings, restrain demand, and improve the allocation of credit. Maximum lending rates were increased to 17.5% in December 1984.

D. Prospects

At the Consultative Group meeting in May 1984, the GRZ described in detail policy reforms which are to be implemented through 1984-86. However, members of the Consultative Group may be required to provide additional financial support above the $1.4 million agreed to in principle because of the lower foreign exchange earnings now projected for 1984-86.

IMF export projections for 1984 have been revised downward by 4.8% to SDR 728 million because of the decline in the average price of copper from $0.65 to $0.60 per pound. Export earnings now are expected to be SDR 125 million less than in 1983. As a result, imports are expected to be SDR 680 million, 8 million less than estimated at mid-year. The intensified shortage of foreign exchange has made it more difficult to meet current payments to the consortium of banks which finance petroleum imports. Import licenses have been issued for imports for which foreign exchange has not become available as planned. External commercial payments arrears were not reduced. Although export volume is expected to remain on target in 1985, estimates of export earnings have been reduced by SDR 93 million, nearly 10%, because of lower copper prices. Thus, during 1984 and 1985, export earnings will be SDR 130 million less than planned.

Lower export earnings in 1984 and 1985 probably will prevent real GNP from increasing, resulting in further decline in real GNP per capita. Agricultural output may be somewhat higher than expected but industrial output has deteriorated because of the shortage of imported inputs. Several plants are near to closing because of insufficient imported raw materials. Inflation appears to be about 25%.

The continued depression of copper prices through 1990 and beyond indicates that the economy will have $2 billion less foreign exchange earnings than estimated at the time of the 1984 stand by arrangement. The volume of imports probably cannot be increased above the current low level and low utilization of industrial capacity is likely to continue, giving additional urgency to implementation of the export diversification program. Even if nominal imports are held at the 1984 level, donors or lenders will be required to provide an additional $ 1.1 billion in financing during 1985-89 if the standby targets are to be met.

Moreover, Zambian economic prospects are vulnerable to further deterioration of foreign exchange earnings in the event copper prices decline more as a result of the current economic slowdown in industrial countries. In short, the balance of payments outlook for 1984 and later years is much more serious than realized at the time the standby arrangement. Shortages of foreign exchange will require debt rescheduling each year through 1989. Real GDP through 1989 is unlikely to increase significantly with corresponding reductions in real per capita

incomes. With little recovery of copper prices, the trade balance will remain barely positive, or negative, and the current account will remain deeply in deficit through 1989 rather than turning positive in 1986. External financing will be extremely difficult through 1989, even with no increase in the volume of imports and rescheduling of all debt obligations falling due. The risk will increase that reduction of imports will curtail production of exports, GRZ budget revenues will be substantially lower than estimated, additional external financing will be needed to offset the shortfall, and debt service obligations will rise to above 100% of export earnings in 1984 and remain near 90% through 1989.

The new, much lower estimates of export earnings through 1989 require a new assessment of the role of donors during the 1984-86 expenditure program and subsequent three years. An objective of the expenditure plan was to halt the decline in real GNP. With nearly SDR 2 billion less foreign exchange earnings through 1989 than expected when the plan was prepared, the sources of financing must be reassessed. No doubt donors will be requested to finance at least part of the shortfall.

If copper prices in 1985 and 1986 average $ .60/lb and $.64/lb, respectively, as indicated by December 1984 New York Copper futures prices (Table K 22), the shortfall of foreign exchange earnings from exports will be SDR 549 million, SDR 189 million in 1985 and SDR 360 million in 1986. The changed economic outlook is the result of factors outside the control of GRZ and has taken place in spite of major efforts by GRZ to make economic adjustments commensurate with the severity of the foreign exchange crisis. The outlook is substantially different from the economic perspective presented at the May 1984 Consultative Group meeting and will require the IMF to reassess the new developments carefully in preparing the 1985-86 standby arrangement during the early months of CY 1985. Among other changes, the IMF may not be able to adhere to its plan for no further drawings from IMF resources after the 1984-85 arrangment. The shortfall of foreign exchange also will be the major topic for discussion at the emergency meeting of the Consultative Group now planned for March or April 1985.

E. Other Donor Assistance

Zambia received aid from 16 multilateral and 24 bilateral agencies during 1979-1984. Total loans (multilateral and bilateral) disbursed as of 1983 stood at US$ 2.349 billion. Disbursements in 1983 were US$ 136 million, down from a high of $360 million in 1979. The major donors were the World Bank group, IMF, the African Development Bank, the U.S., China, U.K., USSR, Federal Republic of Germany, Canada, Sweden, Netherlands, and Japan.

The current outstanding feature of donor assistance was the meeting of the Consultative Group meeting for Zambia in Paris in May 1984, at which the GRZ presented its development strategy, and outlined a number of economy-wide and sectoral policy reforms. The members agreed with the GRZ's proposed policies for the future, which involve mainly diversification of the economy away from mining by emphasizing agriculture, rehabilitation of the capital base, increased capacity utilization and efficiency of enterprises, changed incentives to promote efficiency and favor exports, and a shift from direct intervention and control toward establishing an environment conducive to greater private participation and initiative. The GRZ presented an expenditure program for 1984-86 totalling $1.7 billion in line with these policies. The IBRD and the donors endorsed the priorities of the expenditure program. The external capital requirements presented to the meeting involved total new commitments of $1.4 billion. The donor community was asked to commit $400 million per year, half in the form of quick disbursing assistance.

Few of the donors engaged in policy discussions in the past with the exception of the World Bank, the IMF and A.I.D. AID's policy dialogue efforts have been through CIP and PL 480 programs and through its Agriculture Planning and Training Project (611-0075) and Agriculture Research and Extension (611-0201) which involve MAWD, NCDP, the University of Zambia, and the Ministry of Finance.

IBRD has prepared an industrial sector report which outlines possible policy reforms. In addition, a study funded by IBRD is underway to review and suggest measures for rationalizing operations at NCZ Ltd., the domestic fertilizer plant and agreement was recently concluded with the Bank and bilateral donors for rehabilitation of the plant. Efforts are underway to increase output and eliminate losses, mainly through improved technical and managerial performance, and increased prices. In conjunction with IBRD, the GRZ is assessing the petroleum refinery to determine the possibilities for converting production to better satisfy domestic needs, and reduce foreign exchange requirements.

Until recently coordination of assistance has been informal and generally carried out through discussions between the various donors. The U.S. has cooperated, to some degree, with Canada, Sweden, and the Netherlands. At the recent Consultative Group meeting the GRZ announced the creation of a Government/Donors Joint Monitoring Committee (JMC) which has met twice in 1984 The JMC is intended to serve as the core donor coordinating body.

IV. AGRICULTURAL SITUATION:

A. Major Features

Climate and Soils

Zambia is a large sparsely populated country with relatively abundant agricultural resources. Roughly 15 million of Zambia's 75 million hectares are suited to crop production. But only 12 million hectares are cropped intermittently and less than two million are cropped continuously. Land use relative to potential is thus low, reflecting in part the small population, but mainly the economy's heavy dependence on minerals and neglect of agriculture.

Zambia has above average rainfall for Africa, but it is unevenly distributed within the country and during the crop season. Uncertain rainfall is compounded by low natural soil fertility and low ph levels. There are no large areas of naturally fertile soils where good yields can be obtained without the use of fertilizer. Except for nitrogen, however, nutrient requirements are relatively modest.

Farm Structure and Labor Force

There has been relatively little structural change in Zambia's highly dualistic agricultural sector since independence. About 600,000 widely dispersed subsistence farm families, who depend almost entirely on hand tools, cultivate maize, millet, sorghum, cassava and groundnuts. In the tsetse free areas they also raise cattle on open range. Only 40 percent of these farmers sold or bartered any part of their produce in the early 1980's. The cash value of the surplus was estimated at between K60-K70 ($30-35) per family.

At the other extreme are 600-800 capital intensive commercial farms, located in a narrow band adjoining the main transport routes. The high technology operations of these farms use roughly five percent of the cultivated land but generate approximately 60% of total marketed output. Commodities grown are maize, wheat, soybeans, rice, fruits, vegetables and cattle. Gross annual sales per commercial farm averaged about K25,000-30,000 (U.S. $18,000-22,000) in 1982.

Between the subsistence and commercial farms, a small but growing group of "emergent" farmers are using improved seeds, oxen or tractors to produce the same crops as commercial farmers, in addition to cotton which remains a smallholder crop. There are roughly 60,000-100,000 emergent farm families cultivating about 15% of the total cultivated area. Gross annual sales of this group vary widely but averages K1,000-3,000 ($500 - $1,500) per year.

Employment in agriculture, forestry and fishing is reported to be less than 10% of that in "all industry" (which excludes the subsistence sector), and the sector contributes less than 10% of GDP. Growth of the rural labor force (0.5%) is low relative to the country's population growth rate of 3.2%. Out-migration is perceived to have a negative effect on the supply of labor for agriculture in some places at certain times of the year.

B. Marketing

The marketing system is dominated by parastatals and cooperatives. Both are relatively inefficient and have received large subsidies. Neither is allowed to charge full cost pricing. As a result, they frequently have serious cash flow problems causing delayed payments to farmers and inefficient operations in general.

Parastatals also labor under other constraints:

a) direct government control through policies, regulations and senior management appointments;

b) late government reimbursement and late payments from other parastatals; and

c) under-capitalization and limited credit facilities.

Private traders exist at the village level and play an important role in areas where parastatals are not active. Private traders act as the assemblers, buying produce from small farmers and selling to official marketing organizations or to consumers. They also supply rural communities with consumer goods -- soap, cloth, salt, etc. -- on a barter basis. Small scale farmers, having neither access to markets nor cash, have little alternative but barter. Traders sometimes offer credit to small farmers, which is repaid in produce at harvest time. Rates are said to reach 50 percent

Prices in the private market vary with local supply and demand, but are strongly influenced by monopolistic marketing policies favoring parastatals, and by the GRZ uniform price structure for many commodities. Marketing of vegetables, sorghum, millet, beans, cassava, and other food crops (except maize) is dominated by the private sector. Official producer prices for these crops have tended to be below prevailing prices in rural markets and requirements to market these food crops through official channels have not been enforced. Hence the official marketing agencies have become buyers of last resort.

The official attitude toward private traders has been unsympathetic. They are considered exploiters who manipulate prices and reap excessive profits, but there are signs that this attitude is changing.

C. Key Institutions

Listed below are the major institutions involved in agriculture, with particular emphasis on the fertilizer sub-sector.

1. National Fertilizer Committee advises NAMBOARD and NCZ on the type and quantities of fertilizer to be imported and/or produced. Committee members include representatives from the Ministry of Agriculture and Water Development (MAWD), Nitrogen Chemicals of Zambia Ltd. (NCZ), National Agricultural Marketing Board (NAMBOARD), Bank of Zambia (BZ), Commercial Farmers Bureau (CFB), Tobacco Board of Zambia (TBZ), and NAMBOARD's bankers.

2. National Agricultural Marketing Board (NAMBOARD) has been the most significant institution in agricultural marketing, with responsibility for maize marketing, fertilizer distribution, horticultural produce marketing (before 1977) and the distribution of other farm inputs before 1981. It is the sole legal buyer and seller of maize and fertilizer. It has responsibility for purchase, storage, transport, and sale of local maize (and/or import and export when necessary); operation of buffer stock systems or maintenance of maize reserves for any stipulated period; sales of fertilizer to farmers (and other farm inputs where necessary) and importation of finished fertilizer compounds. Since 1981 it has shared the distribution and marketing function with the Provincial Cooperative Unions (PCUS).

3. Provincial Cooperative Unions (PCU'S) are crucial in maize marketing in rural areas. The statutory boards do not operate there nor does private enterprise on any meaningful and durable scale. The marketing of agricultural produce, and the distribution of fertilizer (from NAMBOARD) and other farm inputs is done through primary societies. NAMBOARD sells fertilizer to cooperatives from its 12 regional depots.

4. Nitrogen Chemicals of Zambia, Ltd. (NCZ) is the sole industrial manufacturer of fertilizer in Zambia. By 1985 the plant should have the capacity to satisfy the domestic fertilizer demand if there is foreign exch to buy raw materials.

5. Central Supply and Tender Board tenders for fertilizer requirements on behalf of NAMBOARD.

6. National Commission for Development Planning (NCDP) is partially responsible for determining fertilizer prices. NCDP helps set prices in consultation with NAMBOARD, subject to approval of the Cabinet and the Office of the President.

7. National Council for Scientific Research coordinates national agricultural research activities.

8. Ministry of Agriculture and Water Development (MAWD) Research and Extension Services - Zambia has 12 research stations and 17 zonal sub-stations to research and field test fertilizer products and make recommendations. The Extension Service is responsible for promotional activities such as on-farm fertilizer trials, farmer meetings and advising farmers on fertilizer use.

9. Zambia Agricultural Development Bank (ZADB) extends short, medium and long-term loans. In addition to financial aid, it is attempting to extend technical support to farmers and fishermen of all classes. Other eligible borrowers are Cooperative Unions; public organizations engaged in agricultural/fisheries activities, and agro-industries. Because ZADB is a new organization whose charter and mandate are yet to be tested, there is still some question as to its ability to function efficiently and effectively.

D. Production Performance

Agricultural growth has been erratic during the 1975-1984 period, reflecting a serious slow down in performance during 1978-80, followed by a substantial recovery in 1981 as the government began the macroeconomic, as well as agricultural, restoration measures discussed elsewhere in this report. Most of the variation is attributed to commercial farming. Relatively little progress is reported in the subsistance sector. The IBRD has estimated that real growth in agriculture averaged about 2.8 percent during 1970-78 and slowed to 0.4 percent during 1978-83. Commercial farming grew at a faster rate than the traditional sector, which showed a negative rate (- 0.8 percent) during the latter period.

Table 1: Growth of Agricultural Production
(percent per year)

		1970-78	1978-83
Total	Production	2.8	0.4
	Commercial	4.8	2.4
	Traditional	1.7	0.8
	Food	3.0	
	Non-food	0.9	

Source: IBRD, Report No. 5,000-ZA, April 16, 1984

Variation in commercial sector output reflects the lack of foreign exchange to purchase farm machinery, spares and inputs, as well as greater sensitivity by these farmers to changing economic conditions and agricultural polices. Lack of a sustained production response in the traditional sector appears to be due to lack of improved technology. However, preliminary data on marketed maize suggest that the traditional sector is responding to the recent price increases for maize. The FAO Early Warning System indicates that maize marketings for the crop year 1983/84 are above marketings in 1982/83, despite the reduced area planted by commercial farmers.

Within the broader swings of agricultural output, Table 2 reveals a number of conflicting developments. Wheat and rice production, although still insignificant crops, have steadily increased. Maize production, after dropping sharply in 1978-80, has regained the level of earlier years. Millet,

Table 2

TABLE 156--ZAMBIA

PRODUCTION BY COMMODITY, VALUE AND INDICES OF AGRICULTURE AND FOOD PRODUCTION

COMMODITY	PRICE WEIGHT	AVERAGE 1969-71	1974	1975	1976	1977	1978	1979	1980	1981	1982	PRELIM. 1983
	DOLLARS	1,000 METRIC TONS										
WHEAT	68	0	1	3	4	5	5	7	10	12	14	10
RICE, PADDY	135	0	1	2	2	2	3	2	2	6	7	8
CORN	61	786	1,062	550	1,070	980	600	690	735	1,200	975	1,010
MILLET	73	79	89	85	90	86	60	60	60	60	60	65
SORGHUM	73	45	54	52	54	51	40	30	35	40	40	35
POTATOES	140	4	3	3	3	3	3	3	3	3	3	3
CASSAVA	39	144	173	172	170	170	173	175	175	178	180	180
TOBACCO	964	6	7	7	7	6	4	5	5	3	3	3
COTTON	509	3	1	1	1	3	4	5	8	6	5	7
COTTONSEED	53	6	2	2	2	6	8	10	15	13	11	14
SOYBEANS	130	0	0	1	1	1	3	1	4	6	5	7
PEANUTS, IN SHELL	138	24	31	30	30	26	30	26	16	23	12	19
SUNFLOWER SEED	78	1	9	10	13	11	13	17	13	19	20	31
SUGAR, RAW	61	37	65	90	90	85	90	102	111	102	117	132
BEEF AND VEAL	771	26	26	27	28	28	28	27	30	32	32	33
PORK	665	3	5	6	6	7	6	7	7	5	6	6
POULTRY MEAT	285	7	9	12	14	12	11	11	12	11	11	14
COW'S MILK	140	44	49	50	52	54	54	54	58	59	61	62
AGGREGATES OF PRODUCTION		MILLION DOLLARS AT CONSTANT PRICES										
CROPS		77.1	100.1	95.3	103.3	96.6	83.1	77.9	82.6	110.2	95.8	102.1
LIVESTOCK		36.8	41.8	47.2	50.9	49.3	47.3	47.2	51.3	50.4	51.3	56.1
TOTAL AGRICULTURE		113.9	141.9	142.5	154.2	145.9	130.4	125.1	133.9	160.6	147.1	158.2
TOTAL FOOD		107.0	134.7	135.3	147.0	138.6	124.5	117.8	125.0	154.6	141.7	151.7
INDICES OF PRODUCTION		(1969-71 = 100)										
CROPS		100	130	124	134	125	108	101	107	143	124	132
TOTAL AGRICULTURE		100	125	125	135	128	114	110	118	141	129	139
TOTAL FOOD		100	126	126	137	130	116	110	117	144	132	142
PER CAPITA AGRICULTURE		100	110	107	113	103	90	83	87	101	89	93
PER CAPITA FOOD		100	111	108	114	105	91	84	86	103	92	95
INDEX OF POPULATION												
1969-71 POPULATION= 4,249,000		100.0	113.1	116.5	120.1	123.6	127.7	131.6	135.8	140.2	144.7	149.4

Source: World Indices of Agricultural and Food Production, 1974-83, U.S. Department of Agricultur Economic Research Service Statistical Bulletin No. 710, July 1984.

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sorghum, cassava and potato production has been virtually flat or declining for a decade. Contradictory movements are eviden in export/cash crops. Tobacco and peanut production have declined, while cotton, soybeans, sunflower and sugar production has increased significantly. Steady growth is also evident in the livestock sector.

While per capita food production in the 1980's has averaged only 94% of the 1969 - 1971 level the Zambia's agricultural performance has been substantially better than most sub-Saharan countries.

The changes in production mentioned above reflect in large part changes in the area under cultivation (table 3), which shows a dramatic decline in peanut (groundnut) area, offset only in part by increased area sown to other oilseed crops. Overall the area under cultivation seems to have declined since 1977/78, or at least stagnated.

The relatively good performance of Zambian agriculture, despite climatic and economic adversities of the late 1970's, the stagnation or decline in cultivated area (itself a reflection of unsatisfactory policies), economic difficulties, and the lack of concern with agriculture, can be explained in part by the relatively high level of crop yields by comparison with other sub-Saharan countries (table 4).

TABLE 3

AREA UNDER CULTIVATION

(Hectares)

Crop	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
Maize	595,000	335,000	540,000	493,783	482,000	538.606
Groundnuts	137,000	43,200	25,552	33,515	21,000	30,200
Sunflower	23,900	24,800	30,791	47,156	41,670	59,770
Cotton	21,440	24,000	30,300	36,460	23,800	41,940
Soybeans	2,200	2,200	3,700	4,900	6,000	6,510
Wheat	1,585	1,600	2,400	3.600	3,750	2,730
Tobacco	3,700	4,700	-	2,973	2,619	3,170
Rice	-	3,100	5,100	5,632	5,800	6,990
Sugar	10,300	10,000	10,000	10,456	10,456	10,500
	795,000					700,700

Source: Bank of Zambia, Annual Report 1983, p. 18.

1/ Estimated

TABLE 4

Comparative Yields of Major Crops in Selected African Countries

	Average Annual Yields (metric tons per ha)			Growth Rate % 1961-1980
	1961-63	1969-71	1978-80	
Maize				
Zambia	2.07	2.10	2.14	0.17
Sub-Saharan Africa	0.89	1.02	0.89	0.37
Wheat				
Zambia	1.68	1.43	3.99	6.20
Sub-Saharan Africa	0.78	1.00	1.18	2.58
Soybeans				
Zambia	-	0.66	0.95	4.40
Sub-Saharan Africa	0.36	0.41	0.62	3.33
Groundnuts				
Zambia	0.80	1.09	1.15	2.20
Sub-Saharan Africa	0.83	0.77	0.76	-0.52
Seed Cotton				
Zambia	0.95	0.83	0.62	-1.20
Sub-Saharan Africa	0.43	0.57	0.57	2.10
Tobacco				
Zambia	1.05	0.88	0.69	-1.70
Sub-Saharan Africa	0.70	0.71	0.81	0.38

Source: World Bank, Sub-Saharan Agriculture (1982) Ministry of Agriculture Annual Agriculture Statistics

Maize yields at 2 tons/ha, are twice the sub-Saharan average, and wheat yields, at nearly 4 tons/ha, are more than 3 times the average. Sorghum and groundnut yields are less dramatically above the continental average.

The recent increase in marketed production was particularly important for maize, which accounts for at least 90 percent or the total volume marketed through official channels. Maize is the staple of the urban sector and its availability is a sensitive political issue. Officially marketed maize in 1979/80 was 336,000 MT, roughly 50% of the 1974/75-1976/77 production average. In 1980/81 marketed production increased to 383,000 MT and 693,000 MT in 1981/82,(table 5).

TABLE 5

MARKETED AGRICULTURAL PRODUCTION

Item	Unit	1977	1980	1981	1982	1983 1/
Maize	MT	693,000	382,988	693,341	508,328	630,620
Tobacco:						
Virginia	MT	5,588	4,127	2,319	1,861	2,290
Burley	MT	312	554	665	704	520
Sugar	MT	71,203	110,601	102,318	117,058	13,200
Groundnuts	MT	7,229	2,028	1,320	810	980
Sunflower	MT	13,320	28,279	19,223	20,362	31,400
Seedcotton	MT	8,929	15,000	17,177	13,171	32,010
Wheat	MT	4,741	6,670	11,478	12,510	10,010
Paddyrice	MT	2,090	2,511	2,673	2,826	5,860
Soya beans	MT	1,274	1,989	3,673	5,140	6,960
Coffee	MT	24	28	40	-	-
Tea (Green leaf)	MT	64	314	363	393	400
Cattle	Head	79,700	92,358	100,052	105,000	110,000
Milk	100 l	10,353	10,207	11,705	15,000	15,940
Pigs	Head	35,816	47,894	44,000	40,000	41,000
Eggs	Million	173	137	113	144	150
Meat Birds	Million	13	13.8	9.8	13	20
Day old chicks (exports)	Million	1.43	0.4	0.7	0.7	1

Source: Bank of Zambia, Annual Report 1983, p. 15

1/ Preliminary

Other crops -- rice, groundnuts, sorghum, millet, and cassava -- account for only five percent of officially, marketed output. The quantities of these crops marketed outside official channels are significant, and play an important part of the diet in many parts of the country. Officially marketed production of these crops has also increased significantly since 1979/80.

E. Increased Agricultural Prices

Much of the recent performance in agriculture (positive and negative) can be traced to the larger economic problems mentioned earlier, and to the major efforts made by the government to correct some of the most serious economic policy problems in agriculture. Producer prices in current terms have increased significantly since 1975 (Table 6). The degree of real price increase is dependent upon the deflator used. The implicit price deflator (IPD) calculated from GDP statistics, has increased much less than the consumer price index (which reached 278.6 for high income consumers and 311.7 for low income consumers in 1983 with 1975 =100 - see Annex K). For large commercial farmers the IPD may be appropriate, but for traditional farmers the CPI appears more appropriate. Using the CPI, real maize prices have increased by roughly 19-33 percent since 1975 and soybeans 10-23 percent. Rice, groundnuts and tobacco prices have also increased in real terms, while sunflower, cotton, sorghum and wheat prices have fallen (table 7). Nevertheless, the government has made a major effort to sustain, and improve in a number of cases, the real incentive structure in agriculture.

TABLE 6

AGRICULTURE PRODUCER PRICES[1/]

Harvest Year [2/]	Unit	1975	1980	1981	1982	1983	1984
			(KWACHA)				
Cereals							
Maize	90 kg	5.00	11.70	13.50	16.00	18.50	24.50
Wheat	90 kg-	16.00	20.00	26.00	32.00	35.75	42.50
Paddy Rice	80 kg-	12.00	18.00	18.60	28.00	40.00	40.00
Sorghum	90 kg	6.00	6.00	9.00	9.00	16.00	18.00
Millet	90 kg					29.00	29.60
Barley	90 kg					35.75	42.50
Cassava	1 kg					0.15	0.20
Oil Seeds							
Soya Bean	90 kg	13.20	32.00	36.30	42.31	45.30	52.50
Sunflower	50 kg	9.40	16.40	17.60	20.75	21.50	21.50
Groundnuts (Shelled)	80 kg	17.00	35.00	42.70	48.00	52.00	65.00
Seed Cotton	1 kg	0.30	0.46	0.46	0.47	0.52	0.58
Virginia Tobacco	1 kg	0.81	1.57	1.65	2.40	2.70	2.80
Sugarcane	MT	8.90	13.47	18.00	n.a	n.a.	n.a.
Fresh Milk	1 litre	0.11	0.23	0.28	0.43	0.47	0.52
Beef Cattle	head	n.a.	n.a.	251.00	273.00	n.a.	n.a.

1/ Guaranteed minimum prices offered by official marketing organizations.
2/ Harvest Year refers to the year in which the bulk of the harvest takes place. For example, crops grown in the agricultural year 1980-81 are shown against harvest year 1981.

Source: IBRD, Zambia Country Economic Memorandum, April 1984.

TABLE 7

Index of Real Price Increases* for Major Agricultural Commodities in, 1983

Commodity	Deflated By High income CPI INDEX (1975=100)	Deflated By Low Income CPI INDEX
Maize	133	119
Wheat	80	72
Rice	119	107
Sorghum	95	86
Soybeans	123	110
Sunflowerseeds	82	73
Groundnuts	118	98
Seed Cotton	62	55
Virginia Tobacco	133	119

*Agricultural producer prices deflated by the Consumer Price Indices

F. Policy Reforms

The agricultural sector has thus shown some improvement since 1979/80, although much still needs to be done. Agricultural policy changes have played a role through increased producer price incentives. The increases in the area planted in 1980/81 and 1982/83 also reflect a positive response, despite the drop in both area planted and fertilizer use by commercial farmers in 1983/84.

In 1983, the fertilizer subsidy was reduced by 60%, as prices for fertilizer rose from K14.9 per 50 kg. bag to K24.2, which explains much of the decline in fertilizer usage by commercial farmers. The price of fertilizer has again been raised for the 1984/85 crop year to K28.6.

For 1984/85 producer prices have been increased for all commodities except paddy rice. (Table 6) Maize prices have increased by 15.6%, groundnut prices by 28.4%, soybean prices by 16%, wheat prices, by 6.4% and cotton prices by 15.5%. The price of rice remains unchanged. The three long neglected commodities for which many Zambian farmers have a comparative advantage, millet, sorghum and cassava, have had price increases of 29.2%, 44.2% and 50%, respectively. However, these basic staples are reported to have much higher prices in the private market and parastatals are minor buyers of last resort. While these price increases were relatively large, it remains to be seen if they are sufficient to encourage increased production and marketings.

The central issue before the Government is continued policy reform. Recent notable policy changes are regional prices, economic pricing and accompanying subsidy reduction, and competition among marketing firms, including private traders, to encourage efficiency. Also, the use of a border price to encourage production for export and import substitution has been accepted and will be incorporated into the pricing formula for setting producer prices. Further, most consumer price controls have been removed, with wheat the most recent example. While maize still has a uniform consumer price ceiling, retailers are now allowed to charge for transportation services beyond 25 km. Despite the positive effect of removing price controls, many parastatals are reluctant to raise prices to full cost recovery due to social and political pressure.

Producer prices for most agricultural commodities continue to be set by the GRZ. Present policy discussions indicate that the prices are to be true floor prices with Namboard becoming the buyer of last resort. This is in fact occurring in some commodities, primarily due to the relatively low producer prices.

It appears that the basic short-run goal for agriculture is self sufficiency even at the cost of severe "belt tightening". This is evidenced by the recently announced 20% reduction per year of imports of vegetable oil and wheat. Rice imports are to be eliminated by 1987. Along with self sufficiency, there is an equally strong drive toward exports, again at the expense of domestic consumption; i.e., a substitution of brown sugar on the domestic market and white sugar for export.

On the economic policy side, changes that support the goals of the GRZ are: continued devaluation of the kwacha; retention of some of the foreign exchange earnings by firms; and reduced taxation for firms engaged in new agricultural operations that generate foreign exchange or provide import substitution.

Many of the policy changes needed to encourage increased output and efficiency are presently being implemented. Being discussed but not yet initiated are policies that: will encourage private trade and competition in the marketing sector; elimination of subsidies to all parastatals with activities to help them become more efficient; increased efficiency in the transportation sector; and strengthening the Agricultural Research and Extension Branches of MAWD. The speed with which these reforms are implemented is a critical factor regarding their potential impact. (See Section V.D)

G. Future Prospects

While Zambia was a net exporter of maize during 1972-76, it has become a net importer in recent years. The overall self-sufficiency ratio for cereals has fallen from 97 percent during 1964 - 66 to 79 percent during 1979-80. Production of groundnuts and tobacco, the two traditional major export crops, declined during most of the 1970s at an annual rate of 20 percent and 17 percent, respectively. Export earnings from agricultural crops in recent years amounted to K12 million, which is virtually the same as during 1964-66, indicating a considerable deterioration in real terms. The sector's contribution to diversification of the economy from mining has been minimal, with the agricultural share of real GDP remaining much the same as at independence. The slight improvement that has taken place has been primarily due to a relatively stagnant or declining growth in the other major sectors, rather than an increase in real agricultural production.

The sector has not significantly raised incomes among the rural population, or redressed regional disparities. Average rural income has remained less than half of urban income, and has been a significant factor behind the exodus of people from the rural to urban areas. The more developed provinces along the rail line continue to produce over 90 percent of marketed agricultural output. The share of smallholder farmers in agricultural output declined from 82 percent at independence to 59 percent in 1982. By contrast, commercial farmers increased their share from 19 percent to 41 percent.

The GRZ maintains that the greatest potential for agricultural growth in the long run lies with the smallholders and that policies and programs to relieve constraints on productivity should be the main thrust of national agricultural strategy. Improving and expanding production by traditional farmers is considered the best way of raising the living standards of the majority of Zambians and ensuring a more equitable distribution of income. However, GRZ agricultural policy should also be supportive of the commercial farming sector -- the main source of marketed output, -- by permitting it to operate at a profit.

The majority of Zambians earn their living from agriculture. The economy has sufficient resources of land and water to permit agriculture to approach or match mining as a major source of economic growth. Agriculture can provide employment for large numbers of people in the short run and could absorb projected population increases during the next twenty years. The subsector with the greatest capacity for expansion, smallholder, emergent and traditional farmers, uses little foreign exchange and is not capital intensive.

V. PROPOSED U. S. ASSISTANCE

A. Problem Identification

In view of Zambia's severe balance of payments problems and need for diversification away from copper, AID/Zambia strategy has concentrated on increasing food production and small farmer income. Agriculture is recognized as the sector with the greatest potential for sustained growth, national self-sufficiency, and labor absorptive capacity. Previous commodity import programs have financed fertilizer; two of the last three also included agricultural spare parts. The proposed FY 1985 CIP will finance fertilizer raw materials, agricultural spare parts, agricultural machinery, and ox-drawn equipment, based on the following rationale:

Farmers at all levels, including small scale farmers, utilize fertilizer. Zambian soil requires and responds well to appropriate fertilizer usage practices. Agricultural production and net farm income are increased through proper usage of fertilizer and farm implements. CIP-financed fertilizer raw materials constitute 80 percent of NCZ's compound fertilizer output, and therefore this U.S. assistance has a major, highly visible impact on Zambian agriculture.

The price of U.S fertilizer raw materials has not significantly increased over the last two years and has remained competitive with non-U.S. sources; therefore, GRZ funds are spent effectively. Procurement of fertilizer raw materials is more cost effective than purchase of finished fertilizer compounds, as approximately one-third of required raw material inputs are locally produced.

Procurement and transport of U.S. fertilizer raw materials, spare parts, and agricultural equipment through the CIP is a quick-disbursing form of assistance. Importation of agricultural machinery, while benefiting primarily middle and larger sized farmers, will contribute substantially to increased agricultural productivity and will primarily be used to update existing machinery, minimizing the labor-displacing effect. CIP funds will also finance animal drawn equipment, of primary benefit to smaller emergent farmers. A relatively small CIP expenditure for farm implement spares, will rehabilitate a large quantity of currently idle farm equipment.

Foreign exchange support for imports of U.S. agricultural machinery may enhance the market preference for American source equipment. Local currency generations in the counterpart fund (Special Account) will be used to finance agricultural development activities.

B. Description of Proposed Assistance

It is proposed that A.I.D grant the Government of the Republic of Zambia US$19 million from the Economic Support Fund for a Commodity Import Program which will be utilized to purchase fertilizer raw materials, agricultural machinery, agricultural spare parts, and ox-drawn equipment.

Approximately $11 million of the $19 million CIP will be allocated to Nitrogen Chemicals of Zambia (NCZ), for purchase of 25,000 MT of fertilizer raw materials, (triple superphosphate - 4,375 MT; di-ammonium phosphate - 16,875 MT; and sulphate potash - 3,750 MT), at roughly $450/ton C.I.F. Dar es Salaam, based on the requirements outlined by NCZ officials.

In addition, coating agents and bags with polypropylene liners will be financed under the CIP. These inputs will be used to produce various types of finished fertilizers, as required by the national marketing agency, NAMBOARD. The actual mix of chemicals may vary from the above figures, depending on the specific finished fertilizers ordered by NAMBOARD. Twenty-five thousand tons of the imported fertilizer raw materials, -- NCZ's total annual import requirements -- in combination with domestically available raw materials, with produce 55-60,000 tons of finished fertilizer. It is anticipated that about one fourth of NCZ's output will be consumed by small farmers. NCZ expressed interest in an additional $3 million for environmental control equipment and other machinery for its plant, should additional assistance become available.

The $8 million in agricultural machinery will finance tractors, agricultural implements, spares, tires, and ox-drawn equipment, largely imported through the private sector. One million dollars of this $8 million will be allocated to the Zambian Cooperative Federation, a private organization which will import and distribute the ox-drawn equipment.

C. Commodity Analyses

1. Fertilizer Raw Materials

The government-owned NCZ, produces fertilizer, explosive grade ammonium nitrate for the copper mines, and other minor products. NCZ has three main sections, the Kobe (Japanese) and the Klockner sections, both producing ammonia by coal gasification, and the compound fertilizer mixing plant. Initial plant operations started in 1970 with the commissionin of the Kobe section. The Klockner section, which was considerably delayed, was commissioned in 1982. The complex is currently operating at roughly 45 percent of capacity. However, the mixing plant alone, where the CIP-financed commodities will be utilized, is operationally efficient.

The construction of the NCZ fertilizer factory was fraught with delays, cost overruns, large finance charges, and "off-site" infrastructure expenses. These problems were compounded by the expensive coal gasification method to produce ammonium nitrate instead of cheaper methods (natural gas or electrolysis) and the initial need to import sone 75-80 percent of raw material requirements. During the early 1970's the NCZ fertilizer plant incurred financial losses. (Annex C). While operations showed profit during 1976 - 80, heavy losses have accrued since 1981, due largely to heavy finance and amortization charges resulting from earlier construction delays, cost overruns and the attribution of local infrastructure investment cost to NCZ, rather than to the government's development program. However, since 1983, operating expenses have declined as production has increased and become more efficient. Fixed costs have also declined with the assumption of some of the local infrastructure debt by the GRZ, and with reduced financing charges and amortization costs.

The World Bank, in considering co-financing with Germany and Japan the rehabilitation of the NCZ complex, has conducted a rigorous assessment of NCZ and has concluded in its June 1984 pre-appraisal report that domestic production of fertilizer in Zambia will, even under a number of conservative assumptions, be economically competitive with imported finished fertilizers over the ten year life of the proposed Bank project. (Appendix J).

The IBRD project will address problems of capacity utilization, maintenance, a shortage of spare parts and raw materials, management, and certain technical aspects of the Klockner plant. Favorable financial returns are projected when the plant is rehabilitated, and an economic rate of return for the entire complex of at least 12.6%.

NCZ's projected 1985 average unit cost of finished fertilizer is roughly K830 ($420) per metric ton (MT). NAMBOARD purchases fertilizer for approximately K670 ($335) per MT. Fixed costs make up about two-thirds of total costs; variable costs, U.S. $190 per ton, are below import parity (the delivered cost of imported finished fertilizer in Zambia) which is $367/ton. As plant utilization increases, fixed costs will further decrease.

Compound fertilizers produced domestically will have a foreign exchange cost for fertilizer raw materials imported under the CIP of approximately US $160 per MT for compound X, US $208 for compound R and US $258 for compound D. This will save the GRZ some $8-9 million in foreign exchange, and produce about 80% NCZ's output. Further, NCZ plant operations use local natural resources -- water, hydroelectric power, pyrites and lime -- that would not be used if finished fertilizer compounds were imported. It is anticipated that the rehabilitated plant will be able to substitute its own output of fertilizer grade ammonium nitrate for imported urea. The compound fertilizer mixing plant also employs about 200 workers who support families totaling around 1200 people.

Zambia's soils have low inherent fertility and fertilizer is particularly important for increased production of the major commodity, maize. The GRZ's documents submitted to the Consultative Group in Paris in May, 1984, identified the agricultural input sector as critical to restructuring the economy toward agriculture; two key items were agricultural chemicals, fertilizer among them, and agricultural equipment (tractors, equipment and spares, and ox-drawn equipment). The proposed U.S. aid directly supports the Expenditure Plan of the GRZ and the Agricultural Rehabilitation Project and with the IBRD Fertilizer Industry Rehabilitation Project, will contribute to restoring Nitrogen Chemicals of Zambia to financial and economic viability. For these reasons, the FY -1985 CIP will include fertilizer as a first priority and agricultural equipment and spares as a second.

The crop production benefits of the program are illustrated below:

1. With proper management, yields per acre of maize average 10 bags (900 Kg) per hectare, without fertilizer.

2. Yields, with good weather, proper management and with proper use of fertilizer, can increase 100% to 500% (from 20 to 50 bags-1800 to 4,500 Kgs/ha).

3. Thus, using maize as an example and assuming that all the fertilizer would be applied to maize production, the fertilizer generated by the project should, with reasonable weather, increase maize production by some 150-250,000 tons, worth $20 - 34 million. In actual practice the fertilizer will be applied to a wide variety of crops.

Consistent with Support Measure No. 2-A under the FY1984 CIP (Annex D), the GRZ has moved in the direction of more economic pricing of fertilizer by increasing the price to the farmer from K14.9 per 50-kilo bag (K298/MT) in 1983 to K28.6 per 50-kilo bag (K572/MT) in 1984. Although still below NCZ's present cost of production (K830), it represents a significant reduction in the government subsidy of fertilizer.

Although there appears to be unofficial sales of Zambian fertilizer to Zaire, reflecting the subsidized price, there does not appear to be any medium-term expeort potential for NCZ, as after rehabilitation, the complex is projected to supply only 55-70 percent of domestic demand.

2. Economic/Financial Analysis: Agricultural Equipment and Spare Parts

There are approximately 12,700 tractors in Zambia, of which about 6,000 are manufactured, by John Deere, Massey Ferguson, J.I. Case, International Harvester, Ford, and Caterpillar. The horsepower varies but small farmers using tractors of approximately 60 HP, while those with higher HP are used by commercial farmers. There is a high demand for tractors and other agricultural machinery in Zambia.

With its ample land resources, tillage power (in terms of labor, animal draft and machine power) is the most binding constraint on agricultural development in Zambia, other than the economic policy environment, which is improving. The predominant reliance on the hoe is a major cause of limited land utilization. The tillage power constraint is exacerbated by the timing constraint -- rains are erratic and confined to four to five months, followed by a long, hot, dry period. Thus land preparation must be done quickly to avoid late planting; one week's delay may result in as much as a 50% decline in yields.

Despite high unemployment in the country, labor shortages exist in the three main farming systems. Among traditional and emergent farmers, who depend entirely or substantially on family labor, labor shortages are pronounced during the planting and harvest seasons, aggravated by the exodus of young, able males from rural to urban areas. In some rural areas, such as Northern Province, the economically productive population has dropped to about 40% of the total. Although most of the emergent farmers use oxen or hired tractors for land preparation, labor constraints at planting, weeding and harvesting time inhibit the realization of the full potential offered by the use of animal draft power. The labor const aint manifests itself particularly in the type and range of crops grown. Farmers allocate more land and labor to less labor intensive crops such as maize and other staples and less to cash crops such as tobacco and groundnuts. Among medium and large scale commercial farmers, the labor constraint manifests itself primarily in labor costs, which rose sharply during the 1970s due to the introduction of statutory minimum wage and high housing standards.

Since the early 1950's tractor power has played a crucial role in expanding the cultivated area and ensuring adequate supplies of marketed output to the rapidly growing urban population. Although mainly concentrated among the medium and large-scale commercial farmers, the use of tractor power has been spreading steadily mainly through the sale of used tractors by medium and large-scale farmers to emergent farmers. Medium and large-scale farmers, as well as many of the emergent farmers, have sufficient farming skills, and a reasonably suitable technology package to respond quickly to the favorable changes in prices and other incentives that have taken place recently. Given the ample availability of land, tractors are essential to a rapid production response.

While farmers are in a weak cash position after three years of drought, there is strong demand for equipment and all indications are that farmers are prepared to purchase new equipment. There are adequate equipment dealers prepared to provide kwacha credit for the purchase of tractors, provided foreign exchange is available.

D. Support Measures: The Policy Dialogue

Under the FY 1985 Commodity Import Program Grant, a number of measures intended to maintain the movement toward the goals of increased food production and small farmer incomes in support of the AID/Zambia program, will be negotiated with the Government of the Republic of Zambia as follows:

The Government of the Republic of Zambia will:

1. Encourage efficiency in marketing by allowing (within one year of signing the Agreement) Cooperative Unions to sell agricultural commodities across provincial borders and allowing millers/processors to buy from their preferred source.

2. Encourage efficiency in transportation by eliminating subsidies to hauling parastatals and requiring that they charge full cost pricing. These subsidies will be eliminated completely by January 31, 1987 by means of yearly phased reductions as follows: Year 1-total reduction of road transportation subsidies in calendar year 1986 by at least one third of the 1985 level; Year 2- total reduction of road transportation subsidies in calendar year 1987 by at least two thirds of the 1985 level; Year 3- transportation parastatals to receive no subsidies in calendar year 1988.

3. Allow licensed private trading in all agricultural commodities (within one year of signing the Agreement).

4. Continue to make progress on the support measures initially set forth in the FY 84 CIP Grant Agreement, Annex 1 (611-K-601) and included as Annex D of this PAAD.

These measures build upon past support measures, particularly those contained in the FY 84 CIP (Annex D), which encourage adjustment of agricultural producer prices to take into account world prices as well as internal transport/storage price differentials; support growth in the agricultural sector by encouraging the redirection of resources through the elimination of subsidies for producers, consumers, parastatals, and cooperatives; strengthen the Planning Unit within the

Ministry of Agriculture and Water Development (MAWD) and the Central Statistical Office (CSO) within the National Commission for Development Planning (NCDP); and strengthen the MAWD Research and Extension Branches in order that technology for small scale farmers might be developed and disseminated.

The FY 1984 CIP was not signed until July 1984. Agreement on an implementation plan for support measures was reached in November 1984. Therefore, the 1984 CIP support measures will be on-going throughout 1985 and the next several years.

The FY 1984 CIP support measures, also have linkages to the Agriculture Planning and Training (611-0075) and Agriculture Research and Extension (611-0201) projects.

With the FY 1985 CIP support measures, AID/Zambia now intends to move more forcefully into the marketing subsector and encourage more efficient resource use by eliminating subsidies to selected parastatals which deal with agriculture. Economic marketing efficiency will also be encouraged through the elimination of regional market monopolies and restrictions, and by licensing private firms to engage in marketing of all agriculture commodities.

The commodities eligible for financing --fertilizer raw materials, coating agents and bagging materials; agricultural equipment and spare parts; tractor and truck tires; ox-drawn equipment, and petroleum (crude petroleum, motor fuels, and kerosene)-- like the local currencies generated, are linked with the AID/Zambia strategy and program. Thus they are of an agricultural nature in support of the AID/Zambia goals of increased food production and small farm income.

E. Local Currency Generations

The local currency (L/C) generated by the FY 84 Grant Agreement was negotiated jointly by AID/Zambia and the GRZ to directly support the policy changes sought and the Zambian organizations which administer AID activities (e.g., MAWD Planning Unit, Central Statistical Office, MAWD Research and Extension Branch). The L/C generations from the spare parts provision of the FY-84 CIP will be available in late 1984 or early 1985. These L/C generations will be allocated to on-going programs to which a continuity of funds is critical. The L/C which will be generated over 1985 and 1986, will be allocated to new uses. The usage of the L/C was also coordinated with the PL-480 Title II L/C generations to give increased coherence to the overall program. This practice will be followed for the FY 85 CIP.

The L/C will be placed in a special account in the Bank of Zambia. The authorization of the release of these funds is a joint decision of AID/Zambia and the GRZ. The utilization of these funds will be monitored by AID/Zambia. In the case of L/C for credit, the usage for the FY-84 CIP is spelled out in detail in Project Implementation Letters. While the FY-84 CIP was the first Grant and hence the first L/C required to be placed in a special account, AID/Zambia believes that experience with the L/C from Pl-480 Title II will facilitate the management of such an account.

Major emphasis will be given to incentive programs with the idea of increasing non-price incentives such as prompt payment to producers and increased market access. Strong support will also be given to selected Zambian organizations with attention being paid to the absorptive capacity of each. Specifically, the local currency generations may be applied to the following activities:

1. Incentive Programs:
   a) Producer incentives
   b) Incentives for marketing firms
   c) Incentives to private enterprise

2. On-going Programs:
   a) Planning Unit of Ministry of Agriculture and Water Development
   b) Central Statistical Office of the National Commission for Development Planning
   c) Research
   d) Extension

3. Other Activities:
   a) Support for Agricultural Education and/or Research Institutions
   b) Support to other institutions with an agricultural or rural orientation.

The L/C may be used, for example, as:

a) loan funds to PCU to facilitate prompt payment to farmers

b) loans to PCU's for operating expenses;

c) agricultural data collection services;

d) to finance policy and planning analyses, academic and non academic training;

e) to purchase locally available materials for research and extension; and

f) in a Trust Fund from which a small percentage of AID/Zambia local expenses are paid.

The actual allocation of funds for the items above will be worked out in conjunction with negotiating the CIP Grant Agreement with the GRZ.

F. Past Performance of Commodity Import Programs

The FY 1981 ($15 million) and FY 1982 ($15 million) CIP financed finished fertilizer compounds, fertilizer raw materials, spares. All commodities have reached end-users with the exception of a quantity of spares shipped in November 1984. Spare parts users and distributors received most shipments by December 1983. Other donors have followed the U.S. example and are also now financing spares. The $15 million FY 1983 CIP Loan (611-K-009), also financed fertilizer raw materials. Delivery was completed in April-June 1984 in time for processing into fertilizer compounds ready for use during the 1984/85 growing season (November-March).

Local currencies generated by past CIP's have been allocated to agricultural development activities such as reinforcing the MAWD Planning Department and improving agricultural production forecasting.

The FY 1984 CIP ($15 million) Grant Agreement, signed in July 1984, finances fertilizer raw materials, bags, coating agents, and spare parts. Conditions Precedent for the spare parts portion of the grant were met in November 1984. It is expected that fertilizer raw materials, for which contracts were signed in November 1984, will begin arriving in Dar es Salaam in February 1985, and spare parts shortly thereafter. NCZ's warehouse is currently still fairly well stocked with materials brought in during the FY 1983 program, which did not arrive in Lusaka until March-April 1984. This being the first time that Dar es Salaam was used as the port of entry rather than a South African port, certain difficulties were encountered including slow discharge rates, lost documentation and improper handling. NCZ officials estimate that approximately 2% of the commodity was lost through damage, mostly caused by improper handling between shipside at Dar es Salaam and NCZ's warehouse. Although this is higher than loss/damage rates on

shipments routed through South African ports, NCZ intends to use the Dar es Salaam route again as it is less costly than th South African route and tariffs are payable in kwacha rather than foreign exchange. A Transport Specialist from SER/COM visited Dar es Salaam and Lusaka in September 1984 to make recommendations for improvements in handling, and fewer problems are expected in the future.

NCZ is confident that the materials brought in under the FY 1983 program, together with those arriving in FY 1984, will be fully utilized before the arrival of materials to be ordered under the FY 1985 CIP program. The following table shows CIP's to Zambia since the first program in 1977.

Zambia CIP's to date

FY	L/G	$ million	Commodities
1977	L	20	fertilizer, feed, land clearing equipment, coal equipment, spares
1978	L	30	equipment, locomotive and tractor spares, seeds
1979	L	20	fertilizer, spares
1980	L	20	fertilizer and fertilize raw materials
1981	L	15	fertilizer raw materials
1982	L	15	fertilizer, spares
1983	L	15	fertilizer raw materials
1984	G	15	fertilizer, spares

VI. GRANT ADMINSITRATION AND COORDINATION

A. AID Administration

Primary responsibility for managing AID's implementation functions under the grant will be shared by the AID Representative in Zambia, REDSO/ESA in Nairobi and the Regional Legal Advisor, REDSO/ESA. M/SER/COM in AID/W will provide assistance to the Government of Zambia in the procurement of fertilizer and spares, including advertising and approval of bids for procurement and shipment of commodities.

AID's standard Commodity Financing Procedures, AID Regulation 1, will apply to this grant. Procurements by the public sector including NCZ will be conducted under formal competitive procedures. Private sector purchases will be conducted under negotiated procurement procedures.

Funds are to be disbursed within twelve months of the execution of the grant agreement. The terminal date for requesting disbursing authorization should be set twelve (12) months from the grant agreement date. However, it is recommended that the terminal disbursement date be set eighteen (18) months from the grant agreement date, to allow time for all shipping documents to be processed. It is expected that disbursements will be made through AID direct Letters of Commitment to suppliers, except in the case of private sector financing, where AID/W will issue a bank Letter of Commitment to an eligible designated bank. The Ministry of Finance will act as approved applicant and will request bank letters of credit to be issued to individual suppliers.

Prior to any disbursements, the GRZ will submit a commodity procurement plan for which AID/Zambia retains right of approval. The plan will give the general outlines of proposed foreign exchange allocations. The GRZ will then advise AID/Zambia of individual foreign exchange allocations to public and private sector entities. However, AID/Zambia's approval of individual allocations will not be required as the allocations process itself will reflect GRZ's internal decisions on priorities among competing demands for foreign exchange.

B. GRZ Administration and Liaison

The Government of the Republic of Zambia has the responsibility of procurement of the agreed upon commodities and maintaining all Regulation 1 stipulations. The Ministry of Finance will be responsible for all contractual arrangements and act as signatory to all agreements. Once agreement has reached, delegation of authority to appropriate organizations (NCZ, farm implement distributors, NAMBOARD, etc) will be made, but with the Ministry of Finance as the responsible GRZ body. Counterpart funds in the special account will be programmed for developmental activities mutually agreed upon by AID and the GRZ. The GRZ will report to AID/Zambia on the status of kwacha deposits to the special account (counterpart) fund, and will make its books available for AID inspection. However, AID/Zambia will not directly supervise specific local currency deposits and utilizations. It is recommended that the Ministry of Agriculture and Water Development (MAWD) be designated to implement counterpart funded activities. As the organization most directly involved with Zambian farmers, private firms, and parastatals, MAWD is in the best implementation position. The GRZ will liaise between AID/Zambia and any concerned private firms and parastatals bodies. Such communication responsibilities will include issuance of semi-annual reports on procurement, manufacture of fertilizer compound, distribution of all commodities and the status of the special account established from revenues of commodities sold.

The GRZ will provide AID/Zambia with designations of representatives and authorized implementing personnel, as well as government bodies responsible for commodity procurement, distribution and sale.

C. 1. IMPLEMENTATION SCHEDULE: FERTILIZER RAW MATERIALS

Past difficulties with both the FY 82 and FY 83 CIP approvals severely altered actual implementation dates from those scheduled. Keeping this in mind, but also assuming significant improvements as well, the following implementation schedule is proposed.

Action	Agents	Project Month
PAAD submittal to AID/W	AID/Z & REDSO/ESA	1
PAAD Approval, Authorization	AID/W	2
Program Agreement signed	AID/Z & GRZ	3
Conditions Precedent satisfied	AID/Z & GRZ	6
Issuance of IFB's	AID/W, AID/Z & GRZ	7
Visits to U.S. by GRZ	GRZ, AID/W	8
Contracts awarded	GRZ, Contractors	8
Letters of Commitment issued	AID/W	9
First commodities shipped	Contractors	10
Last commodities shipped	Contractors	11
First commodities arrive Dar es Salaam	Contractors	12
Fertilizer manufacture initiated	GRZ, NCZ	15
Last commodities arrive	Contractor	13
Special account fund established	GRZ, AID/Z	16
All fertilizer manufactured	NCZ	22
All fertilizer sold and distributed	NCZ, NAMBOARD	24
Special Account Fund usage complete	GRZ, AID/Z	25

While this implementation schedule is much more conservative than previous ones, it is less conservative han actual performance in implementing the FY 82 and FY 83 CIP's. This schedule takes into consideration AID's February-May "window period" on fertilizer transactions when no fertilizer can be shipped from the U. S. because of the U.S. planting season..

C. IMPLEMENTATION SCHEDULE: AGRICULTURAL EQUIPMENT

Tires, tractors, agricultural implements, and spares will be imported largely through the private sector. An exception will be ox-drawn agricultural implements which will be imported by the Zambia Cooperative Federation (also a private organization) on the basis of competitive negotiation. Thus for the majority of implements the pace of implementation will be determined by the speed with which the letters of credit can be issued. Assuming the same schedule for implements and fertilizer up until the time the CP's are met,, the remainder would be as follows:

Month	Action	Agents	Program
	Issuance of Bank Letters of commitment	AID/W	7
	Issuance of Letter of Credit	GRZ	8
	Importers request proformas or issue RFQ's	Importers	8
	Orders placed	Importers	8 to 11
	First commodities arrive	Importers	13
	Special Account established	GRZ, AID/Z	8
	Last commodities arrive	Importers	19
	All commodities resold	Importers	31
	Special Account Fund usage complete	GRZ AID/Z	25

D. CONDITIONS PRECEDENT AND COVENANTS

1. Conditions Precedent

In addition to the usual requirement for a legal opinion and specimen signatures of authorized representatives, a procurement plan will be required giving details on the procurement methods to be used for each of the types of commodities to be financed (fertilizer raw materials; agricultural equipment and spares; ox-drawn equipment; and petroleum). A plan for each commodity will be required as a CP to disbursement for that commodity.

(a) With regard to fertilizer raw materials, there is only one eligible importer, so the phrase "methods of determining importer eligibility " has reference only to the importers of agricultural implements. Most of the procedures to be followed in procurement are given above. These procedures should be repeated in the procurement plan submitted by the Ministry so that there is clear understanding on both sides.

(b) The procurement plan as it relates to fertilizer raw materials should contain a list of the types and quantities of raw materials to be imported. It should also contain assurance from NCZ as to the availability at the plant site of the other raw materials, including bags, to produce finished fertilizer ready for resale. Finally, it should contain an understanding that AID will not finance the ocean freight unless NCZ can show evidence that it is not in arrears with regard to payments to the Tazara Railway and that the budget for inland freight is fully funded.

(c) With regard to agricultural implements, the procurement plan should show the method that the GRZ will follow in allocating the foreign exchange made available under this grant. It should make clear that the application prepared by the intended distributor shall be an important determinant in the allocations process, and that the application shall give evidence that the distributor has the means to raise the kwacha equivalent of his application.

2. Special Covenants. In addition to the standard covenant, the Grantee shall covenant that, except as AID may otherwise agree in writing, it will: encourage efficiency in marketing by allowing (within one year of signing the Agreement) Cooperative Unions to sell across provincial borders and allowing millers/ processors to buy from their preferred sources; encourage efficiency in transportation by eliminating subsidies to road transportation parastatals, and requiring that they charge full cost pricing in accordance with the phased schedule set forth in Section V, D of this PAAD; allow licensed private trading in all agricultural commodities throughout Zambia (procedures for licensing private traders will be adopted by the concerned GRZ ministries and agencies and the criteria for licensing promulgated to the private sector by December 31, 1985; this market liberalization measure will be fully implemented as evidenced by the issuance of licenses by April 1, 1986); continue to make progress on the support measures initially set forth in the FY 84 CIP Grant Agreement, Annex 1 and included with a scheduling plan in annex D of this PAAD.

E. Waivers

Draft waiver requests to permit Code 941 and 899 source ocean transport services of fertilizer raw materials, to permit Code 899 procurement of petroleum (including crude petroleum, motor fuels, and kerosene), and to permit code 941 source procurement of ox-drawn equipment are attached as Annex B. The petroleum waiver will be circulated separately for A/AID's signature.

F. <u>Procurement and Contracting Procedures</u>

The GRZ has requested that two types of commodities be financed with the subject grant proceeds: (1) raw materials for the manufacture of compound fertilizers by Nitrogen Chemicals of Zambia Ltd. (NCZ), and (2) agricultural tractors and farm implements (including ox-drawn equipment), tires, spare parts

1. Fertilizer Raw Materials

(a) Eligibility: The authorized source and origin of the fertilizer to be financed under this grant is AID Geographic Code 000 (U.S) only.

(b) Procurement: All procurement of fertilizer raw materials by NCZ will be conducted by formal competitive procedures, as defined in Section 201.22 of AID Regulation One. The special provisions relating to the procurement of fertilizer contained in AID's Commodity Eligibility Listing, 1984 Edition, will be used. AID/W/SER/COM will assist in preparing and publicizing the IFB, and in approving the awards for fertilizer and for ocean freight charters.

(c) Financing: Will be by Direct Letter of Commitment to U.S. suppliers. A single Financing Request will be set up covering the entire amount available for fertilizer. L/Comm's will be issued to U.S. suppliers based on the final awards as approved by AID and in response to a request from the Zambian Embassy in Washington. NCZ will deposit the kwacha equivalent of the value of the fertilizer raw materials within six months of the receipt of the raw materials.

(d) Transportation: The fertilizer will be routed via Dar es Salaam and the Tazara Railway to Kafue, Zambia. The port of Dar es Salaam is uncongested, and the Tazara Railway appears to have ample motive power. The major problems on this route are

1) occasional delays in access to sufficient rail wagons and

2) inadequate (torn, damaged) tarpaulins for protecting the commodity. AID/Z and REDSO will continue their efforts to minimize these deficiences.

It is understood that the GRZ is insisting on the use of this routing, in as much as transportation over this route can be paid in kwacha. AID will not finance any of the inland freight, but will finance port charges at Dar es Salaam, which are payable in foreign exchange. Another advantage of this route is that the overall cost of ocean and inland transportation is less than by way of the South African route.

In the event that Code 000 source shipping services are unavailable, Code 941 or Code 899 shippers will be sought. A draft waiver to permit such services is attached at Annex B.

2. Spares/Agricultural Equipment

a) Eligibility: Commodity eligibility will be limited, within the scope of the AID commodity eligibility listing, to equipment and spares as defined by Schedule B numbers 666.0002 through 666.0090, 692.3820 through 692.3840, and 772.4500 to 772.6020. The authorized source and origin of the spares to be financed under the grant will be A.I.D Geographic Code 000 (U.S only) with the exception of ox drawn farm implements (plows, cultivators, etc). A waiver to 941 will be sought on the grounds of the unavailability of these items from the United States. This waiver request is attached at Annex B. Further it should be noted that as regards spare parts, the componetry rules apply as describes in Appendix G1 of AID Handbook 15, Section A. 2. Therefore any given shipment of spare parts may contain up to 50 percent by value of spares originating in code 899 countries.

(b) Procurement: Eligible importers will be limited to those importers who are the exclusive importers of American companies furnishing equipment, tires, and spares defined by the above Schedule B numbers. Thus, procurement will take place under the special supplier-importer relationship described in section 201.21 (e) of AID Regulation One. An exception will be made in the case of ox drawn implements. Although certain local distributors do represent, on an exclusive basis, the manufacturers of ox-drawn implements, none of these are U.S. manufacturers. In addition, these distributors do not have strong commercial ties with the farmers who would normally use such implements (farms of 10 hectares and less), and would normally use their allocations to supply their more substantial customers. For this reason, it is proposed that the Zambia Cooperative Federation (ZCP), a private organization, be allocated $1,000,000 for the import of these implements. This organization is experienced in importing and distribution, and will issue RFQ's (Requests for Quotations) to manufacturers in Malawi, Kenya and Zimbabwe using the competitive negotiated procedures described in Section 201.21 (e) of AID Regulation One.

(c) Financing: Financing will be by Bank Letter of Commitment to a U. S. bank. A single Financing Request will be set up covering the entire amount available for agricultural implements. Letters of Credit will be issued to U.S. and Code 941 suppliers based on the Ministry of Agriculture's decision as to the allocation to be granted each importer. The Ministry of

Agriculture will use objective criteria in deciding the allocations to be granted in connection with each importer's application. Such objective criteria may include the number of units previously imported by each importer, back orders held by the distributors, etc.

When the allocation is made, each importer will accompany his application for an import license with the kwacha equivalent of the value of the goods to be imported. These funds will be deposited into the special account. The Ministry is expected to use its good offices to insure that any licenses required for the import of the spares be promptly granted by the relevant GRZ ministries.

(d) Transportation: Importers are expected to use either the overland route via Dar es Salaam or air freight via Europe. (There is no direct U.S. air service to Zambia). This is because kwacha can be used in payment of inland freight from Dar es Salaam and for air freight from Europe on certain air carriers. AID will finance only the foreign exchange costs of transportation. The eligible source/origin for ocean freight services is U.S. (Code 000). Any required waivers will be granted on an ad hoc basis by SER/COM/TS.

G. Additional Considerations and priority listing of desired commodities

1. Impact on U.S. Balance of Payments - the impact of the grant on the U..S. balance of payments position will be minimal. As an authorized utilization of ESF, as approved by the U.S. government, the grant will assist U.S. foreign policy. Expenditures under the grant will be principally made in the U.S.A., therefore the change in BOP will not be highly apparent and U.S. exporters will strengthen their market positions in Zambia, although transport costs may negate some competitiveness.

2. Use of Excess U.S. Government Property - AID will review the possibility of usage and financing of excess U.S. Government property under the grant. However, it is very unlikely that such property will be appropriate given the nature of the commodities to be purchased.

I. Priorities:

It is proposed that the amount of this grant set aside for fertilizer raw materials - $11 million - remain constant whatever the ultimate size of the program. If, however, the

program is limited to a total of $15 million, it is suggested that the remaining portion be used for tractors, tractor drawn implements, and spares only. Should the program be funded at $17 million, it is suggested that tires be added to the list of eligible items. If the funding reaches the full $19 million, then the last $1 million should be allocated to the Zambia Cooperative Federation for the import of ox drawn farm implements.

Another high priority sector is capital equipment for the NCZ plant. Although the World Bank is financing a rehabilitation of this plant, there appears to be a financing gap of about $3 million for plant equipment. Much of this is for pollution control equipment and could be supplied from the U.S.

H. End Use Monitoring

AID Regulations require that commodities financed by AID reach the end user on a timely basis in a usable fashion and be used for the purpose intended within a prescribed time period - usually one year.

A) Fertilizer raw materials - Port and customs clearance at Dar es Salaam has been no problem, and the fertilizer shipped via this route has been loaded onto railwagons and started on its way well within the tolerable time limit (90 days). Nevertheless, there has been a chronic shortage of rail wagons available at shipside, with resultant slow discharge rates. NCZ has, therefore, been on occasions assessed demurrage by the shipowners. AID does not finance demurrage, but nonetheless has made repeated efforts to speed up the supply of rail wagons from the Tazara Railroad. This year AID will require NCZ to include in its procurement plan a certification both that NCZ is not in arrears in its payments to Tazara and that the inland freight costs for AID financed shipments are fully funded in NCZ's budget.

In as much as NCZ takes title to the fertilizer raw materials at Dar es Salaam, it has resisted AID's offer to finance the insurance of these commodities while in transit between Dar es Salaam and Lusaka, and instead places insurance denominated in Zambian kwacha with the Zambia State Insurance Company. The proceeds from insurance claims are used to finance domestic inputs (coal, pyrites) for the production of finished fertilizer.

AID regulations require the importer, when it is a government agency, to maintain records of the disposition of the commodity (first purchaser or transferee) for a period of three years. NCZ's records are more than adequate to fulfill this requirement. Even though the commodities imported undergo a transformation at the NCZ plant, USAID has for some time financed all the imported raw materials and NCZ has only one customer (NAMBoard).

On occasion, AID-financed commodities have remained in the warehouse for more than one year, but given the length of the supply line, and the desire to maintain uniform levels of production, this appears to be a justified and rational disposition of the raw materials.

B) Agricultural Implements. There have been no instances of delay in port and customs clearance for spare parts and none are expected for implements. These items will in most cases be containerized, and the risk of loss en route is less than for fertilizer. Unlike fertilizers, letter of credit to the suppliers will specify that USAID will finance insurance payable in foreign exchange up to Lusaka.

Given the nature of the demand for spare parts, it has often been the case that certain spares will be kept "on the shelf" for more than one year. The importers maintain adequate records documenting the arrival and sale of equipment and spares. The agricultural equipment financed will be of a type suitable only or primarily for use in the agricultural sector in order to minimize possible "leakage" into non-agricultural sectors.

ANNEX "A"

Communications should be addressed to the Permanent Secretary

Telephone: LUSAKA 213022

Telegrams: FINANCE, RIDGEWAY

In reply please quote:
MF/I2I/IN/544

REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE

P.O. BOX 50062
LUSAKA

16th November, 1984

USAID Representative,
Mr. J.A. Patterson,
LUSAKA.

Your Excellency,

ASSISTANCE UNDER COMMODITY IMPORT PROGRAMME

I wish to acknowledge and to thank you most sincerely for the substantial Balance of Payment support which your great country has been providing to our country since 1976. I am particularly appreciative of your Government's support to agricultural sector and in particular to NCZ Ltd to which you have provided since 1981 to 1984 a total amount of US$ 40 million in form of Grants.

I further wish to thank you for extending assistance for the purchase of agricultural machinery and spares in order to increase hecterage under cultivation thereby inhencing and sustaining increased agricultural production. This programme has enabled the farmers to have their equipment repaired.

I wish to take this opportunity to inform you that as a result of increased provision of credit to small scale farmers basic food stuffs are now being produced by this category of farmers. One of the factors attributing to increased credit is the kwacha generated through sale of agricultural equipment and spares provided under this programme.

It is the party and its government's policy to continue providing assistance to small scale farmers in order for them to become commercial farmers. The strategy that we are using is to optimise utilisation of various resources through cooperative movements through whose credit - cooperative scheme, loans are being provided to members.

As Your Excellency, will appreciate, this is a big task which requires considerable support from our friendly countries. I wish therefore to request Your Excellency, to assist us in this task. We would be grateful if your

great country will provide us with an AID Financed Commodity Import programme for 1985 amounting to US$ 20 million(an increase of US$5 million from 1985). 1984
We sincerely request that this programme may be considered on GRANT terms. We plan to use half of this money to buy land clearing, land preparation equipment, tractors, ploughs and planters as well as spares for these equipment. We would also request that in order to provide for vertical integration between production and processing of agricultural produce - that consideration should be given to some industrial equipment such as mills and their spare parts.

The other half of the money will be used for the purchase of raw materials for the manufacture of compound fertilisers by Nitrogen Chemicals(Z) Ltd.

Please accept Your Excellency the assurances of our highest consideration.

Yours sincerely,

E.C. Kaunga(Dr)
PERMANENT SECRETARY
MINISTRY OF FINANCE

ANNEX B

To: Director, Office of Commodity Management, AID/W

1. Waiver Required: Procurement source and origin waiver from AID geographic code 000 (U.S. only) to Code 941 (Special Free World) or to Code 899 (Free World) to the extent that the freight tender demonstrates that Code 941 flag vessels are unavailable for ocean transport services to ocean ports in east and Southern Africa.

2. Summary Waiver Information:

Cooperating Country:	Zambia
Authorizing Document	FY 1985 CIP PAAD
Project:	Zambia Commodity Import (Program)Grant
Nature of Service:	Ocean transport services for fertilizer materials to Dar es Salaam
Approximate Total Value:	Up to $2.5 million
Probable Source:	Code 899 (Free World) countries

3. Discussion:

AID policy requires AID geographic Code 000 (U.S. only) source and origin procurement for Economic Support Fund (ESF) grants. This applies to the procurement of transport services as well as the commodities financed under the proposed grant. Because other heavy demands will be made upon the limited supply of suitable U.S. flag vessels during the time of shipping (tentatively December 198[illegible] - February 1986) it is probable that neither sufficient U.S. [illegible] vessels nor Code 941 flag vessels will be offered to transport the commodities during this required period. It is essential that the fertilizer raw materials be shipped at this time in order to arrive in Zambia for processing and distribution prior to the beginning of the growing season.

Handbook 1, Supp. B. Ch. 7B4a (3), authorizes a waiver from Code 000 to Code 941 vessels when United States and cooperating country vessels are unavailable, and from Code 941 to Code 899 vessels when in addition Code 941 vessels are unavailable, and when the cargo is ready for shipment, and it is reasonably evident that delaying the shipment would subject either the supplier or cargo to additional costs, or the importer to significantly delayed receipt of cargo.

Because Zambia has no available foreign exchange to finance ocean freight on the commodities to be financed, all ocean freight must also be financed under this grant. From past experience it appears that there will not be sufficient U.S. or cooperating country flag vessels to transport these commodities at the time they will be shipped. To the extent they are available, Code 941 flag vessels will be used instead. However, it also appears that Code 941 flag vessels may not be available. Therefore at least some Code 899 flag vessels will have to be used to transport these commodities. It is proposed that the fact of non-availability be determined by SER/COM/TS at the time of shipment, based upon responses received to the freight tenders.

The total cost of non-U.S. flag freight to be financed for fertilizer under this waiver, if approved, cannot be known until freight offers are received and matched up with fertilizer bids. It is estimated that non-U.S. flag freight may cost about $80 per ton. Thus, a single chartered non-U.S. flag ship of 15,000 tons would cost about $1.2 million. If all shipments move on non-U.S. flag vessels, the amount of the waiver could reach $2 million or slightly more if fertilizer prices permit procuring somewhat more than 25,000 tons of fertilizer raw materials with available grant funds. It may be noted that in a similar procurement last year, U.S. flag ships were in fact available to carry half the tonnage. HB 1B, Ch 7B 4b (1) permits SER/COM, in consultation with AA/AFR, to approve such waivers in unlimited dollar amounts

4. <u>Recommendation</u>

That to the extent it is necessary to move the fertilizer raw materials you

(a) authorize the financing of ocean transportation on vessels of any Code 941 flag if it is determined by SER/COM/TS, based on freight tenders, that U.S. and cooperating country flag vessels are not available;

(b) authorize the financing of ocean transportation on vessels of any Code 899 flag if it is determined by SER/COM/TS, based on freight tenders, that Code 941 flag vessels are not available; and

c) certify that the interests of the U.S. are best served by permitting financing of transportation services on ocean vessels under flag registry of free world countries other than the cooperating country and countries included in Code 941.

WAIVER REQUEST FOR OX DRAWN EQUIPMENT

Action Memorandum for AA/AFR

Problem: A procurement source/origin waiver is required for the procurement of ox-drawn animal implements from Geographic Code 000 (U.S. only) to Geographic Code 941 (Free World).

a)	Cooperating Country:	Zambia
b)	Authorizing Document:	Grant 611-K-
c)	Nature of Program:	Commodity Import (Program Grant)
d)	Nature of Funding:	Economic Support Fund
e)	Description of Commodities:	Ox-drawn farm implements
f)	Approximate Value:	$1 million
g)	Probable Source/Origin:	Kenya, Malawi, Zimbabwe (AID Geographic Code 941

Discussion: One of the objectives of the Commodity Import Program in Zambia is to provide needed inputs for the small and emergent farmer. Among these inputs a strong demand exists for ox-drawn farm implements (plows, cultivators, planters, etc.). The demand for these items cannot be met from limited and poor quality local production. As a grant-financed program, the only eligible source is Geographic Code 000 (U.S. only). These are, however, items which are not available from the United States except on a custom made basis. Such implements of good quality manufacture, are available from neighboring African countries such as Zimbabwe, Malawi and Kenya. Thus they could be procured from 941 sources, at considerable savings in transport expenses, and enough manufacturers exist to ensure competition.

Justification: Among the criteria for issuing a waiver listed in Chapter 2, Section B6, of Handbook 15, is when the commodity is not available from countries included in the authorized geographic code. Since these items are not presently in serial production in the United States, they cannot be considered to be available from the United States.

Recommendation: That, for the above reasons, you approve this request for a waiver to allow the purchase of ox drawn farm implements in code 941 countries.

Approved

Disapproved

Date

DOC 3746D

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT ADMINISTRATOR

AUG 9 1 45 PM '85

09 AUG 1985

ACTION MEMORANDUM FOR THE ADMINISTRATOR

From: AA/AFR, Mark L. Edelman

Subject: FY 85 Zambia Commodity Import Program

Problem: Your approval is required for a source/origin waiver from Code 000 to Code 899 to allow the procurement of up to $10.0 million of petroleum (including crude petroleum, motor fuels, and kerosene) and commodity-related services under subject program.

(a)	Cooperating Country	Zambia
(b)	Nature of Funding	CIP (611-K-602)
(c)	Description of Goods	Petroleum (crude petroleum, motor fuels, and kerosene) and commodity-related services
(d)	Approximate Value	Up to $10.0 million
(e)	Probable Source/Origin	Saudi Arabia, other Arabian Gulf countries, South Africa, and/or other Code 899 countries

Program Background: Since 1977 AID has been providing assistance to Zambia under a commodity import program (CIP), at a level of between $15.0 million and $30.0 million per year. While the CIP has been justified primarily on balance of payments grounds, in recent years its secondary focus has been on the agricultural sector, providing raw materials for fertilizer and spare parts for agricultural machinery.

This year USAID/Zambia has proposed a $10.0 million CIP to provide: [1] short-term balance of payments relief; [2] urgently needed foreign exchange which will enable the GRZ to obtain critically needed commodities; and [3] contribute to the GRZ's objectives of accelerating agricultural development and diversification of the economy. Since the need for fertilizer raw materials is not as critical this year, in addition to this commodity, the FY 85 CIP grant will be utilized to procure critically needed commodities for the agriculture sector including agricultural equipment, spare parts, tractor and truck tires, and ox-drawn equipment.

Also, following the ECPR's recommendation, the FY 85 CIP grant may finance petoleum (including crude petroleum, motor fuels, and kerosene). Over the past six months, Zambia has experienced

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periodic shortages of petroleum, which have exacerbated already serious economic problems and have had a negative impact on efforts to sustain progress in achieving growth in the agriculture sector. A recent cable from Zambia reported that the shortage of diesel will slow down harvesting and storage of the current crop and plowing for the next. Because of these factors, inclusion of petroleum under this year's CIP is needed if the momentum in agricultural production is to be sustained.

The authorization for the FY 85 program is now circulating for clearances. A copy of the action memorandum, describing the program in more detail, is attached for your reference. My authorization of the program will await your approval of this waiver.

Discussion: In March 1985 the US Embassy in Zambia provided the State Department and AID with a series of messages which described Zambia's lack of foreign exchange to purchase critically needed petroleum products. The US and other donors expressed a keen interest at that time in assisting Zambia in obtaining at least short-term supplies of petroleum which are vital to the economy.

Although the severe shortage of petroleum experienced in March 1985 has been temporarily alleviated, it is expected that Zambia will experience more shortages of petroleum because of the continuing lack of foreign exchange to procure these products and also because of serious debt arrearages on loans with creditors which previously financed Zambian petroleum imports. The AID-financed petroleum could be used in the agricultural sector, as well as other sectors, and supports both our balance of payments purpose and our agricultural focus.

In order to ensure that Zambia has the necessary foreign exchange to obtain petroleum in the event that a shortage does occur, it is proposed that the Zambia FY 85 CIP allow up to $10.0 million, the entire authorized amount, to be used for this purpose. The USAID/Zambia Director will be responsible for determining that a temporary critical shortage exists when commodities are to be ordered. Although we may use the entire authorized amount for petroleum if an acute shortage is evident, it is possible that less than the full $10.0 million will be used for such procurement, in which case the balance would be used to finance fertilizer raw materials, agricultural equipment, and spare parts as originally planned.

If it becomes necessary to utilize the entire $10.0 million provided under this year's CIP to procure petroleum products, the quantitiy represents less than 10% of the estimated $130 million annual petroleum import bill for Zambia. Although this is a relatively small portion of Zambia's total import requirements, the AID contribution would be significant. First, it would be used in a time of critical shortage, when even a small amount of petroleum could prevent a total stoppage of vital parts of the economy. Second, the need for petroleum in the agricultural sector is substantially greater than for other inputs, and hence provision of these commodities increases our leverage in persuading the GRZ to agree to the proposed policy reform measures.

Justification: The authorized Geographic Code for the Zambia CIP is normally 000 (US only). However, a waiver to Code 899, under the criteria permitted by Hb. 1B, Ch 5B 4a, "such other circumstances as are determined to be critical to the success of project objectives", is necessary for the purchase of petroleum (including crude petroleum, motor fuels, and kerosene) and related services. In accordance with Hb. 1B, Ch 5B, 4c(2), your approval is required on source/origin waivers over $5.0 million, excluding transportation costs.

Zambia's primary source of petroleum in recent years has been Saudi Arabia, a Code 899 country, and it is important not to interrupt Zambia's normal petroleum procurement process. Procurement on the best terms and the lowest price available is essential if we are to contribute to closing the balance of payments gap which is the primary purpose of the CIP. This CIP will finance petroleum only if a critical, temporary shortage exists, which is a situation requiring the GRZ to take quick, decisive action to obtain timely delivery. Only Code 899 countries have sufficient quantities of petroleum available on a regular, reliable basis to achieve these objectives.

While procurement from all Code 899 countries would be authorized, procurement from South Africa would occur only at the request of the GRZ and only if determined to be the most expedient source for this critically needed commodity. This procurement will not be excluded from the requirements of cargo preference.

Some petroleum from the United States is available, although it is relatively expensive and timely delivery could not be assured. Petroleum from Code 941 sources is primarily from Egypt and Kenya, but it is not always available in sufficient quantity at the time needed, and petroleum from Code 941 countries is not part of Zambia's established petroleum procurement pattern.

Therefore, it is important to the success of this program that Code 899 procurement be the authorized source for up to $10.0 million of petroleum products.

Recommendation: That you (1) approve a source/origin waiver from Code 000 to Code 899 to allow the procurement of up to $10.0 million of petroleum and commodity-related services under the Zambia FY 85 CIP, and (2) certify that exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of US foreign policy objectives and objectives of the foreign assistance program.

Approved: Maurice Brown

Disapproved: _____

Date: Aug 9, 1985

Attachment: a/s

Clearances:

DAA/AFR:LSaiers		Date	8/9/85
AFR/PD:LHausman		Date	8/6/85
AFR/PD/SAP:WStickel		Date	8/6/85
AFR/SA:RCarlson		Date	8/6/85
GC/AFR:MAKleinjan	MAK	Date	8/6/85
GC:HFry		Date	8/6/85
SER/COM:PHagan	[DRAFT]	Date	8/1/85

AFR/PD/SAP:AHarding/KNurick:7/8/85:0048L:x28818

FERTILIZER DATA

1. Profit and Loss Accounts
2. Cash Flow NCZ NPK Plant
3. NCZ Sales
4. Financial Condition of NCZ

NITROGEN CHEMICALS OF ZAMBIA LIMITED

PROFIT AND LOSS ACCOUNT
(K,000 NPK PLANT ONLY)

Annex VII C-1

	1982	JAN-JUNE 1983	JULY-DEC 1983	PROJECTED 1984	PROJECTED 1985	PROJECTED 1986
Sales	16056	9025	24266	51664	66943	68350
Raw Materials	12857	7233	19601	47770	62178	63375
Fuel	72	48	59	90	90	90
Electricity	22	15	17	20	20	20
Packing Materials	550	414	1074	1898	2250	2250
Repairs & Maint.	37	79	79	150	150	150
Others	12	13	12	22	22	22
Total Variable Costs	13550	7802	20842	49950	64710	65907
Gross Profit	2506	1223	3424	1714	2233	2443
Salaries & Wages	185	198	206	442	486	486
Administration	118	79	79	145	158	158
Import Licences	350	185	259	850	1480	1500
Insurance	238	158	158	317	317	317
Depreciation	1446	964	964	1927	1927	1927
Loan Interest	987	760	675	1150	973	756
Guarantee	16	8	8	16	15	13
Overdraft Interest	42	38	225	--	--	--
Total fixed cost	3382	2390	2574	4847	5356	5157
(Profit/Loss)	(876)	1167)	850	(3133)	(3123)	(2714)

Projected losses in 1984, 85 and 86 are due to increased cost of imported raw material costs due to exchange fluctuations and strengthening of U.S. dollars against Kwacha.

TABLE VII C. 2
NITROGEN CHEMICALS OF ZAMBIA LIMITED
CASH FLOW - NPK PLANT
(K'000)

	1982	JAN-JUNE 1983	JULY-DEC 1983	PROJECTED 1984	PROJECTED 1985	PROJECTEI 1986
Opening balance	-	(556)	(741)	(4355)	1174	27899
Sales	14272	9305	21726	51403	65669	68233
Materials	12212	7289	21757	38881	31116	71675
Fuel	72	48	59	90	90	90
Electricity	22	15	17	20	20	20
Wages & Salaries	185	198	204	442	486	486
Import Licence	350	185	259	850	1480	1500
Insurance	238	158	158	317	317	317
Loan Interest	987	760	675	1150	973	756
Loan Repayment	-	206	734	1893	1867	1855
Guarantee fees	16	8	8	16	15	13
Others	717	585	1244	2215	2580	2580
Overdraft Interest	42	38	225	-	-	-
Total	14828	9490	25340	45874	38944	79292
Closing balance	(556)	(741)	(4355)	1174	27899	16840

TABLE VII C. 3
NITROGEN CHEMICALS OF ZAMBIA LIMITED
(NPK PLANT)
SALES TO NAMBOARD

	QUANTITY (MT)		RATE	VALUE (K'000
1982				
Compound - R	10155		539	5473
- D	19930		531	10582
1983 JAN-APRIL				
Compound - R	5175		539	2789
- C	2839		472	1340
1983 APRIL-JUNE				
Compound - X	3493		616	2152
- R	4426		620	2744
1983 JULY - DEC				
Compound - X	39393		616	24266
1984 JAN-APRIL				
Compound X	14221		616	8760
1984 APRIL-JUNE				
Compound X	20686		616 1/	13230
1984 JULY-DEC				
Compound - X	19169		669	12324
- R	25000		674	16850
1985 JAN-APRIL				
Compound - X	21000		669	14049
1985 APRIL-DEC				
Compound - X	19000		736 2/	13984
- R	20000		741 2/	14820
- D	33000		730 2/	24090
1986 JAN-APRIL				
Compound - X	21000	736		15456
1986 APRIL-DEC				
Compound - X	19000	736		13984
- R	20000	741		14820
- D	33000	730		24090

1/ Raised to 669 effective May 1984
2/ Assumes 10% increase over July - December 1984 prices

TABLE VII C.4

ZAMBIA

Financial Condition of NCZ: 1970-1984

(K million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 1)
ASSETS															
Current	1.1	3.1	4.4	3.6	6.1	10.3	10.5	11.0	14.3	19.9	20.7	15.8	38.3	31.0	33.2
Fixed	18.3	18.6	18.0	17.5	16.7	15.8	29.1	44.0	166.6	202.3	242.3	264.9	321.7	212.6	199.8
Total	19.4	21.7	22.4	21.1	22.8	26.1	39.6	55.0	170.9	[illegible]	243.0	280.7	360.0	243.6	233.0
LIABILITIES															
Current of which	0.9	3.7	7.6	7.4	6.3	5.0	5.8	5.9	5.4	9.1	7.2	10.5	18.8	22.9	36.9
Short Term Loans	0.4	1.5	5.3	6.3	4.6	3.8	4.5	4.8	3.5	7.1	5.0	6.0	7.7	14.2	11.0
Long Term Loans	9.8	11.0	9.2	9.4	11.3	13.0	25.7	40.1	162.7	198.8	233.2	229.1	225.5	99.5	93.9
Total Loans	10.2	12.5	14.5	15.7	15.9	17.6	30.2	44.9	166.2	205.9	243.2	235.1	233.2	114.3	136.9
Total Liabilities	10.7	14.7	16.8	16.8	17.6	18.8	31.5	46.0	168.1	207.9	245.4	239.6	244.3	122.4	[illegible]
EQUITY															
Paid in Capital	10.0	10.0	11.1	11.2	12.1	12.9	12.9	12.9	12.9	12.9	12.9	37.9	116.7	137.8	137.8
Total Equity	10.0	10.1	8.1	5.6	6.2	7.9	8.5	9.7	13.0	14.4	17.6	41.2	115.6	121.1	100.1
PROFIT/LOSS															
For the year	-	0.1	(3.0)	(3.4)	(0.3)	(1.1)	6	1.1	[illegible]	1.5	3.3	(1.4)	(4.4)	(15.7)	(20.8)
Accumulated	-	0.1	(2.9)	(6.3)	(6.6)	(7.7)	(7.1)	(6.0)	(3.0)	(1.5)	1.8	[illegible]	[illegible]	[illegible]	[illegible]
RATIO															
Current Ratio	1.2	0.8	0.6	0.5	0.9	2.1	1.8	1.9	2.6	2.2	2.9	1.5	2.0	1.4	0.9
Total Debt/Equity	2.0	1.2	1.8	2.8	2.6	2.2	3.5	4.6	12.8	14.3	13.6	5.7	2.0	0.9	1.1
Long Term Debt/Equity	1.0	1.1	1.1	1.7	1.8	1.7	3.0	4.1	12.5	13.8	13.5	5.6	2.0	0.8	1.0
Return on Equity (%)	-	1	(37)	(61)	(5)	(14)	7	11	23	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1) As of February 28, 1984 only

Note: Assets, liabilities and equity may not balance because of rounding off errors and some discrepancy in data

Communications should be addressed
to the Permanent Secretary

Telephone: LUSAKA 213982

Telegrams: FINANCE, RIGDEWAY

Annex VII D

In reply please quote

MF/LII/IN/483/497

REPUBLIC OF ZAMBIA

MINISTRY OF FINANCE

P.O. BOX 50[illegible]
LUSAKA

15th November, 1984

USAID Representative,
LUSAKA.

Dear Sir,

SCHEDULE OF THE PHASING OUT OF THE SUPPORT MEASURES:

Please refer to the attached document on the Schedule of the Phasing out of the Support Measures as per agreed minute of the negotiating meetings between G.R.Z. and yourselves.

We hope this schedule will be aggreable to you.

Yours faithfully,

F. M. SIAME
for/PERMANENT SECRETARY
MINISTRY OF FINANCE

Implementation Plan for Grant Agreement 611-K-601 Support Measures and FY-84 PL 480 Title I Self-Help Measures

The Government of the Repuplic of Zambia, in accordance with Section 5.7.(c) of Grant Agreement 611-K-601 and Part II of the FY-84 PL-480 Title I, will carry out the following Implementation Plan in pursuing the Support Measures as set forth in Annex 1 of the Grant Agreement 611-K-601. and the Self-Help Measures as given in Part II of the FY-84 PL-480 Title I Agreement.

SUPPORT MEASURE 1.(A).

Continue to improve local agriculture producer price relationships with due consideration given to the prevailing prices on the world market as well as on Zambia's borders. The purpose of such efforts is to insure that sufficient incentives are provided to encourage production by the small scale farmer of those crops in which they have comparative advantage, such as sorghum, groundnuts, cotton, millet, cassava and maize.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will develop a formula to be shared with AID/Zambia for the determination of producer prices based on border prices by following the steps below.

(1) Review the data requirements and data availability for establishing border prices at various entry points in Zambia.
(2) Determine the weights to be given to the various factors to be considered in establishing a producer price for the various commodities.
(3) Determine how the world price will enter the price formula (i.e., three year simple moving average, three year weighted moving average, five year moving averages, last year's prices, etc.).

GRZ ACTION TO BE TAKEN DURING YEAR TWO (2) AFTER SIGNING OF THE AGREEMENTS:

(1) Discuss the formula for producer price determination with various interested parties (farmers, GRZ officials and party officials, donors, etc).
(2) Based on the above discussions, refine the procedure for establishing producer prices and finalize the formula
(3) Issue statement concerning the formula and announce that producer prices will be based on the formula beginning with the 1987/88 crop year.

SUPPORT MEASURE 1.(B).

Institute regional prices by the 1987/88 crop year for major agricultural commodities for both producers and consumers which will reflect the costs of storage, transportation and handling.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will develop a formula for setting regional producer prices based on the transportation cost differences as well as storage costs between various sections of the Zambia. The earliest procedure may only identify prices by commodity by Province with later refinements reserved for prices for smaller geographical regions.

GRZ ACTION TO BE TAKEN DURING YEAR TWO (2) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will publicize the procedure along with a statement of intent of establishing producer prices on a regional basis.
(2) The GRZ will hold meetings with the affected parties (such as commercial farmers, Coop and Namboard Officials, traditional farmers, etc.) to discuss the policy of regional prices. The procedure for determining producer prices will then be evaluated and and revised if necessary.
(3) The GRZ will announce that beginning in the 1987/88 crop year agricultural commodities will be purchased under a regional pricing scheme.

GRZ ACTION TO BE TAKEN DURING YEAR THREE (3) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will announce the regional producer prices for the 1987/88 crop year in May 1987.

SUPPORT MEASURE 2.(A).

Continue to adjust the consumer price of food products to reflect real costs by progressively reducing the Government of the Republic of Zambia's subsidies to fertilizer and maize handling. Subsidies are to be eliminated by 1988.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will reduce the fertilizer handling subsidy to Namboard by at least one third of the level of actual expenditures in 1984 or by K 6 million, whichever is greater.
(2) The GRZ will reduce the maize handling subsidy by one third of the actual expenditures on maize handling for 1984 or by K 3 million, whichever is greater.

GRZ ACTION TO BE TAKEN DURING YEAR TWO (2) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will reduce the fertilizer subsidy by one half of the amount of expenditures on fertilizer subsidy in 1985.
(2) The GRZ will reduce the maize handling subsidy by one half of the amount of expenditures on maize handling in 1985.

GRZ ACTION TO BE TAKEN DURING YEAR THREE (3) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will reduce the fertilizer subsidy by one half of the amount of expenditures on fertilizer subsidy in 1986.
(2) The GRZ will reduce the maize handling subsidy by one half of the amount of expenditures on maize handling in 1986.

GRZ ACTION TO BE TAKEN DURING YEAR FOUR (4) AFTER SIGNING OF THE AGREEMENTS:

(1) The fertilizer subsidy will be zero (0) for the year 1988 and will be eliminated from the GRZ budget.
(2) The maize handling subsidy will be zero (0) for the year 1988 and will be eliminated from the GRZ budget.

SUPPORT MEASURE 2.(B).

Continue the move toward economic efficiency by eliminating subsidies (restitution payments) to cooperatives by 1988 in order that they might become economically viable in their own right.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to the Cooperative Unions by at least one half of the actual expenditures on subsidies (restitution payments) paid to the Cooperative Unions in 1984 or by K 8 million, which ever is greater.

GRZ ACTION TO BE TAKEN DURING YEAR TWO (2) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to the Cooperative Unions by one third of the actual expenditures on subsidies (restitution payments) to the Cooperative Union in 1985.

GRZ ACTION TO BE TAKEN DURING YEAR THREE (3) AFTER SIGNIN OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to the Cooperative Unions by one half of the actual expenditures on subsidie (restitution payments) to the Cooperative Unions in 1986.

GRZ ACTION TO BE TAKEN DURING YEAR FOUR (4) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to the Cooperative Unions to zero (0). The item will be eliminated from the GRZ budget in 1988.

SUPPORT MEASURE 2.(C).

Encouraging managerial and economic efficiency in agricultural parastatals by removing subsidies by 1988.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to agricultural parastatals by one third of the actual amount of subsidie in 1984.

GRZ ACTION TO BE TAKEN DURING YEAR TWO (2) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to agricultural parastatals by one half of the actual amount of subsidies in 1985.

GRZ ACTION TO BE TAKEN DURING YEAR THREE (3) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to agricultural parastatals by one half of the actual amount of subsidies in 1986.

GRZ ACTION TO BE TAKEN DURING YEAR FOUR (4) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will reduce the subsidies paid to agricultural parastatals to zero and eliminate the item from the Budget in 1988.

SUPPORT MEASURE 2.(D).

Encourage the adoption of improved technology by the small farm sector by providing credit at economic rates beginning in 1985 which are aimed at maintaining the initial funds.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1). The GRZ through the Ministry of Finance will place two million kwacha (K2,000,000.00) of the local currency generated by the CIP Grant Agreement into a Special Account.
(2). The funds will then be transferred to the Zambian Agricultural Development Bank (ZADB) for the specific purpose of establishing a revolving fund to be used to as a loan fund for the Cooperative Credit Scheme (CCS) of th Zambian Cooperative Federation (ZCF).
(3). The funds will be loaned to small scale farmers under the established procedures of the CCS for productio loans.
(4). The CCS will repay ZADB at the end of the productio season. If the amount collected and repaid to the ZADB i less than the amount borrowed, the CCS will adjust the interest rate upward during the following season such tha the loans repaid plus interest and other charges are equa or greater to the initial amount loaned during that seaso

GRZ ACTION TO BE TAKEN AFTER YEAR ONE (1) AFTER SIGNING O THE AGREEMENTS:

The GRZ will continue with the procedure in sections (3) and (4) mentioned above.

SUPPORT MEASURE 3.

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

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will increase the budget of the Planning Unit by 10 percent in real terms.
(2) The GRZ will increase the number of professional and supporting staff.
(3) The GRZ will increase the number of both degree and non-degree training opportunities for the staff.
(4) The GRZ will increase the number of individuals trained to use micro computers.
(6) The GRZ will increase the number of in-service training opportunities.

GRZ ACTION TO BE TAKEN AFTER YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will continue the level of support in real terms at minimum and expand the level of support if possible.

SUPPORT MEASURE 4.

Continue to expand the capacity and capabilities of the Central Statistical Office within the National Commission for Development Planning (NCDP) in order that CSO generate the necessary data for sound policy analysis and decisions.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENT:

(1) The GRZ will increase the budget of the Central Statistical Office by 10 percent in real terms.
(2) The GRZ will increase the number of professional and and survey supervisors.
(3) The GRZ will increase the number of staff with advanced training (degree and non-degree).
(4) The GRZ will increase the number of individuals trained to use micro computers.
(5) The GRZ will increase the number of computer programers and systems analyst.
(6) The GRZ will increase the number of in-service training opportunities.

GRZ ACTION TO BE TAKEN AFTER YEAR ONE (1) AFTER SIGNING OF THE AGREEMENT:

The GRZ will continue the level of support in real terms at minimum and expand the level of support if possible.

SUPPORT MEASURE 5.

Continue to expand the capacity and capabilities of the Research and Extension Branches within the Ministry of Agriculture and Water Development to generate and disseminate improved technology to the small farm sector.

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will increase the budgets of the Research and Extension Branches of MAWD by 10 percent in real terms.
(2) The GRZ will increase the number of professional and supporting staff with advanced training, both degree and non-degree.
(3) The GRZ will increase the number of in-service training opportunities.

GRZ ACTION TO BE TAKEN AFTER YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will continue the level of support in real terms at minimum and expand the level of support if possible.

SUPPORT MEASURE 6.

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

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will continue to discuss the problem among the various agencies within the GRZ as well as with the Donor community.
(2) The GRZ will issue a working paper on the soil acidity problem which will outline the steps to be taken to develop and implement a national strategy for liming.

GRZ ACTION TO BE TAKEN AFTER YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

(1) The GRZ will continue the development work on the national strategy.
(2) The GRZ will implement the strategy in selected areas of Zambia on a pilot basis. The marketing of lime will be through the Provincial Cooperative Unions and private firms.

SUPPORT MEASURE 7.

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

GRZ ACTION TO BE TAKEN DURING YEAR ONE (1) AFTER SIGNING OF THE AGREEMENTS:

The GRZ will continually review the interest rate schedules for various groups of savers and borrowers and adjust the rate of interest giving strong weight to the rate of inflation.

Annex E

REVISED

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Zambia

Project Title: FY 1985 Commodity import Program

Funding: FY (S) 1985 $ 10,000,000

IEE Prepared by: John J. Gaudet
Regional Environmental Adviser

Environmental Action Recommended:

Positive Determination _____ Categorical Exclusion _____

Negative Determination x

(See justification attached)

Action Requested by: John Patterson
Mission Director

Date: 26/11/84

Concurrence: Bessie L. Boyd
Bureau Environmental Officer
(AFR/TR/SDP)

APPROVED x

DISAPPROVED _____

DATE 8/1/85

Clearance: GC/AFR/ Mary Alice Kleman Date 8/5/85

INITIAL ENVIRONMENTAL EXAMINATION

Description of Project

Zambia is currently facing serious balance of payment deficits as a result of overdependence on copper mining. Depressed copper prices and declining production volumes have eroded Zambia's historically favorable current account position and led to extensive external borrowing, a decline in foreign reserve holding and a large accumulation of payments arrearages on imports. The GRZ is undertaking appropriate economic and financial measures to ameliorate the current crisis.

The proposed $10,000,000 Commodity Import Program (CIP) grant will provide the GRZ with: (1) short-term balance of payments relief; (2) urgently needed foreign exchange which will enable the GRZ to obtain critically needed commodities; and (3) contribute to the GRZ's objectives of accelerating agicultural development and diversification of the economy. In recent years, funding provided under the Zambia CIP has been utilized to procure fertilizer raw materials and spare parts for agricultural equipment. However, since the need for fertilizer raw materials is not as critical this year, the FY 85 CIP will be utilized to procure critically needed commodities for the agricultural sector. Commodites eligible for financing under the FY 85 CIP include: fertilizer raw materials, agricultural equipment, spare parts, tractor and truck tires, oxdrawn equipment and petroleum (crude petroleum, motor fuels, and kerosene).

As in the past several years, fertilizer materials, namely triple super phosphate, potassium sulphate and coating agents. In addition, farm equipment spare parts will be financed under this program. These fertilizer materials are EPA-approved, and this year's CIP represents a continuation of past year's CIPs which have concentrated heavily on fertilizers and fertilizer raw materials. Past years' experience has demonstrated that these previously-financed commodities have not had a negative effect on the environment.

It is not possible at this time to specify which commodities (as well as quantities) will be procured under the Zambia FY 85 CIP. The USAID/Zambia Mission Director, in cooperation with the GRZ, will determine the specific commodities and the amounts to be imported into Zambia at the time when commodities are to be ordered. This determination will be based, at least in part, on the critical need for the commodity relative to others eligible for procurement under the FY 85 CIP.

For these reasons, a negative determination is appropriate, since the commodities identified as eligible for procurement under this CIP will not have a significan negative effect on the environment.

Recommended Environmental Action

That the Bureau Environmental Officer (BEO) with the concurrence of GC/AFR, approve a negative determination for the Zambia FY 85 Commodity Import Program.

5C(1) - COUNTRY CHECKLIST - Zambia FY 1985

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No.

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

   No.

3. 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.

4. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

No.

5. 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.

6. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

No.

7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

No.

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?

(a) Zambia's repayments due in CY 1984 were rescheduled effective in January 1985. Zambia failed to make a repayment due December 3, 1984 and so is more than 6 months in default. However, a 620 (Q) waiver is effective for FY 1985.

(b) No.

9. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB.". This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the Administrator at time of approval of the FY 1985 Agency OYB.

10. 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.

11. 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? (Reference may be made to the Taking into Consideration memo.)

Any such arrearages have been taken into consideration by the AID Administrator in determining the current OYB. Zambia was not delinquent within the meaning of Article 19 of the UN Charter.

12. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No.

13. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

14. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No.

15. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

wnile Zambia was represented and failed to disassociate itself from the communique, this was taken into account at time of approval of FY 1985 Agency OYB.

15. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

N/A

16. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No.

FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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

N/A

Annex F

2. Economic Support fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? No.

5C(2) Non-Project Assistance Checklist

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans; and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes

HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or nor more than $1 million over that amount)?

(a) FY 85 CP page 545.

Yes.

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

Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? None required.

4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) N/A

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

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No.

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

a) CIP funds will be used entirely to finance imports and therefore increase f of international trade; b) spare parts a agricultural machinery will be imported through a number of private distributors and thereby stimulate the private sector c) and d) Under the support measures contained in the CIP Grant Agreement, the G will give cooperatives greater market ac permit agro-processors to buy from source of their own choosing, eliminate transpo subsidies, and permit private commerce i all agricultural commodities; e) increase supplies of fertilizer raw materials wil permit the country's fertilizer factory t operate at higher level of capacity utilization; increased availability of finished fertilizer will raise agricultu productivity; f) N/A.

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

The CIP encourages U.S. private trade in that CIP funds can normally be spent only on U.S. origin commodities. Private U.S. participation in foreign assistance is stimulated because CIP-financed commoditi are sold exclusively through private U.S. exporters responding to widely publicized bid solicitations.

9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A

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

No.

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

Yes.

12. FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No. The fertilizer produced will be entirely consumed by domestic Zambian demand.

13. FAA 118(c) and (d). Does the project comply with the environomental procedures set forth in AID Regulation 16. Does the project or prograam taken into consideration the problem of the destruction of tropical forests?

Yes.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate sysem for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

15. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote

the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries? N/A - ESF Funds

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? N/A

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to whch the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? N/A

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

"relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character." N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A

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

2. Development Assistance Project Criteria (Loans Only)

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

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

3. Economic Support Fund Project Criteria

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

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No

c. FAA Sec. 534. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? No

d. 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?

Yes.

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

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

   Yes, through the Office of commodity Management AID.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him??

   Yes.

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

Yes

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which are direct aid recipients and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No. But a waiver to permit shipping on Code 941 and Code 899 source vessels, if Code 000 (U.S.) vessels are unavailable, has been approved.

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

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

9. FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

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

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

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

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

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

4. Will arrangements preclude usen of financing:

a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice

abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

(1) yes
(2) yes
(3) yes
(4) yes

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

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

d. FAA Sec. 662. For CIA activities? yes

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

f. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? yes

g. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? yes

h. FY 1985 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? yes

i. FY 1985 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? yes

j. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? no

k. FY 1985 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? yes

ANNEX J

NCZ Operations, by J. Snell, AID/Zambia

NCZ is the sole domestic fertilizer producer in Zambia. The company was formed in 1967 as a wholly owned subsidiary of INDECO Limited, a parastatal. It was designed to produce explosive grade ammonium nitrate (AN) and nitric acid for other blasting agents. The plant was expanded to include fertilizer grade AN in order to be economically feasible. The basic process was coal gasification utilizing coal from the Maamba Collieries.

The NCZ complex has two coal to ammonium units, one designed by Kobe Steel through Japan's OECF. The Kobe unit was designed for an annual output of 60,000 tons of ammonium, however design defects limited actual output to 50,000 tons per year. The second unit was designed by Klockner of Federal Republic of Germany. The completion was delayed seven years and due to design deficiencies the plant continued to operate inefficiently. Since 1982 when the plant was comissioned, deterioration has been rapid.

NCZ has been beset by a wide range of other problems as well. Poor organization and management performance, shortage of foreign exchange for needed raw mateials and spare parts, poor operational and maintenance practices, and shortages of coal due to inefficient operation of Maamba Collieries and transport problems with the Zambian Railroad. The net result has been decline in capacity operations of approximately 40% with a very large fixed cost component of the total production costs. Couple this with the fact that NCZ is forced to sell its output at loss to NAMBoard and the bleak financial picture of NCZ emerges.

At the request of the GRZ both OECF and KFW have agreed to rehabilitate the section of the plant which they originally constructed. The IBRD has agreed to be a party to the rehabilitation efforts under the industrial rehabilitation called for at the May 1984 CG. The IBRD concluded that the rehabilitation of NCZ complex is technically and economically justified if appropriate management, organizational, technical and financial measures were followed. The summary conclusion of the World Bank pre-appraisial mission report dated June 12, 1984, is repeated below.

"The mission believes that the rehabilitation of the NCZ complex is technically and economically justified and that the plant operations, under appropriate managerial, organizational, technical and financial measures, could be restored to profitable conditions. The economic rate of return for the entire complex, based on total costs of domestic production as compared with the option of importing final fertilizers, is estimated to range from 12.6% to 32.8% depending on the scenarios and output options selected. On the basis of incremental costs and benefits, however, the proposed Project has a much higher economic rate of return; ranging from 21.1% to 27.3% for the project as a whole. While the Japanese and German components would restore the mechanical integrity of the plants, the involvement of the Bank would be essential to ensure efficient and economic production of fertilizer by NCZ (paras 14-19)"

Further, for NCZ to operate at an economic rate certain policy reforms must be carried out, i.e.,

1. restructure NCZ to give more autonomy and market orientation;

2. provide appropriate incentives for efficient operations and

3. relieve NCZ of past mistakes by restructuring its finances.

The issue at hand is whether domestic production of fertilizer in Zambia can be competitive with imported fertilizers.

The IBRD analysis took two approaches in determining the appropriate price for the domestically produced ammonium nitrate. The first option compared the nitrogen content fertilizer grade of AN to the imported price of Urea. (Urea, being higher in nitrogen provides a lower transport cost hence a lower Zambia landed cost per unit of Nitogen). The price of explosive grade ammonium nitrate cannot be replaced by Urea, hence the price comparison was with the landed cost of imported AN. This approach is conservative as it accords a lower value to domestic output. The second approach compares domestic production of AN to the landed cost of imported AN. This accords a higher value of domestic output. The results of the IBRD economic analysis are summarized in the following table.

NCZ Fertilizer Plant rehabilitation

results of Economic Analysis
Base case results (ERR - %; NPV - US$ million)

Scenarios		Benefits Based On (Option I) Urea + AN ERR (%)	NPV (US$m)	(Option II) AN ERR (%)	NPV (US$m)
1	Both Plants Rehabilitated (with OCEF Loan Untied) with US$7.5 million Economic Value for Existing Facilities	12.6	11.9	18.4	41.5
2	Same as Scenario I, except that existing facilities are regarded as Sunk Costs	14.3	18.1	20.5	47.7
3.	Same as Scenario II except that the OECF Loan is Assumed as Tied	23.1	34.4	32.8	64.0
4.	Only German Plant Rehabilitated; No Economic value for existing facilities	9.5	-1.2	17.5	19.4
5.	Only Japanese Plant Rehabilitated; OECF Loan Assumed as Untied and No economic Value for Existing Assets	4.0	-10.0	8.6	-2.5
6.	Same as Scenario V except that OECF Loan is assumed as Tied	25.6	6.3	42.5	13.8

NPV based on 10% opportunity cost of capital.

Source: Zambia-Fertilizer Industry Rehabilitation Proje
Preappraisal Mission, Back to Office Report, Junc
12, 1984, World Bank

The above is predicated on several factors:

1. The reliability of the supply lines must be improved, congestion at the Indian Ocean ports must be relieved and delays in rail shipment must be avoided. Losses have been assumed to be less than 3%. The recent AID experience on the FY 84 CIP fertilizer raw materials lose of approximately 2% even under some rather bad handling. Delays at Dar es Salaam were largely due to oversight rather than technical problems.

2. The GRZ considers the production of the explosive grade AN to be extremely critical to the production of the mines.

3. Foreign exchange will be needed for raw materials (estimated to be US$ 15-18 million in 1983 prices) and for spare parts and chemicals (US$ 6 million).

It is toward the third factor that the AID support is directed. The support will provide relief for NCZ as it moves through the rehabilitation process.

ANNEX K: MACROECONOMIC ANALYSIS

FY 1985 CIP PAAD
USAID/Zambia

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December 15, 1984

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MACROECONOMIC ANALYSIS

Introduction

Zambia has a population of 6.4 million, 40% of which lives in urban areas, one of the most urbanized of African developing countries, increasing 3.1% annually. Since 1960, the population has increased by 99.4% largely because of declining copper prices and rapid population growth, real GNP per capita declined 21% from 1970 through 1983 (Table 1).

1. REAL GNP PER CAPITA

(Constant 1970 $)

Year	GNP per Capita ($)	Inde
1970	404.1	100.0
1975	391.6	96.9
1976	394.4	97.6
1977	369.9	91.5
1978	372.6	92.2
1979	332.3	82.2
1980	330.2	81.7
1981	338.7	83.8
1982	323.1	80.0
1983	319.8	79.1

Source: IBRD, Zambia Country Economic Memorandum, April 1984, p. 70.

In spite of the major decline, per capita GNP is higher in Zambia than in most neighboring subsaharan countries (Table 2).

2. GNP PER CAPITA IN SELECTED COUNTRIES

Country	1982 ($)
Zaire	190
Malawi	210
Uganda	230
Tanzania	280
Kenya	390
Zambia	640
Zimbabwe	850
Nigeria	860
Ivory Coast	950

Source: IBRD, World Development Report, 1984, p. 218.

Mining is the key sector of the Zambian economy, contributing between 25% and 35% of value added and about 90% of foreign exchange earnings (Table 9). With the decline in copper prices (Table 21) and the steady rise in prices of imported goods, the terms of trade have declined greatly and imposed a major restriction on imports which remain below the peak financed in the mid-1970's (Table 3).

3. TERMS OF TRADE

(1980=100)

Year	Index
1970	262
1979	118
1981	80
1982	72
Ave. Annual growth 1970-82 (%)	-9.0

Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, p. 67.

Real GDP has remained stagnant since 1978 (Table 4). Marketed agricultural output varies with the adequacy of rainfall and producer prices. Manufacturing production and employment have declined, mainly from lack of foreign exchange to import raw materials.

Through 1984, export earnings have declined over 40% since the peak of $1.6 billion in 1980 (Table 8) and imports have declined over 50% from $1.8 billion. The prolonged low level of copper prices is having serious repercussions in production, employment, income, economic growth, and GRZ revenues and expenditures. Imported fuels require nearly 25% of foreign exchange earnings (Table 10).

4. NATIONAL ACCOUNTS SUMMARY

($m in constant 1980 prices)

Item	1978	1979	1980	1981	1982
1. Gross Domestic Product	3,997.6	3,692.0	3,820.6	4,019.8	3,917.3
2. Terms of Trade Effect	-317.9	275.5	-	-365.9	-790.1
3. Gross Domestic Income	3,679.8	3,967.6	3,820.6	3,653.9	3,127.3
4. Resource Gap (5-6)	156.6	-379.4	183.4	443.9	357.2
5. Imports (G+NFS)	1,713.4	1,571.1	1,795.0	1,481.7	1,192.1
6. Capacity to Import	1,556.8	1,950.5	1,611.6	1,037.3	834.9
7. Exports (G+NFS)	1,874.7	1,675.0	1,611.6	1,403.7	1,625.0
8A. Statistical Discrepancy	124.4	-200.6	-0.0	175.4	443.3
8. Total Expenditures	3,960.7	3,387.6	4,004.0	4,273.1	3,927.7
9. Consumption	9789.8	2,879.9	3,108.6	3,516.2	3,326.7
10. General Government	977.5	981.1	1,070.4	1,113.0	1,028.9
11. Private 2,002.3	1,898.8	2,038.3	2,403.2	2,297.8	
12. Investment 980.9	507.6	895.3	757.0	601.1	
13. Fixed Investment	769.3	623.9	825.6	705.1	619.2
14. Changes in Stocks	211.6	-116.3	69.8	51.8	-18.1
15. Domestic Saving	699.9	1,087.6	712.0	137.7	-199.4
16. Net Factor Income	-261.1	-261.3	-321.5	-263.1	-219.1
17. Current Transfers	-45.7	-73.8	-144.3	-98.2	-27.2
18. National Saving	393.2	752.6	246.2	-223.6	-445.7
Kwacha Deflators (1980=100)					
19. Gross Domestic Product	71.0	90.9	100.0	108.8	115.4
20. Imports (G+NFS)	61.5	78.6	100.0	120.0	148.3
21. Exports (G+NFS)	51.1	91.6	100.0	88.7	76.2
22. Total Expenditures	73.3	92.5	100.0	113.7	128.2
23. Government Consumption	74.6	88.0	100.0	120.1	132.1
24. Private Consumption	76.2	90.5	100.0	113.0	127.3
25 Fixed Investment	72.0	91.5	100.0	109.7	126.6
26. Changes in Stocks	59.9	80.7	100.0	154.8	105.6
27. Exchange Rate Index	103.0	100.4	100.0	110.5	117.9

Source: IBRD, Zambia Country Economic Memorandum, April 1984, p.61

5. GROSS DOMESTIC PRODUCT BY TYPE OF ECONOMIC ACTIVITY

(Constant 1970 K m.)

Item	1970	1980	1981	1982	1983	1983(%)
Agriculture Forestry, Fishing	136.1	166.4	180.0	159.0	172.3	11.6
Commercial Sector	41.5	58.7	71.1	59.0	68.3	4.6
Subsistence Sector	94.6	107.7	108.9	100.0	104.0	7.0
Mining and Quarrying	460.3	398.7	433.3	433.4	469.6	31.7
Manufacturing	129.2	162.9	180.0	173.0	194.5	13.1
Electricity, gas, water	15.5	84.8	91.4	96.9	97.5	6.6
Construction	90.3	79.1	60.7	64.6	48.3	3.3
Sub-total	235.0	326.8	332.1	334.5	330.3	22.3
Wholesale & Retail Trade	118.7	99.2	98.7	90.3	87.4	17.4
Transport & Communication	48.8	56.5	59.7	59.5	48.1	3.9
Community, Social & Personal Services	151.7	210.7	207.2	24.6	200.4	13.5
Other Services	102.5	151.6	162.4	165.4	156.2	10.6
Sub-Total	421.7	518.0	528.0	520.8	502.1	33.9
Other	15.4	7.9	10.6	5.0	4.8	0.3
GDP at Market Prices	1,268.5	1,417.8	1,484.0	1,453.7	1,479.1	100.0
Less Indirect Taxes	204.5	184.5	178.1	193.7	240.6	..
Plus Subsidies	18.9	97.1	44.9	62.8	29.0	..
GDP at Factor cost	1,082.9	1,330.4	1,350.8	1,322.8	1,267.5	..

Source: IBRD, Zambia Country Economic Memorandum, April 1984 p. 70.

Agricultural and food production have not kept pace with increases in population since 1978, falling to about 90% of the 1969-71 average in 1979-83 (Table 6), although performance has been somewhat better than the average of countries of sub-saharan Africa where per capita food and agricultural production fell to about 82% of the 1969-71 average. Until the late 1970's, agricultural performance maintained the index consistently above 100. The rate of annual growth of food and agricultural production was about 50% lower in the 1970's than in the 1960's (Table 7).

6. INDICES OF AGRICULTURAL AND FOOD PRODUCTION

(1969/71=100)

Year	Agr. Production		Food Production	
	Total	Per Cap	Total	Per Cap
1969/71	100	100	100	100
1972	113	107	114	107
1973	109	99	109	99
1974	125	110	126	111
1975	125	107	126	108
1976	135	113	137	114
1977	128	108	130	105
1978	114	90	116	91
1979	110	83	110	84
1980	118	87	117	86
1981	141	101	144	103
1982	129	89	132	92
1983	139	93	142	95

Source: USDA, World Indices of Agricultural and Food Production, 1974-83, July 1984, p. 161.

7. ANNUAL GROWTH RATE OF FOOD AND AGRICULTURAL PRODUCTION

(Percent)

Item	Production	Production Per Capita
Food		
1960 - 70	3.5	0.9
1979 - 82	1.8	-1.3
Agriculture		
1960 - 70	3.1	0.5
1970 - 82	1.7	-1.4

Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, August, 1984, p. 77

Pricing and subsidy policies have favored the urban consumer at the expense of the agricultural producer, depressing farmer income and incentives to produce for the market. Controlled industrial prices led to low profitability in the manufacturing sector and a decrease in company savings available for reinvestment. Tax incentives and low interest rates encouraged capital-intensive investment. An overvalued exchange rate and tariffs that were high on finished products and low or zero on intermediate and capital goods, encouraged use of imported materials and other imports, and discouraged exports and the use of local materials. The increasing share of government consumption in total expenditures led to a decline in government savings. As a result, the productive structure is capital and import-intensive. Little progress was made in diversifying production and exports, and domestic savings declined, necessitating increased external borrowing.

The economy is a mixed, public-private system with emphasis on government participation through parastatal organizations. Over half of the GDP is generated by parastatals which are predominant in most productive sectors with the exception of construction and agriculture. The Bank of Zambia estimated in 1983 that the Industrial Development Corporation Limited (INDECO), a Government holding company, contributed 75% of industrial output.

Balance of Payments

Performance. The balance of payments has been in disequilibrium since 1975, with current account deficits equal to 20% of GDP in 1981 and 1982, declining to 9% in 1983 (Table 8). At the end of 1983, total external public debt outstanding was $3.3 billion (Table 11). External payments arrears were about SDR 635 million, having been reduced from just under SDR $1.0 billion at the end of 1982 (Table 13). Merchandise exports were only SDR 853 million in current prices (Table 24). Import restrictions, through import licensing and foreign exchange allocations, have become increasingly tight and spare parts and other maintenance equipment have become scarce, leading to a large backlog of rehabilitation requirements and replacement investment. Scarcity of imported raw materials and intermediate goods has resulted in 60% idle capacity in the manufacturing sector.

Although diversification and reduced dependence on copper have been national objectives since independence in 1964, little progress has been made. Copper exports have continued to provide 90% of foreign exchange earnings (Table 9).

Real copper prices declined 65% between 1970 and 1984, and are not expected to recover to the high levels that existed in the first half of the 1970s (Table 21). Moreover, economically exploitable reserves of copper ore are sufficient only to maintain production for another 15 to 20 years, after which copper production is expected to decline.

Current account deficits increased from 12% of GDP in 1975-1979 to an average of 20% in 1980-82. Reserves were drawn down, and the GRZ resorted to major external borrowing. To finance current account deficits, medium-and long-term public and publicly guaranteed external loans were increased from an annual average $235 million in 1975-1977 to $700 million in 1979 and 1980, declining to $400 million in 1981 and 1982. The GRZ also resorted more to short-term borrowing. Over 1975-1983, IMF drawings were SDR 987.5 million. The largest drawings were SDR 359.3 million in 1981, the first year of a three-year Extended Fund Facility program (EFF). The EFF program was cancelled in 1982 because agreement could not be reached on a stabilization program. In April 1983, the GRZ and the IMF agreed on a new standby arrangement and drawings from the IMF were SDR 173.7 million. The one-year stand-by arrangement was for SDR 211.5 million, and an SDR 97.2 million drawing under the Compensatory Finance Facility. The agreement was predicated on policy measures taken in December 1982 and January 1983, including 20% devaluation, general price

8. BALANCE OF PAYMENTS, 1974-1983

($ million)

Item	1974	Average 1975-79	1980	1981	1982	Est. 1983
Current Items						
Export of Goods, NFS 3/	1,467	1,101	1,611	1,126	1,050	1,065
Import of Goods, NFS	1,190	1,142	1,795	1,608	1,499	1,130
Resource Balance	277	41	-183	-482	-449	-65
Factor Services, net	-211	-201	-322	-270	-238)	
Current Transfers, net	-61	-53	-144	-101	-29)	-241
Current Account	5	-295	-649	-853	-716	-306
Capital Items						
Grants	9	18	30	26	30	26
Medium, Long-term Loans, net	105	149 2/	437	210	238	111
Errors, Omissions 1/	-107	[illegible]	[illegible]	[illegible]	[illegible]	66
Overall Balance	12	-190	-164	-474	-48	-103
Financing Items						
Net creditfrom IMF	-	65	8	300	49	64
Allocation of SDRs	-	4	19	18	-	-
Payment Arrears	-	98	135	53	186	14
Change in Reserves (- = increase)	-12	23	-1	38	88	25
Memorandum Items						
Gross Reserves, end period	205	91	89	51	140	115
Current Account as % of GDP	0	-12	-17	-22	-19	-9

1/ Includes short-term capital.
2/ Excludes disbursements of $204 million from the USSR in 1979, corresponding imports of which are not reflected in the balance of payments.
3/ Not comparable to Tables 24 and 30 which are in SDRs rather than dollars and include only merchandise exports.

Source: IBRD; Zambia Country Economic Memorandum, April, 1984, p.4

9. EXPORTS OF PRINCIPAL COMMODITIES

(Current K)

Commodity	1979	1980	1981	1982	1983	1983(%)
Copper	897.2	850.7	807.8	856.1	1,071.3	90.3
Zinc	27.1	19.6	22.0	25.1	28.9	2.4
Lead	6.1	6.5	5.1	4.9	5.3	0.4
Cobalt	129.9	80.7	39.0	30.3	47.0	4.0
Tobacco	2.6	2.7	4.0	2.6	2.0	0.2
Maize	-	-	-	-	-	-
Timber	-	-	-	-	-	-
Other Exports	24.4	17.3	45.7	38.6	30.0	2.5
Total	1,087.3	977.5	924.5	957.6	1,184.0	99.8
Re-Export	2.8	2.9	2.7	2.8	2.3	0.2
Total	1,090.1	980.4	927.2	960.4	1,196.8	100.0

1/ Preliminary

Source: Bank of Zambia, Annual Report 1983, p. 55

10. IMPORTS BY MAJOR SITC CATEGORIES

Item	1970		1975		1980		1981	
	K (m)	%	K (m)	%	K (m)	%	K (m)	%
Food	30.8	8.9	35.7	6.0	38.8	4.4	50.8	5.5
Beverages, Tobacco	1.2	0.4	1.0	0.2	0.8	0.1	1.2	0.1
Crude Materials	5.3	1.6	9.9	1.7	12.1	1.4	13.6	1.5
Elec., Mineral Fuels	35.2	10.3	81.1	13.6	198.3	22.6	202.4	21.9
Oils and Fats	4.5	1.3	9.1	1.5	7.4	0.8	10.7	1.2
Chemicals	26.0	7.6	77.3	1.3	108.3	12.4	126.3	13.7
Manufactures	74.8	22.0	140.2	23.5	178.6	20.4	173.5	18.8
Machinery and Transport Equip	131.7	28.6	211.3	35.4	302.3	34.5	314.4	34.0
Misc. Manufacture	30.5	9.0	28.7	4.8	29.3	3.3	29.6	3.2
Other	1.1	0.3	3.3	0.6	0.8	0.1	2.0	0.2
Total	340.7	100.0	597.6	100.0	876.7	100.0	924.4	100.0

Source: CSO, Monthly Digest of Statistics, April/June 1984.

11. EXTERNAL PUBLIC DEBT OUTSTANDING, DECEMBER 31, 1983[1/]

($ million)

Type	Outstanding Disb.	Outstanding Undisb.	Outstanding Total	Percent Outstanding and Disbursed
Suppliers Credits	268.5	8.0	276.5	10.2
Financial Institutions	301.5	118.6	420.2	11.4
Multilateral Loans				
Af. Dev. Bank	27.1	53.3	80.4	1.0
Af. Dev. Fund	6.5	33.6	40.1	0.2
BADEA/ABEDA	10.2	9.7	19.9	0.4
EEC	0.1	4.9	5.0	..
European Dev. Fund	16.7	2.5	19.2	0.6
European Inv. Bank	15.5	23.7	39.2	0.6
IBRD	344.3	53.5	397.8	13.1
IDA	21.0	77.0	98.0	0.8
IFC	34.9	27.2	62.1	1.3
IMF Trust Fund	44.8	-	44.8	1.7
OPEC Special Fund	2.1	17.4	19.5	..
SAFA (SP AR FUND AF)	12.7	-	12.7	0.5
Subtotal	537.0	323.6	860.6	20.4
Bilateral Loans				
Austria	1.7	-	1.7	..
Belgium	4.6	-	4.6	0.2
Bulgaria	4.0	-	4.0	0.2
Canada	81.0	16.1	97.1	3.1
China	253.8	11.0	264.8	9.6
Czechoslovakia	5.2	-	5.2	0.2
Denmark	7.35	3.3	10.5	0.3
France	26.1	-	26.1	1.0
German Dem.Rep.	69.8	5.2	75.0	2.6
Germany Fed.Rep.	163.7	28.6	192.4	6.2
India	13.1	10.3	23.3	0.5
Iraq	59.1	8.6	67.7	2.2
Italy	16.3	-	16.3	0.6
Japan	121.9	31.0	152.9	4.6
Netherlands	27.1	0.1	27.2	1.0
Romania	12.4	1.3	13.7	0.5
Saudi Arabia	53.4	19.9	83.3	2.0
South Africa	4.3	-	4.3	0.2
Sweden	5.4	-	5.4	0.2
Switzerland	6.0	-	6.0	0.2
United Kingdom	146.9	47.4	194.3	5.6
United States	256.2	32.3	288.5	9.7
U.S.S.R	189.0	--	189.0	7.2
Subtotal	1,528.3	215.0	1,743.3	58.0
Total	2,635.3	665.2	3,300.5	100.0

1/ Includes only government and government-guaranteed debts with an original or extended maturity of over one year.

Source: World Bank Debt Reporting System Run of April 13, 1984. IBRD, Zambia Country Economic memorandum, April, 1984, p.86

12. AVERAGE TERMS OF EXTERNAL PUBLIC DEBT, 1970-82

Year	Average Interest (%)	Average Maturity (Years)	Average Grace Period (Years)	Grant Element (%)
1970	4.2	23.4	5.7	41.6
1971	5.9	9.0	0.9	13.8
1972	6.6	7.9	2.4	12.0
1973	8.4	17.8	4.9	12.3
1974	5.7	17.6	5.3	28.7
1975	8.1	10.4	3.1	10.4
1976	6.9	16.4	4.3	19.3
1977	6.7	17.8	4.1	23.7
1978	5.5	20.6	5.6	34.4
1979	6.7	13.2	3.8	19.8
1980	6.5	16.4	4.2	24.0
1981	8.4	17.9	4.2	17.3
1982	6.8	21.1	5.5	26.0

Source: IBRD, Ibid, p.89.

13. EXTERNAL PAYMENTS ARREARS

(Million SDR)

Items	1982 December	1983 December	1984 March
Outstanding			
Commercial arrears	725	597	617
Pipeline	669	571	591
ZCCM	56	26	26
Arrears on debt	222	38	19
Total	947	635	636

Source: IMF, Staff Report, June 20, 1984, p.64.

decontrol, increased interest rates, reduced budgetary deficit, freezing government salaries, establishing a 10% ceiling on other wage increases, debt rescheduling, and a flexible exchange rate system. In 1983, the current account deficit improved to 9% of GDP, reflecting the new IMF stabilization program and the fact that commercial credit for imports had declined. By rescheduling and some payments, overdue payments were reduced to about $600 million by the end of 1983.

The large borrowing increased debt service obligations rapidly. In 1974, service payments on medium- and long-term public debt were $114 million, less than 8% of export earnings. Debt service averaged 20% of exports in 1978-80 and 25% in 1981, 35% including IMF repurchases and charges. In 1982, significant arrears on debt service accumulated for the first time. Nevertheless, total debt service paid was 38% of exports in that year. In 1983, debt service obligations due, including IMF repurchases and charges, were estimated at $550 million, 52% of export earnings. In 1984, debt service obligations were expected to be 92% of foreign exchange earnings (Table 32). With exports now expected to be SDR 728 million (Table 24), the ratio will be 104% of export earnings.

In 1983, GRZ was unable to pay debt service obligations fully, and requested debt rescheduling. In May, agreement was reached with the members of the Paris Club, OECD countries, by which $320 million of debt payments due in 1983 was rescheduled, consisting of $125 million in debt service due in 1983 and $195 million in arrears. This was not enough to satisfy debt servicing obligations in 1983, but set the pattern for rescheduling with non-Paris Club members and other creditors to whom the bulk of the debt is owed. Debt service is expected to average more than 60% of export earnings over the next five years. In 1983, exports were SDR 853 million, compared to SDR 963 million estimated earlier (Table 24). As a result, part of the 1983 debt rescheduling obligations was carried over into 1984.

New estimates of export earnings in 1984 are 14.7% below actual 1983 earnings and total receipts are expected to be only SDR 728 million, SDR 37 million below the IMF target for 1984 (Table 24). External debt service obligations for 1984 are expected to exceed total export earnings before rescheduling (Table 32), resulting in an unfinanced payments gap before rescheduling of SDR 419 million (Table 24). Imports in 1984 are expected to be 12.3% below 1983, following a decline of more than 25% in 1983.

Policy Reforms in 1983. In 1983, a floating exchange rate was adopted as the major policy reform to correct internal price distortions, restore the financial integrity of copper producers, and encourage non-copper exports. Between January 6, 1983, when the most recent series of currency adjustments began, and November 29, 1984, the kwacha depreciated nearly 60 percent relative to the U.S. dollar (Table 14), the dollar appreciating about 130%. In July, the kwacha was delinked from the SDR and pegged to its own basket of currencies and a managed floating system was introduced with the US dollar as the intervention currency. Considering differential inflation and interest rates, the kwacha remains substantially overvalued, partly because the official price index underestimates inflation.

14. FOREIGN EXCHANGE RATE

Year	1$=K	1K=$	Depreciation Index
1977	.76	1.32	122.2
1978	.78	1.27	117.6
1979	.78	1.28	118.5
1980	.81	1.24	114.8
1981	.88	1.13	104.6
1982	.93	1.08	100.0
1983	1.51	.66	61.1
1984 (11/29)	2.16	.46	42.6

Note: End of Period. Rate on November : Bank of Zambia.

Source: IMF, International Financial Statistics, October, 1984

The GRZ has embarked on a program to make Zambian products competitive in world markets and make imports more costly. The kwacha has reached a value at which mining operations are profitable and there is financial incentive for the production of a substantial number of agricultural goods, both for export and for import substitution.

In August 1983, the GRZ initiated a plan whereby ZCCM retains 25 percent of its foreign exchange earnings for its own use. In January 1984, this amount was raised to 35 percent. The GRZ also intends to increase export earnings through improved exploitation of emeralds and other precious minerals. Procedures for obtaining prospecting licenses have been stream-lined, fees for licenses have been instituted, and investment has been encouraged in mineral exploration.

During 1983, GRZ introduced administrative reforms to support external policies. Among the most important was a new foreign exchange allocation system to improve the procedure for issuing import licenses, balance the issuance of licenses with available foreign exchange, and enable the GRZ to direct foreign exchange resources to priority areas, particularly export promotion. In February 1984, non-mineral exporters were allowed to

retain for their own use 50% of export proceeds through commercial banks. In April 1984 preferential tax treatment on profits from nontraditional exports was introduced.

External commercial payments arrears were reduced in 1983 through refinancing and cash payments. In addition, a reduction of SDR 63 million was realized on outstanding arrears denominated in kwacha through depreciation of the kwacha. Additional reductions have resulted from the rescheduling agreements with the Paris Club in 1983 and 1984.

Because of the limited remaining life of mineral reserves and the uncertain demand for copper, the GRZ has adopted an economic diversification strategy through improved incentives for agriculture and increased efficiency in manufacturing. Producer prices for 1983/84 for agricultural and manufactured goods were raised 12% to 42%. The price of maize, the staple food, was increased 32%, from K18.50 to K24.50 per 90 Kg/bag. These price increases are reflected also in higher consumer prices. New producer prices, averaging a 21% increase, were announced for the 1984/85 crop year, including a further increase of 16% in the producer price for maize to K28.32 per 90 Kilo bag. The import licensing committee gave high priority to imports of agricultural inputs such as feed supplements, since shortages of these items have seriously impaired agricultural output. Measures were taken to improve the availability and efficient operation of agricultural credit through establishment of the Zambian Agricultural Development Bank (ZADB) although some questions remain regarding the role of this organization.

A substantial effort coordinated by the parastatal holding company, ZIMCO, was initiated to reduce costs and increase managerial efficiency at parastatal enterprises. With price decontrol begun in 1983, this has eliminated losses at many ZIMCO subsidiaries, and further steps toward sound financial management at NCZ, the petroleum refinery, and other subsidiaries, were commenced. The reforms are expected to strengthen ZIMCO's ability to contribute to government revenues, through improved efficiency and pricing reforms that allow cost recovery, plus a reasonable profit that reflects the cost of capital for competing uses.

Macroeconomic Variables

Savings and Investment. In 1970, Zambia still had high savings and investment rates relative to many African countries. This pattern has changed as a result of the GRZ's development policies and external factors. Net national savings as a percent of GDY declined continuously after independence to minus 3% in 1983 (Table 17), because of decline in the GRZ and parastatal savings rates. Of particular importance has been the GRZ's negative savings as government expenditures exceeded revenues. As a result, net borrowing from abroad was increased to cover the gap. By the late 1970's and early 1980's, increases in arrears became a major financing tool in addition to national borrowing and declines in net foreign assets. The proportion of investment financed domestically declined from 100% during 1965-1970 to 26% in 1981.

In spite of high early investment rates, growth of production and employment has been disappointing. To some extent this is because of the economic depression which resulted in under-utilization of factory capacity, estimated at less than 40% in 1984. However, the high capital intensity of many investments and the investment requiring long gestation, also contribute to the problem. Even during the relatively stable (1973-1975) period, net investment per job created in the wage-paying sector averaged about $55,000, a high investment per job created. Government controlled investment in the parastatals and direct investment by GRZ constitutes 60% to 70% of the total.

Prices. The removal of price controls in 1983 on most consumer goods resulted in a more rapid increase in prices. The high-income CPI rose 17.8% and the low-income index rose 9.6% (Table 15), much more than in 1982. The wholesale price index by end-use, which rose 6.6 percent in 1982, increased 24.0 percent in 1983. All the sub-groups in the index increased, the sharpest in export goods where inflation was 30.2 percent as compared with a decline of 12.7 percent in 1982. The rise in the index for export goods was largely a reflection of the high copper prices in local currency following depreciation of the kwacha. The combined index for goods used domestically rose 22.3 percent in 1983 compared with 14.1 percent in 1982, whereas prices of goods for further processing increased 22.4 percent compared with an increase of 10.6 percent in 1982.

15. PRICE INDICES

Year	Consumer (1975=100) High Income Index	High Income % Change	Low Income Index	Low Income % Change	Wholesale (1966:100) Index	Wholesale % Change
1975	100.0	--	100.0	--	147.0	--
1976	116.1	16.1	118.8	18.8	175.7	19.5
1977	136.8	17.8	142.3	19.8	211.6	20.4
1978	152.6	11.5	165.6	16.4	246.4	16.4
1979	169.0	11.3	181.6	9.7	306.2	24.3
1980	189.4	11.5	202.9	11.7	334.3	9.2
1981	209.1	10.4	231.3	14.0	352.1	5.3
1982	236.6	12.9	260.2	12.5	375.5	6.6
1983	278.6	17.8	311.2	19.6	465.8	24.0

Source: CSO, Monthly Digest of Statistics, April-June 1984.

16. CONSUMER PRICE INDEX

(1975=100)

Item	1976	1978	1979	1980	1981	1982	1983
High Income							
All items	116.1	152.6	169.8	189.4	209.1	236.6	278.6
Food, beverage, tobacco	122.9	162.2	172.8	195.7	228.6	274.0	328.4
Clothing, accessories, footwear	118.5	176.0	212.7	237.8	255.9	277.8	314.8
Transport, communication	117.9	156.3	181.6	209.6	219.1	249.1	295.9
Rent, rates, fuel and lighting	104.5	107.7	113.7	125.2	127.8	132.8	144.2
Furniture and household goods	117.1	180.9	204.2	216.7	260.8	300.8	382.1
Other goods and services	110.0	155.0	180.7	196.8	211.5	233.7	282.4
Low Income							
All items	118.8	165.6	181.6	202.9	231.3	260.2	311.7
Food, Beverage, Tobacco	122.5	169.4	184.5	211.5	242.7	276.6	333.8
Clothing and footwear	116.4	193.4	226.6	244.2	260.7	285.9	316.9
Rent, fuel, light	101.4	115.9	119.4	123.4	134.2	138.7	151.9
Furniture and household goods	120.4	187.5	213.1	226.6	285.5	328.5	460.3
All other goods	111.5	149.7	163.6	178.3	187.2	213.1	261.4

Source: CSO and Bank of Zambia, Annual Report 1983, pp.49, 51

Government. Because of falling revenues, the GRZ has incurred large domestic deficits which have financed nearly half of total GRZ expenditure in recent years (Table 17). In 1982, revenue was only 51.7% of expenditure. In 1983, however, the deficit declined to 22.7% of expenditure. Since 1974, GRZ has been a major dissaver, equal to 12.5% of GDP in 1982, declining to 3.0% in 1983. Annual external and domestic borrowing from 1980 through 1982 was double the level in the mid-1970s but declined in 1983 because the GRZ took steps to improve fiscal performance. Expenditure declined from 46.1% of GDP in 1982 to 32.8% in 1983. At constant prices, total expenditures were 24% lower in 1983 than in 1974. However, the decline in real expenditure was mainly in the development budget which decreased 70% between 1974 and 1983. The main tasks now are to increase the share of expenditure for development purposes and introduce more elasticity in the tax base.

Employment. The labor force is growing roughly 3.2% annually. In 1982, an estimated 64,000 people entered the job market but total wage employment has stagnated since the mid-seventies and is only 20% of the total labor supply. The substantial depreciation of the kwacha and the upward revision of interest rates were intended, among other things, to make the cost of capital higher and encourage employment. The number of wage earners employed fell 4.6% from 381,490 in 1980 to 363,800 in 1983 (Table 18). Inadequate foreign exchange severely constrained production in import-substitution enterprises which were forced to lay off workers.

17. SUMMARY OF CENTRAL GOVERNMENT FINANCES

(K million)

Item	1979	1980	1981	1982	1983
Current Expenditure	791.0	1,082.0	1.230.5	1,323.0	1,198.3
Capital Expenditure	165.4	220.0	158.1	320.2	186.0
Total Expenditure	956.4	1,302.0	1,388.6	1,643.2	1,384.3
Tax Revenue	531.2	702.6	745.6	767.4	953.1
Non-tax Revenue	74.8	80.3	82.5	82.3	85.1
Grants	28.7	25.6	24.0	29.0	31.6
Total Revenue-Grants	634.7	808.5	852.1	878.7	1,069.8
Deficit (=Financing)	321.7	493.5	536.4	764.5	314.5
External Loans	180.3	138.0	278.6	192.9	94.1
Bank of Zambia	100.4	290.5	168.8	524.6	82.4
Other domestic	41.0	65.0	89.0	47.0	138.0
Total Revenue and Financing	956.4	1,302.0	1,388.5	1,643.2	1,384.3
Total exp. in 1970 prices	349.4	440.2	413.0	433.3	346.9
Government savings	156.3	273.5	378.4	444.3	128.5
% of Total Expenditure					
Current expenditure	82.7	83.1	88.6	80.5	86.6
Capital expenditure	17.3	16.9	11.4	19.5	13.4
Revenue	63.4	60.1	59.6	51.7	75.0
Grants	3.0	2.0	1.7	1.8	2.3
Deficit (=Financing)	33.6	37.9	38.6	46.5	22.7
External loans	18.9	10.6	20.1	11.7	6.8
Bank of Zambia	10.5	22.3	12.2	31.9	6.0
% of GDP					
Total expenditure	36.1	43.2	40.3	46.1	32.8
Tax Revenue	20.1	23.3	21.6	21.5	22.6
Total Revenue+Grants	24.0	26.8	24.7	24.7	25.3
Deficit	12.2	16.4	15.6	21.5	7.5
Borrowing from BOZ	3.8	9.6	4.9	14.7	2.0
Government Savings	5.9	-9.1	-11.0	-12.5	-3.0

Source: IBRD: Zambia Country Economic Memorandum, April 1984, p. 90.

18. EMPLOYMENT

(June 30)

Sector	1978	1980	1981	1982	1983 1/	1983(%)
All industries	368,460	381,490	373,720	367,510	363,800	100.0
Agriculture, Forestry and Fishing	32,600	32,760	36,420	35,210	35,200	9.7
Mining and Quarrying	62,770	62,940	60,590	59,530	57,730	15.9
Manufacturing	50,120	47,640	47,880	48,400	48,790	13.4
Electricity and Water	7,670	8,270	8,000	7,870	7,750	2.1
Construction and Allied Repairs	40,190	44,420	36,540	32,900	32,110	8.8
Distribution, Restaurants and Hotels	32,700	31,750	31,280	29,800	30,310	8.3
Transport and Communications	21,300	24,450	24,530	24,140	23,880	6.6
Finance, Insurance Real Estate and Business Services	18					6.1
Community, Social and Personal Services	102,340	106,740	106,040	106,150	105,930	29.1

1/ Estimated

Source: Bank of Zambia, Annual Report 1983, p. 48.

Income disparities between and within the rural and urban sectors, although large, have improved since 1977. According to a survey in 1979, updated in 1982, average earnings in the agriculture sector were K919 compared to K3,306 annually in the mining sector and K1,968 in the manufacturing sector. Since 1977, agricultural wages have increased faster than wages in the mining and manufacturing sectors. Cash income for half of Zambia's 600,000 subsistence farmers was K60 to K70 per annum in 1977.

Revised employment data recently released by CSO for 1977 through 1979 classify employment according to types of employer. The data show 75.2% of wage earners were employed by the government and parastatal enterprises. Wages in parastatals were 47% higher than among government employees (Table 19).

19. WAGE EMPLOYEES BY SECTOR

Sector	Number in 1980 1/	Percent	Average Annual Earnings (K)
Government	141,280	37.2	2,144
Parastatal	144,190	38.0	3,154
Private	93,830	24.7	2,588
Total	379,300	100.0	2,638

1/ Fourth quarter

Source: CSO. Monthly Digest of Statistics, April-June, 1984. pp. 1-4.

Key Non-Agricultural Sectors

Mining. Mining accounted for 31.7% of GDP at market prices i 1983 (Table 5). Mining dominates industry and is the major foreign exchange earner and user (Table 20). Zambia has a significant natural resource base, primarily minerals and arable land, but revenues from mining are steadily declining. As a result, GRZ is implementing policies to decrease the economy's dependence on mining and expand agriculture and manufacturing.

20. MINERAL PRODUCTION 1973-1983

(000 MT)

Year	Copper	Zinc	Lead	Coal	Cobalt
1973	681.2	53.5	25.0	940.1	1.9
1974	702.1	58.3	24.5	809.5	2.0
1975	640.3	46.8	19.1	813.9	1.8
1976	712.9	37.1	13.5	762.0	1.6
1977	659.8	40.0	13.3	708.1	1.7
1978	655.6	42.5	12.7	615.1	1.6
1979	578.8	38.2	12.8	598.5	3.3
1980	610.1	32.6	9.9	579.0	3.3
1981	555.1	33.1	9.9	507.2	2.5
1982	584.2	38.9	14.5	603.9	2.4
1983	574.8	38.8	14.6	501.7	2.4

Source: Bank of Zambia. Annual Report 1983, p. 27.

World copper prices, which appeared to be recovering rapidly in the first half of 1983, declined in the second half of the year with steady accumulation of stocks. Despite accelerated growth in consumption and steadily declining stocks, prices have remained very low. World production of refined copper is only slightly higher than a year ago, with substantial portions of mine capacity idle in North America and the Philippines.

21. COPPER PRICES

	London Metal Exchange ($/MT)[1/]			U.S.	
Year	Current $	1982 Constant $	Constant Index	U.S. Cents/lb[2/]	IMF Index
1950	493	2,144	51.3	28.8[3/]	28.4
1955	968	3,612	86.4	37.5	32.0
1960	677	2,303	55.1	32.1	31.6
1965	1,290	4,286	102.1	35.0	34.5
1970	1,413	4,181	100.0	57.7	56.9
1975	1,237	1,814	43.4	63.5	62.7
1976	1,401	2,016	48.2	68.8	67.9
1977	1,309	1,738	41.6	65.8	64.9
1978	1,365	1,537	36.7	65.5	64.6
1979	1,985	2,003	47.9	92.3	91.0
1980	2,183	2,035	48.7	101.4	100.0
1981	1,742	1,706	40.1	84.0	82.9
1982	1,480	1,480	35.4	72.9	71.9
1983	1,592	--	--	77.9	76.8
1984 (10)	1,273	--	--	62.0	61.2

1/ Electrolytic wirebar, settlement price.
2/ FOB Refinery.
3/ 1953.

Source: IBRD, Commodity Trade and Price Trends, 1983-84 Edition, p. 118, and IBRD, Commodity Price Data, September 18, 1984. IMF, International Financial Statistics, November 1984.

IBRD expects world consumption of refined copper to continue to rise significantly through 1985, in line with expansion in industrial production in major industrial countries. If so, stocks should be reduced closer to normal levels. World consumption is projected to reach 10.0 million tons in 1982. By contrast, refined copper production is projected to rise only slightly, reaching 9.7 million tons in 1985 compared with 9.5 million tons in 1982.1/

Mine production is also projected to rise only moderately. A substantial proportion of the currently idle capacity in the United States is likely to remain closed. Mine capacity in the United States, which was 1.67 million tons annually in 1982, is estimated to have been reduced to 1.54 million tons, of which 0.55 million tons was closed at the end of 1983. The cash price in current dollars of high grade cathodes on the London Metal Exchange (LME), which is the indicator price in the world copper market, is expected to remain depressed through 1984 but to rise in 1985, averaging $1,410/ton (64¢/lb) in 1984 and $1,550/ton (70¢/lb) in 1985. Prices of copper futures suggest that IBRD's estimate may be considerably higher than now appears warrented (Table 22).

From 1985 to 1995, world consumption of refined copper is projeted to grow at 1.6% annually, compared with a growth of 1.0% in 1980-85 and 2.2% during 1970-82. IBRD demand projections have been reduced from those made in July to take account of: (1) the deteriorating world economic outlook; (2) the structural changes in manufacturing which are reducing metal use per unit of output; and (3) a new assessment of competition from other materials in certain important end uses, e.g., optical fibers in telecommunications and aluminum radiators in automobiles. Mine production is expected to increase at 1.8% annually during in the period 1985-1995. Some mines are currently under construction or expansion in the USSR, Poland, China, Iran, Chile and Peru. With the changing structure of demand and supply, the LME price of copper is expected to remain low in 1983 constant dollars for the remainder of the 1980s. IBRD estimates the price of copper in 1995 at prices necessary to induce increases in world production capacity to match projected demand. Prices in 1990 and 1995 are forecast at $1,577/ton (71.5¢/lb), and $1,717/ton (78¢/lb), respectively, in 1983 constant dollars, substantially lower than IBRD forecasts two years ago.

1/ IBRD, Price Prospectus for Major Primary Commodities, Fall 1984, pp 1-2, 18-20, 1982.

22. COPPER FUTURES PRICES[1/]

Month	Cents/lb
1984	
December	57.70
1985	
January	57.90
March	58.75
May	59.55
July	60.35
September	61.15
December	62.40
1986	
January	63.80
March	63.60
May	64.45
July	65.30
September	66.15

1/ Commodity Exchange, New York, December 7, 1984

Source: Herald Tribune, December 9, 1984.

Commercial stocks in LME warehouses declined from a peak of 436,000 tons in December 1983 to 162,000 tons at the end of August 1984. Nevertheless, the copper price remained very low. The copper market is likely to be characterized by oversupply through the end of this decade. With depressed market conditions experienced since 1981, production costs have declined substantially from (1) phasing out of high-cost mines, (2) cost-cutting at the mines still operating, and (3) currency devaluations by major copper-producing developing countries under debt-servicing pressures. By 1990, however, the oversupply problem could be reduced significantly. In the meantime, while the share of the world market supplied by developing countries is likely to increase (Table 23), the share supplied by Africa is expected to continue declining.

23. SHARE OF COPPER EXPORTS BY REGION

(Percent)

Source	Actual 1964-66	Actual 1979-81	Projected 1995
Industrial Countries	34.8	29.8	29.2
Canada	8.5	10.6	8.4
U.S.	9.0	3.0	4.6
EEC	14.2	8.7	7.7
Centrally Planned	3.7	7.5	3.3
Developing Countries	61.6	62.7	67.2
Asia	2.2	7.3	9.7
Africa	34.2	23.6	19.3
America	23.9	28.0	31.5
Papua New Guinea	0.0	3.1	3.5
World	100.0	100.0	100.0

Source: Ibid, p. 20.

Manufacturing. The manufacturing sector has grown somewhat more rapidly than GDP, increasing from 10.2% of GDP at market prices in 1970 to 13.1% in 1983 (Table 5). Production declined 11.5% between 1974 and 1983, mainly because of shortage of foreign exchange, dependence on imported raw materials, and emphasis on capital-intensive rather than labor-intensive technology.

The manufacturing sector is an example of the limits of economic growth through capital intensive, import substitution, particularly if managed by parastatal enterprises. The parastatal companies have been major users of foreign exchange, requiring in the neighborhood of 40% of all merchandise imports in recent years but contributing nothing significant to foreign exchange earnings and paying only about 20% of company tax revenues. The shortage of foreign exchange will restrain growth of production and employment in manufacturing throughout most of the next decade. Growth now must rely more on domestic inputs. Similarly, the sector must focus more on production of exports, such as processed agricultural products.

Zambia has followed an import-substitution, industrial development policy which has concentrated primarily on production of consumer goods. A recent IBRD study showed that relatively large, early industrial growth in Zambia was achieved at increasing factor costs. Total factor productivity in manufacturing, i.e., efficiency in the use of capital and labor, declined 3.8% annually from 1965 to 1980.[1/] Since declines in total factor productivity are equivalent to increases in unit costs of production, average costs of production in the manufacturing sector have increased. The decline in efficiency is, in part, the result of investment in inefficient industrial projects and underutilization of capacity.

The import substitution strategy of industrial production has been supported by a system of effective protection biased against exports in favor of goods for domestic consumption, which often have more than 100% protection. In addition, many intermediate inputs and capital goods are exempt from tariffs which also encourages investment in final products. However, development resource costs in production of food products, some textiles, wood products, and fabricated metal products are competitive. [2/]

The study concluded that Zambia's long-term needs in growth of industrial output and employment cannot be achieved through continued import substitution. An unintended consuequence of the current structure of protection has been to subsidize industrial production at the expense of agriculture. Research on Zambian agricultural efficiency indicates that it is highly competitive at international prices. To assure that further distortions of investment are minimised, IBRD proposes five central policy objectives:

1. increased reliance on market rather than administrative mechanisms for allocation of resources;

2. an incentive structure which is more uniform among producing activities and neutral between import substitutes and exports;

1/ IBRD, Zambia Industrial Policy and Performance, August, 1984, p. 16.

2/ IBRD, Zambia: Policy Options and Strategies for Agricultural Growth, June, 1984, p. 42.

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3. selective promotion of new indstrial activities;

4. emphasis on the linkages between industry and a agriculture; and

5. balance between public and private industrial investment.

IBRD recommends changes in the foreign exchange allocation system, tariff reform, and revision of the incentive structure. Suggested improvements in the foreign exchange allocation system include: (1) improved foreign exchange budgeting; (2) eliminating import licenses not backed by foreign exchange; (3) reducing the maturity of import licenses; (4) separating allocations for capital goods from intermediate goods; and (5) introducing more responsiveness in the allocation procedure to user needs. Proposed tariff reforms include eliminating the zero duty for capital goods and intermediate goods, shifting the tariff base from FOB to CIF, and unifying the domestic and import sales tax rates. Recommended export incentives are an improved export retention system, an export revolving fund for purchasing imported intermediate goods, a workable duty drawback system, and possibly a subsidy to value added. The underlying rationale is to shift from quantitative restrictions of imports to a system in which domestic prices of imported goods are determined by the market through a floating exchange rate and tariffs. The report also recommends creation of a tariff commision to undertake comprehensive tariff reform.

Prospects for Economic Recovery

1984-1985. On July 18, 1984, the Executive Board of IMF approved a new standby arrangement for 1984-85, continuing through April for SDR 225 million, 83% of the present quota.[1/] Progress was reviewed in September and a second review will be conducted in March 1985.

In collaboration with IMF, the GRZ has adopted an economic adjustment program for 1984-85 to restore financial stability and reduce the balance of payments deficit (Tables 24 through 28). The objectives of the standby program are to strengthen the finances of the public and mining sectors, reduce the immediate burden of external debt obligations through the consolidation and rescheduling of existing payments schedules and the reduction in commercial payments arrears, and

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1/ IMF, Zambia Standby Arrangement, (EBS/84/135, Supp. 2), July 20, 1984

establish conditions necessary for viable, long term payments performance. To achieve these objectives, the GRZ adopted a comprehensive set of policies to create conditions for the growth of exports through diversification while containing domestic demand, particularly consumption expenditure. The GRZ plans to provide adequate economic incentives for agriculture and domestically manufactured exports, to enhance the international competitiveness of the economy and to introduce measures to raise productivity, particularly in the mining sector.

The September review of the 1984-85 Standby Arrangement indicated that most of the agreed measures had been implemented. However, external prospects have deteriorated since mid-year because of further decline in the world price of copper and revision of debt service payments due in 1984 following the July 1984 rescheduling with the Paris Club and with other creditors. Credit targets for July and September were satisfied but targets for reducing external commercial payments arrears by cash payments were not met and the December targets cannot be met. The increased severity of the foreign exchange shortage is damaging both current economic performance and medium-term economic prospects.

Export projections for 1984 have been revised downward by 4.8% to SDR 728 million, reflecting the decline in the price of copper from $0.65 to $0.60 per pound (Table 24). Copper export volume is expected to be at the target level of 530,000 tons. Export earnings in 1984 now are expected to be $125 million below the level in 1983. Debt relief in 1984 is estimated at SDR 482 million, SDR 13 million less than expected earlier this year. Rescheduling has been agreed in principle with the London Club commercial banks but not with the USSR, the major non-OECD creditor. Since August, the GRZ has made monthly deposits in a special external account with the Federal Reserve Bank of New York as agreed with members of Paris Club.

Total imports in 1984 are expected to be SDR 8 million less than estimated at mid-year. The intensified shortage of foreign exchange also had made it difficult to meet current payments to the consortium of banks which finance petroleum imports. Import licenses have been issued for imports for which foreign exchange has not become available as planned. External commercial payments arrears were not decreased (Table 26). Although export volume is expected to remain on target in 1985, projected export earnings have been reduced by SDR 93 million, from SDR 942 million to SDR 849 million (Tables 29 and 24), which necessitates lower net imports. As a result, the level of imports will not increase in 1985 as had been planned.

Fiscal revenues are expected to be slightly higher, and expenditure about 3% higher than earlier estimates, partly because of low estimates of agricultural procurement costs at new, higher prices (Table 27). The overall budget deficit is now projected to be K278.7 million, 17% higher than the mid-year estimate. However, the ceiling on government credit from the banking system will be achieved (Table 28). Although seasonal demand for agricultural credit is likely to increase in the fourth quarter, the shortage of foreign exchange has constrained demand for credit, the net result of which has been slower growth of the money supply than expected.

The increased shortage of foreign exchange in 1984 probably will prevent real GNP from increasing, resulting in further decline in real GNP per capita. Agricultural output may be somewhat higher than expected but industrial output has deteriorated because of the shortage of imported inputs. Several plants are near closing because of insufficient imported raw materials. Price increases appear to be about 25% as anticipated.

Prospects that the volume of imports can be increased above the current very low level in 1985 or 1986 are not encouraging and low utilization of industrial capacity is likely to continue, which places additional urgency on implementation of the export diversification program. Economic prospects are vulnerable to further deterioration of foreign exchange earnings, which might be associated with a slowdown of recovery of industrial economies. In short, the balance of payments outlook for 1984 and later years is more serious than realized at the time the standby arrangement was signed in July. The IMF continues to express concern about the possibility of rapidly declining production associated with insufficient imported production inputs. Failure to control the arrears pipeline accentuates difficulties with external suppliers and reluctance of foreign firms to do business in Zambia.

Following signing of the 1984-85 standby arrangement, GRZ made an initial purchase of SDR 30 million from IMF and drew another SDZ50 million following completion of the September review. The IMF Board of Directors approved a waiver and modification of the performance criteria on external payments arrears. In his letter to the Managing Director of IMF dated October 31, 1984, the Minister of Finance announced several new policy actions to ensure that the credit limits would be observed including:

1. raising import duties on October 1;

2. decontrolling prices of bread and what flour November 1·

3. increasing prices of gasoline, diesel, and kerosene an average of 6% and prices of all other petroleum products from 8% to 100%;

4. raising interest rates another 2.5 percentage points effective December 1, bringing the maximum deposit rate to 15.5%, and the maximum lending rate to 17.5% (Table 29); and

5. increasing the rate of depreciation of the kwacha to 27% during the first 10 months of 1984 and 13% in real effective terms.

The main policies to be carried out during the 1984 standby program and the status indicated in the review report are:

Policy Change	Status
1.Flexible exchange rate policy with monthly monitoring and adjustments.	Implemented. Currenc depreciated through monthly adjustments by 23.8% against the U.S. dollar during January 1 through end September.
2. Successful rescheduling of external debt with Paris Club and other creditors.	Agreement reached with Paris Club; discussions continuing with other official and commercial creditors.
3. Improved foreign exchange budgeting system, better coordination with import licensing.	Improved coordination but continued excess of licenses because of over-estimates of available foreign exchange.
4. Increase foreign exchange retention of ZCCM to 35% of al proceeds.	Implemented.

24. BALANCE OF PAYMENTS, 1982-84

(Million SDR)

Item	1982	1983	1984 Before Resched	1984 After Resched	1984 Revised	1985 Proj.
Trade Balance	-210	78	77	77	48	165
Exports, f.o.b.	839	853	765	765	728	849
Imports, c.i.f.	1,049	-775	-688	-688	-680	-684
Services and unrequited transfers (net)	-405	-351	-374	-374	-436	366
Interest payments	-226	-236	-253	-253	-350	-266
Other Services	-155	-98	-100	-100	-100	-100
Private transfers	-60	51	-50	-50	-50	-50
Government transfers	36	34	29	29	64	50
Current account	615	-273	-297	-297	-388	-201
Nonmonetary capital (net)	33	-74	44	-225	-187	-10
Government	109	11	22	-247	-195	)
Mining Company	96	-7	22	22	22	-10
Other,	-172	-28	--			
SDR allocation/Gold revaluation	21	-8	--	--	--	--
Debt relief (net)	--	257	-202	495	482	58
Overall balance after 1983 debt relief	-561	-98	-455	-27	-93	-153
Financing:						
Use of Fund resources (net)	-52	60	74	74	74	21
Purchases	34	174	148	148	148	116
Repurchases	-86	-114	-74	-74	-74	-95
Incurrence of arrears	447	-27	--	-38	20	)
Debt service	222	--	--	--	--	)
Commercial	225	-65	--	--	58	)
Rescheduled debt	--	38	-38	-38	-38	)13
Other foreign asse (net) (increase-)	166	65	419[1]	-9	-1	)
Memorandum item:						
Market price of copper (US$/lb)	0.67	0.72	0.65	0.65	0.61	0.6

1/ Unfinanced gap.

Source: IMF, Zambia: Review of Standby Arrangement, November 1984. p. 12.

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25. SUMMARY OF IMF STANDBY PROGRAM FOR 1984

Item	1982	1983 Prov	1984 Prog	1984 Revised
Assumptions				
Real GDP growth (%)	-2.2	0.8	--	--
Consumer prices(%)	12.[illegible]	19.6	25.0	25.0
Change in terms of trade	-10.[illegible]	3.4	-7.4	-11.9
Exports, f.o.b.(m. SDRs)	839	853	765	728
copper:				
Volume (000 tons)	604	575	530	530
Price ($ per pound)	0.67	0.72	0.65	0.61
Targets				
Current account deficit (inclu grants in SDR m.)	615	273	297	303
Percent of GDP	18.7	9.8	10.5	10.7
External payments arrears (end of period in SDR m.)	947	635	597	620
commercial payments arrears	725	597	597	620
Arrears under debt rescheduling agreements (SDR m.)	--	38	--	--
Reduction in arrears through cash payments	--	20	20	--
Budget deficit (including grants) % of GDP	10.9	6.9	4.5	5.2
Total expenditure (% increase)	8.8	-3.7	7.3	12.8
Total revenue (% increase)	4.2	19.5	15.5	15.0
Domestic Bank Financing (K m.)			174.4	174.4

Source: IMF, Zambia: Review of Standby Arrangement, November 1984, p. 8 and Staff Report, June 1984, p. 18

26. IMF STANDBY PERFORMANCE CRITERIA FOR 1984

Item	Dec 1983 Actual	March Actual	Ceilings July	Ceilings Sept	Ceilings Dec
Kwacha (million)					
Net domestic assets	3,132.9	,147.7	3,346.3	3,402.3	3,480.6
Claims on Government (net)	2,098.5	,165.0	2,211.0	2,238.5	.273.5
Bank of Zambia claims on ZCCM	165.5	165.5	165.5	165.5	165.5
SDR (million)					
Cumulative reduction in commercial payments arrears through cash payments	597.0	617.0	-6.0	14.0	14.0
Arrears under debt rescheduling agreements	38.0	...	...	...	...
New nonconcessional external borrowing contracted or guaranteed by Government (cumulative)					
1-12 years	...	...	50	50	50
1- 5 years	...	...	..	...	...
1 year and under	...	...	..	...	...

Source: IMF, Zambia: Review of Standby Arrangement, November 1984, p. 11

27. CENTRAL GOVERNMENT FINANCE

(K million)

Item	1982	1983 Revised Program	1983 Prov Outcome	1984 Program	1984 Revised
Revenue and grants	868.2	1,061.9	1,071.0	1,222.8	1,231.7
Tax revenue	744.3	903.7	940.9	1,071.2	1,026.4
Nontax revenue	96.1	99.9	77.2	109.7	125.2
Grants	27.8	58.3	52.9	41.9	80.1
Total expenditure and net lending	1,389.7	1,295.9	1,338.6	1,461.8	1,510.4
Current expenditure	1,162.1	1,155.5	1,185.3	1,311.8	1,338.5
Capital expenditure	100.9	140.4	153.3	150.0	142.9
Net lending	125.7				29.0
Overall deficit (commitment)	-521.5	-234.0	-267.6	-239.0	-278.7
Payment of arrears	153.0	--	-9.4	--	--
Overall deficit (cash)	-674.5	-234.0	-258.2	-239.0	-278.7
Financing	674.5	234.0	258.2	239.0	278.7
External (net)	111.6	13.6	77.3	-13.3	19.4
Gross borrowing	193.0	62.5	94.1	57.9	71.9
Amortization	81.4	48.9	16.8	71.2	52.5
Domestic nonbank (net)	38.9	105.4	125.2	77.9	84.9
Domestic bank (net)	488.8	175.0	115.1	174.4	174.4
Other	35.2	-60.0	-59.4	--	--
Memorandum Item:					
Estimated reduction in debt service payments from debt rescheduling[1/]	--	165.0	165.0	376.9	--

1/ Effects of current year rescheduling only. Includes relief on principal and interest payments for current maturities, payments falling due in 1984, and arrears.

Source: IMF, Zambia: Review of Standby Arrangement, November 1984, p. 15

28. MONETARY SURVEY, 1982-84

(K million, end of period)

Item	1982	1983	1984 Mar. (Actual)	1984 July (Actual)	1984 Sept. (Prog.)	1984 Dec. (Prog.)
Net foreign ass	-1,442.5	-1,777.7	-1,872.2	-1,968.2	-2,0006.8	-2,082.6
Net domestic assets	2,890.9	3,132.9	3,147.7	3,233.5	3,402.3	3,480.6
Credit to Government	1,983.4	2,098.5	2,164.0	2,184.6	2,238.5	2,273.5
Bank of Zambia credit to mining comnpany	160.5	165.5	165.5	165.5	165.5	165.5
Credit to nongovernment	744.9	867.0	874.9	952.5	996.4	1,039.9
Other assets (net)	2.1	-1.9	-57.7	-69.1	1.9	1.9
Money and quasi-money	1,309.2	1,454.1	1,393.7	1,481.6	1,630.5	1,678.0
Other liabilities	139.2	-98.9	-118.2	-216.3	-235.0	-280.0

Source: IMF, Zambia: Review of Standby Arrangement, November 1984, p.17.

29. STRUCTURE OF INTEREST RATES

(Per cent per annum)

Item	1970	1975	1978	1980	1981	1982	1983 1/
Central Bank Rate	5.00	5.00	6.50	6.50	7.50	7.50	10.00
Commercial Banks							
Loan Rates							
Overdrafts (Minimum)	7.00	7.50	9.50	9.50	9.50	9.50	13.00
Maximum Rate on Loan	--	--	12.00	12.00	12.00	12.00	13.00
To Agriculture	--	--	9.50	9.50	12.00	12.00	13.00
To Manufacturing	--	--	10.25	10.25	12.00	12.00	13.00
Bills Discounted (Up to 120 Days) Minimum	7.00	9.00	9.50	9.50	9.50	9.50	9.50
Deposit Rates							
Fixed Deposits							
3-6 Months	4.00	4.00	7.00	7.00	7.00	7.00	7.00
6-12 Months	4.00	4.50	7.50	7.50	7.50	7.50	8.50
Over 12 Months (Mini)	4.50	5.00	8.25	8.25	8.25	8.25	9.00-10.00
Short-Term Deposits	3.50	3.50	4.75	4.75	4.75	4.75	5.00
Savings Accounts	3.50	4.00	7.00	7.00	7.00	7.00	8.00
Treasury Bills	3.11	4.00	4.38	4.50	6.00	6.00	7.50

1/ Raised by an average of 4.5 percentage points through December 1, 1984.

Source: IMF, Recent Economic Developments. Selected years.

5. Legalization of emerald mining for private sector, marketing by Reserved Minerals Cooperation at market prices of 10% of foreign exchange to be retained by producer.	Implemented, but with delays in issuing prospecting and mining licenses.
6. Budget deficit (cash) in 1984 limited to K239 million, with domestic bank borrowing limited to K175 million.	Projected budget deficit of K278.7 million, with domestic bank borrowing limited to K 175 million.
7. New tax measures equivalent to K73 million.	New revenue measures limited to K54 million because of revised yield estimates and delays in implementing proposed increases in import duties.
8. Expenditure growth limited to 7.3%.	Expenditure growth projected to equal 12.8%.
9. Expenditures on personnel limited to K437.4 million, with freeze on net employment outside ministries of health, education and agriculture.	Expenditure and employment level ceilings observed.
10. Study of employment levels to be undertaken aimed at freezing and, if possible, reducing total government employment in 1985 budget.	Study not yet undertaken.
11. Establishment of blocked account for external debt service payments, with monthly payments in domestic currency by the Treasury irrespective of the availability of foreign exchange.	Account established and payments begun during August 1984.
12. Increase in net domestic assets limited to 11% increase in credit to non-government sector limited to 20%.	Implemented.
13. No increase in Bank of Zambia credit to the mining company.	Implemented.

14. Increase in broad money limited to 15%.	Implemented.
15. Increase in maximum interest rate to 15%; other rates increased on average by 2% points.	Implemented.
16. Implementation of additional measures to reduce costs and increase efficiency at ZIMCO subsidiaries, including K50 million in savings from new measures at ZCCM, and World Bank studies of improved performance for the oil refinery and NCZ.	Underway.
17. Increase in producer price for maize to K28.30 per bag for 1984/85 and cooperation with World Bank in formulating medium-term policies for the agricultural sector.	Implemented
18. Increase in wholesale prices for petroleum prices averaging 35% (effective April 11, 1984).	Implemented.
19. Increase in beer prices of K0.08 per bottle.	Implemented.
20. Rise in retail maize meal price of K6.5 per 90kg/bag, or 21.7%.	Implemented
21. Increase in sale price of fertilizer of K2.7 per 50kg/bag, or 11%.	Implemented

Several new taxes were introduced in 1984 to yield K46 million, largely to replace revenue lost due to the shrinking of the bases of dutiable imports and company incomes resulting from the foreign exchange shortage. New taxes include increases in excise taxes on soft drinks, cigarettes, alcoholic beverages, and petroleum products, totalling K27.2 million, new taxes on imported capital goods (K7.5 million) and increases in sales and miscellaneous taxes (K1.0 million). In August, the base for taxing imports was changed from f.o.b. to

c.i.f. and a new minimum rate of import duty of 10 percent was introduced for imports other than petroleum, government imports, and certain items exempt by law. A new revenue unit also was established in the Ministry of Finance. The prices of petroleum products, beer, maize, and fertilizer have been increased in line with GRZ plans to introduce economic pricing throughout the economy.

A more restrictive monetary policy has been adopted whereby expansion of credit to the private sector has been limited to 20 percent and the increase in broad money to 15 percent. Net domestic assets, net credit to the GRZ, and Bank of Zambia credit to ZCCM are being curtailed.

In January 1983, substantial increases in interest rates were introduced to reflect real rates including the Bank of Zambia's rediscount rate, the rate of Treasury bills, the commecial banks's overdraft and maximum lending rates, and deposit rates for savings accounts. Despite these increases, real interest rates were negative. To provide further incentives for domestic savings, restrain demand, and improve the allocation of credit, interest rates were adjusted by an average of 2 percent points, effective May and another 2.5 percentage points on December 1, increasing maximum lending rates to 17.5%, which considerably widens the range of interest rates on commercial bank lending (Table 29).

The International Development Association (IDA) has sought policy changes consistent with IMF prescriptions. In August 1984, the GRZ announced several policy decisions in support of a $25 million IDA credit for export rehabilitation and diversification to:

1. increase the price of wheat products by at least 22%, or decontrol such prices;

2. allow private traders to carry out maize marketing and fertilizer distribution as licensed agents of NAMBoard in areas where depots or marketing centers previously operated by NAMBoard have been closed down; and

3. increase the charges paid by farmers for Government tractor hire services from the present level of about K22.50/hr to not less than K30.50/hr for land preparation/tillage, plus not less than K17.50/hr for transport, which is 50% of the amount required to achieve full cost recovery;

4. review the data base and formulate, with assistance from IDA, a methodology for setting producer prices which relates such prices to border prices.

30. BALANCE OF PAYMENTS, 1984-8

(Million SDR)

Item	1984	1985	1986	1987	1988	1989
Exports,. f.o.b.	765	942	1,213	1,398	1,426	1,49
Copper	638	812	1,073	1,249	1,311	1,37
Cobalt	80	65	64	73	65	7
Imports, c.i.f.	-688	-765	-807	-851	-910	-96
Trade Balance	77	177	406	547	516	53
Services and unrequited transfers (net)	-374	-388	-403	-402	-399	-40
Investment income	-253	-266	-279	-275	268	26
Current account	-297	-211	3	145	117	12
Capital account	44	10	-25	-52	-85	-11
Drawings	269	270	225	200	200	20
Amortization	-225	-260	-250	-252	-285	-31
Debt service due on previously rescheduled debt	-202	-99	-98	-92	-55	-2
Overall balance before new debt relief	-455	-300	-120	1	-23	-7
Financing:						
Use of Fund resources (net)	74	21	-119	-186	-161	-100
Purchases	148	115	30	..	..	..
Repurchases	-74	-95	-148	-186	-161	-100
Cash reduction of arrears (reduction -)	-38					
Other foreign assets, net		279	239	185	184	107
Financing gap	419					
Memorandum item:						
Copper price ($ per pound)	0.65	0.75	0.91	1.05	1.10	1.15

Source: IMF, Staff Report, June 1984, p. 32

31. EXPORTS AND IMPORTS, 1984-89 1/

Item	1984	1985	1986	1987	1988	1989
Exports, f.o.b.						
Copper						
Volume (000MT)	530	580	620	620	620	62(
Price						
US$/lb	0.65	0.75	0.91	1.05	1.10	1.15
K/t	2,508	2,894	3,511	4,051	4,244	4,437
Freight (K/t)	255	263	270	278	285	293
f.o.b. (K/t)	2,253	2,631	3,241	3,773	3,959	4,144
Value	1,194	1,526	2,009	2,339	2,455	2,569
Cobalt	149	121	120	136	121	141
Zinc/lead	55	82	92	82	20	5
Other	35	40	50	60	75	90
Total	1,433	1,769	2,271	2,617	2,671	2,805
Imports						
Petroleum						
Volume (1981=100)	80	80	80	80	85	85
Price (1981=100)	170	172	174	176	178	180
Value	248	250	253	256	275	278
Fertilizer	55	30	20	10	--	--
Maize	24	--	--	--	--	--
Other						
Volume (1981=100)	62	72	74	76	78	80
Price (1981=100)	190	199	209	219	230	241
Value	765	934	1,008	1,085	1,169	1,257
Total imports, f.o.b.	1,092	1,214	1,281	1,351	1,444	1,535
Total imports, c.i.f.	1,289	1,433	1,511	1,594	1,704	1,811
Trade balance	144	336	760	1,023	967	994

1/ Assumes $1 = K1.75 and SDR 1 = US$1.07

Source: IMF, Staff Report, June 1984, p. 33

5. furnish to the IDA revised terms of reference for the proposed study to improve the efficiency of the system for maize marketing and fertilizer distribution, taking into account in the revised terms of reference the work done or to be done in connection with the related studies financed by bilateral aid;

6. identify and select, in consultation with IDA, consultants to undertake the proposed study mentioned in (5) above;

7. by August 1986, review and adjust the price of wheat products, if not yet decontrolled, and the charges for Government's tractor hire services to full cost recovery level; and

8. allow NAM Board and the Provincial Cooperative Unions (PCU's) with regard to the marketing of maize and distribution of fetilizer, sufficient margins to cover at least one-third of the amount needed to achieve full cost recovery by May 1985, two-thirds by May 1985, and full cost recovery not later than May 1987.

Medium Term Prospects. IMF projections in June for 1985 through 1989 indicated that shortages of foreign exchange required debt rescheduling each year (Table 32). Real GDP was projected to grow moderately, not more than 2-3% annually with corresponding reduction in real per capita incomes. The current account balance was projected to improve, from a deficit of SDR 297 million in 1984 to a surplus of SDR 127 million by 1989 (Table 30). Gross drawings on capital account were projected to decline from SDR 269 million in 1984 to SDR 200 million for 1987-89. Total debt service due, including 1983 arrears of SDR 38 million, was projected to exceed the amount available throughout the period, resulting in a financing gap, before debt rescheduling and any reduction in arrears, declining from SDR 419 million in 1984 to SDR 184 million in 1988 and SDR 107 million in 1989 (Table 30). The projections also assumed no further use of IMF resources beyond the 1984-85 arrangement, leading to a substantial net outflow of resources to IMF during 1986-89.

32. EXTERNAL DEBT SERVICE, 1984-89

(SDR Million)

Item	1984	1985	1986	1987	1988	1989
1. International organizations	206	240	298	327	287	214
Principal	106	139	197	239	215	153
IMF	(74)	(95)	(148)	(186)	(161)	(100)
Interest	100	101	101	88	72	61
IMF	(58)	(58)	(56)	(43)	(27)	(17)
2. Debt service due on previously rescheduled debt	202	99	98	92	55	20
a. Paris Club creditors	89	57	53	49	34	20
Principal	(48)	(39)	(39)	(39)	(26)	(15)
Interest	(41)	(18)	(14)	(10)	(8)	(5)
b. Other creditors	113	42	45	43	21	--
Principal	(96)	(33)	(38)	(39)	(20)	(--)
Interest	(17)	(9)	(7)	(4)	(1)	(--)
3. Debt service not previously rescheduled	285	292	295	305	351	395
a. Paris Club creditors	106	100	102	113	130	137
Principal	(59)	(56)	(61)	(66)	(82)	(87)
Interest	(47)	(44)	(41)	(47)	(48)	(50)
b. Other creditors	179	192	193	192	221	258
4. Short-term debt	61	89	84	81	76	73
Principal	(--)	(31)	(29)	(28)	(26)	(25)
Interest	(61)	(58)	(55)	(53)	(50)	(48)
5. Total debt service	754	720	775	805	769	702
Memorandum items:						
Debt service ratio before rescheduling (%)						
Principal	62.3	43.6	37.8	35.4	32.8	27.2
Interest	29.3	25.5	21.2	18.3	17.6	16.7
Total (including IMF)	91.6 1/	69.1	59.0	53.7	50.4	43.9
Total (excluding IMF)	76.3 1/	54.4	43.5	38.5	38.1	36.6

Source: IMF, Staff Report, June 1984, p. 34.

The June projections assumed a steady recovery of copper prices from an average of $0.65 in 1984 to $1.15 per pound in 1989 in constant prices, an 80% increase over the five year period

(Table 31). IBRD's fall assessment of the world copper market indicates that prices are likely to remain low, averaging $0.715 per pound in 1990 in 1983 constant dollars, reflecting excess capacity in the industry. The slowdown of economic recovery in the U.S. may make even these revised projections optimistic if the slowdown evolves into a mini or more severe recession during 1985 and 1986.

Recent copper prices have fallen below $0.60 per pound. The revised scenario has major implications for medium-term economic prospects in Zambia. Foreign exchange earnings during the period would be SDR 2 billion (27.8%) lower, imports would have to be curtailed still further, the risk would increase that reduction of imports would curtail production of exports, GRZ contributions to financing the 1984-86 expenditure program would be jeopardized, GRZ budget revenues would be substantially lower than estimated, more rapid depreciation of the foreign exchange rate would be necessary, additional external financing would be needed to offset the shortfall, and debt service obligations would rise to above 100% of exports in 1984 and remain near 90% through 1989.

33. REVISED MEDIUM-TERM EXPORT EARNINGS, 1984-89

(SDR million)

Year	June 1984 Standby Projection 1/	Revised Projection 2/	Change	Percent
1984	765	728	-37	-6.2
1985	942	849	-93	-10.7
1986	1,213	906	-307	-25.3
1987	1,398	918	-480	-34.3
1988	1,426	907	-519	-36.4
1989	1,498	924	-574	-38.3
Total	7,242	5,232	-2,010	-27.8

1/ Table 30.
2/ IMF Projections for 1984 and 1985 from Table 24. IBRD copper price projection of $.71 for 1989.
Interim years: 1986=$.68, 1987=$.69, 1988=$.70.

Source: REDSO/ESA, December, 1984, H. Smith.

1984-86 Expenditure Program. At the Consultative Group meeting in May 1984, the GRZ presented an extensive review of development policy reforms and objectives for 1984-86 and an expenditure program requiring additional external capital to avoid further reduction of GNP, utilize existing capital more fully, and rehabilitate and replace capital. The total program requires $1.7 billion, $1.4 billion in foreign costs and $283.7 million in local costs (Table 34). One third of the expenditure is for new projects and 27.1% for production inputs, three quarters of which would be for industry.

34. EXPENDITURE PROGRAM BY SECTOR, 1984-1986

($ million)

Sector	Foreign Costs	Local Costs	Expend. Prog.	Funds Sought Foreign	Funds Sought Local	Funds Sought Total
Mining	121.9	283.7	212.8	97.3	--	97.3
Industry	482.2	18.5	500.7	482.3	--	482.3
Agriculture	348.7	87.2	435.9	348.2	16.8	365.0
Energy	142.7	27.0	169.3	142.7	--	142.7
Transport	143.7	27.2	170.9	143.7	--	143.7
Communications	13.2	9.9	23.1	16.7	--	16.7
Tourism	7.5	--	7.5	7.5	--	7.5
Social	155.4	23.1	178.5	149.6	27.0	176.6
Total	1,415.5	283.7	1,699.1	1,388.1	43.8	1,431.9

Source: GRZ, Restructuring in the Midst of Crisis: The Expenditure Program, Vol. II, p.8.

The plan includes both capital and operating expenditure. The objectives of the public investment recovery program are to

1. complete economically viable ongoing projects;

2. rehabilitate and properly maintain the mining industry, increasing its efficiency and competitiveness;

3. rehabilitate and increase capacity utilization in productive sectors of the economy, particularly industry and agriculture;

4. promote non-traditional exports;

5. rehabilitate existing infrastructure and to expand others as necessary for the successful and efficient operation of the production sectors; and

6. expand social services, particularly in education and health.

Rehabilitation and replacement expenditure will be mainly in the energy sector to modify the Indeni Refinery. Support to increase capacity utilization is mainly for the mining, energy, and transport sectors. Nearly one half of the new projects are in agriculture (Table 35). New projects in industry are mainly to increase efficiency rather than increase capacity primarily in the pulp and paper project. Agricultural inputs require $388.1 million, $111 million of which is for fertilizer, farm implements and spare parts. Input support, however, is mainly for the manufacturing sector which requires $295 million in addition to foreign exchange normally allocated to the sector. Since this expenditure will not contribute significantly to foreign exchange earnings, the import dependent manufacturing sector continues to be a burden on donors and raises the question whether enough priority has been given to the expenditure program to foreign exchange-earning investment. The expenditure program is clearly dominated by industry rather than agriculture.

To improve implementation, in the 1984 budget, GRZ has sought to provide adequate counterpart funds for externally aided projects. Recurrent and capital accounts have been consolidated to eliminate the problems caused by parallel but uncoordinated preparation, review and implementation of two different budgets. Under a uniform budget structure, budget preparation and review is to be focussed on the best use of total resources available to each Ministry.

In 1984, GRZ introduced medium-term financial planning which attempts to match expenditure requirements against the likely availability of resources. The medium-term plan would provide an estimate of the funds likely to be available for each type of expenditure over the next three years. The annual plan also is to become forward-looking and be prepared before the submission of the budget so that the plan determines the priorities for allocating resources among ministries and drawing up budget guidelines.

GRZ also seeks to strengthen project evaluation and monitoring capacity. A monitoring system is to be designed to include preparation of quarterly reports indicating the progress of projects and comparing the rate at which projects are being implemented.

35. EXPENDITURE PROGRAM BY PURPOSE 1984-1986

(K million)

Purpose	Mining	Indust.	Agric.	Energy	Trans port	Communi cation	Tourism	Social	Total	Percent
Replacement/ Rehabilitation	13.1	17.5	38.0	99.0	17.78	-	-	-	185.3	12.9
On-going projects	31.3	7.33	-	-	-	-	-	-	38.6	2.6
New Projects	1.23	146.0	231.1	-	90.0	11.8	-	-	480.8	33.5
Capital	113.0	117.5	100.2	600	90.0	11.8		-	320.2	22.0
Others	1.12	28.5	130.9	-	-	-		-	16.06	11.1
Increased Cap. Utilization	51.7	16.54	-	43.1	36.0	4.9	-	-	152.2	10.6
Input Support	-	295.0	93.1	-	-	-	-	-	388.1	27.1
Social Services	-	-	-	-	-	-	-	76.6	176.6	12.3
Miscellaneous	-	-	2.8	-	-	-	7.5	-	10.3	1.0
Total	97.3	482.3	365.0	142.7	143.7	16.7	7.5	176.6	1,431.9	100.0
Percent	6.7	33.7	25.5	9.9	10.0	1.1	0.5	12.6	100.0	--

Source: GRZ, Restructuring in the Midst of Crisis: The Expenditure Program, Vol II. p.7.

A large proportion of public investment will be under ZIMCO which follows a comprehensive corporate planning and annual budgeting process for production and operations, revenue and recurrent expenditure, investment and capital expenditure. Project implementation and expenditure are closely monitored and the rate of implementation of ZIMCO projects has been satisfactory.

Conclusion

The central policy issue is to continue and accelerate policy reforms for greater reliance on market forces, private investment, and private initiative. Although depreciation and price decontrols have made a noticeable impact on private producers, the economic system as a whole is still biased against exports, mainly because the currency appears to be still overvalued in spite of more rapid depreciation in 1984.

To shift rapidly toward expansion of agricultural exports, the currency probably should be routinely undervalued and private transport, marketing and other firms should be encouraged to compete with state enterprises. The complex structure of public enterprises and government direct controls created over the last 20 years must be relaxed further to permit the efficiencies of competition to influence allocation of resources toward production of exportable crops. The economy needs to become self sufficient rapidly in food production and to export surpluses of crops, such as groundnuts which, with favorable weather and an assured supply of agricultural inputs and credit, possibly could be achieved within two or three years.

The new, much lower estimates of export earnings through 1989 require a new assessment of the role of donors during the 1984-86 expenditure program and subsequent three years. An objective of the expenditure plan was to halt the decline in real GNP. With nearly SDR 2 billion less foreign exchange earnings through 1989 than expected when the plan was prepared, the sources of financing must be reassessed. No doubt donors will be requested to finance at least part of the shortfall.

If copper prices in 1985 and 1986 average $ .60/lb and $.64/lb, respectively, as indicated by recent New York Copper futures prices (Table 22), the shortfall of foreign exchange earnings from exports will be SDR 549 million, SDR 189 million in 1985 and SDR 360 million in 1986. The changed economic outlook is the result of factors outside the control of GRZ and has taken place in spite of major efforts by GRZ to make economic adjustments commensurate with the severity of the foreign

exchange crisis. The outlook is substantially different from the economic perspective presented at the 1984 consultative group meeting and will require the IMF to reassess the new developments carefully in preparing the 1985-86 standby arrangement during the early months of CY 1985. Among other changes, the IMF may not be able to adhere to its plan for no further drawings from IMF resources after the 1984-85 arrangment. This also will be the major topic for discussion at the emergency meeting of the consultative group now planned for March or April.

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