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File Title	Barcode No.
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Document Date	Document Type	
29 April, 1994	Board Record	

Correspondents / Participants
From: Vice President and Secretary
To: Executive Directors and Alternates

Subject / Title
Summary of Discussions at the Meeting of the Executive Directors March 10, 1994

Exception(s)

Additional Comments
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Salma Berrada	June 13, 2025

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2. FC

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JUN 04 2025

WBG ARCHIVES

FROM: The Deputy Secretary April 4, 1994

NOTE ON CONSULTATIVE GROUP MEETING FOR ZAMBIA

March 22-23, 1994

Attached for information is a note on the Zambia Consultative Group meeting held in Paris March 22-23, 1994.

Distribution:

Executive Directors and Alternates
Office of the President
Executive Vice Presidents, IFC and MIGA
Vice Presidents, Bank, IFC and MIGA

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CONSULTATIVE GROUP FOR ZAMBIA MEETING

1. The Consultative Group for Zambia met in Paris on March 22 and 23, 1994. The Zambian delegation gave a detailed account of the progress made on implementing the country's Economic Recovery Program since the last meeting in December 1993. The report confirmed progress towards establishing macroeconomic stability. Donors commended the Government for the progress made on bringing down the rate of inflation. Monetary and fiscal policy, particularly the cash budgeting system, had reduced the inflation rate substantially -- to an average of 2.5 percent per month (35 percent annual rate) over the last six months -- despite shortfalls in donor flows and the need to finance promissory notes issued to purchase the maize crop. Donors acknowledged that this had been done while maintaining the remarkable achievements of market liberalization undertaken in the past 28 months.

2. Donors welcomed many other encouraging developments. The Government reported on a number of measures being taken to speed up the privatization process, including phasing out the Zambia Industrial and Mining Corporation (ZIMCO) and enhancing the institutional capacity of the Zambia Privatization Agency (ZPA). Improvements were also being made in revenue administration through the establishment of an autonomous revenue authority. The allocation of resources to the social sectors in the 1994 budget had been increased. However, donors noted the serious challenges ahead, including the need to maintain macroeconomic stability in order to stimulate private sector confidence and activity, and the issues pertaining to Zambia Consolidated Copper Mines (ZCCM), Zambia Airways, and domestic resource mobilization.

3. Donors also commended the Zambian Government for the actions taken since the December 1993 meeting to improve governance. They restored the credibility of the Zambian Government and its aspiration to democracy, transparency, and accountability to the Zambian people. The events of 1993, beginning with the state of emergency in March, and continuing with the apparent failure to act on allegations of wrong-doing at high levels of Government, particularly on drug trafficking, led donors to doubt whether the Government was pursuing those ideals. As a result, donors did not fulfill their financial pledges to Zambia. Largely owing to concerns on these non-economic issues, shortfalls of some $175 million in donor financing emerged. In turn, these shortfalls resulted in Zambia being unable to implement the program that had been agreed on with the Bank and IMF.

4. There was a genuine renewal of partnership in Paris. Zambia had taken bold and courageous actions to deal with the non-economic issues. All donors indicated that aid which was withheld, or frozen, or suspended, or conditioned, would be released, unfrozen, reopened or de-conditioned to get the financial partnership moving. While some indicated that they would expect to see a continuation of the progress on the non-economic issues as well as the economic, particularly in institutionalizing the approach to dealing with non-economic issues, there was a consensus that the reform process on governance issues was moving forward with the same sense of purpose and determination as characterized the Government's dealing with the drought, or the fight to contain inflation.

5. As a result, and for the first time in the history of Zambia's Consultative Group meetings, the financing gap was closed by a combination of increases in

donor pledges and measures by the Zambian authorities to reduce foreign exchange needs. The initial shortfall of $40 million that emerged after tallying up the pledges, was removed by Zambia itself taking measures to close the remaining gap. Zambia decided to tighten its belt by reducing the Government's direct use of foreign exchange by $20 million. However, donors recognized that the program was tight and would require full delivery of all estimated assistance.

6. To ensure the greatest prospect of 1994 being a year of growth, it will need to be a year of implementation. Effective implementation requires that several difficult challenges are met by the Government and donors in partnership. First, investment is a necessary ingredient for growth and, if broad-based, ultimately poverty alleviation, once adjustment has created the necessary preconditions. In that regard, high real interest rates were of particular concern and a serious obstacle to private investment and the revival of growth. Real interest rates will come down when there is confidence that inflation has been brought under control and when public sector saving is channeled into investment. The priority for public policy was to contain public sector borrowing in order to restore confidence and make room for the private sector. Balance of payments assistance can play a critical role in stimulating private investment because the domestic counterpart of any donor funds in excess of those needed for external debt service will be used to retire domestic government debt, thus permitting interest rates to decline. Second, policy and institutional changes have to be carried through and sustained to consolidate past gains. These changes, involving such areas as deregulation, budget control, and privatization, are urgently needed to preserve the fragile stability of the economy or to promote private sector development and long-term growth. Revenue collections had gone down in the first two months of 1994. Donors highlighted the need to improve the performance of ZCCM, which accounts for much of the shortfall. They also welcomed the measures taken to strengthen the newly-established Zambia Revenue Authority. Zambia Airways was potentially the greatest threat to public spending and borrowing. Finally, donors called for renewed attention to privatization. They reminded Government of the commitment to privatize ZCCM. They also pointed out the importance of making suitable plans for private development of the Konkola Deep project, which must be decided upon soon if a shortfall in copper output is to be avoided a few years down the road.

7. The Zambian delegation acknowledged the need for urgent action and undertook to bring to these problems the same decisiveness applied in the past to other pressing issues. The delegation reassured donors that several recent actions would accelerate the privatization program. ZIMCO was to be closed down and replaced by a new unit with more restricted authority; ZPA was being strengthened and had been given sole authority for valuations; and a third very substantial tranche of parastatals to be privatized would be announced soon. All in all, the meeting was very successful.

Southern Africa Department
March 30, 1994

Mr. Bruno cc: MC

CSP file

April 1, 1994

Note to Mr. Michael Bruno

Michael,

Re.: Zambia: Consultative Group

You will have seen the memorandum from Mr. Autheman to Mr. Karaosmanoglu. I have followed upon on this with the International Finance Division in IEC, and they have confirmed that the paper in question, prepared by the Region, was not circulated for any comments or clearances by us. We were aware that some work on debt workouts was underway for Zambia since the research assistant in IECDI was asked to run some DSM simulations on assumptions provided by the Region. However, no IEC staff member has yet seen the paper even though it has been presented to the donor community in a CG meeting.

This incident does raise a broader issue. The ability of regional staff to prepare debt workouts for countries they work on has increased over time (partly as a result of the training and tools developed in IEC!). With this increased comfort in dealing with the issue, however, there has also been a growing tendency to carry out this work without reference to what the current institutional position/sensitivities are. One reason why Mr. Autheman may be upset is because the Paris Club is now in the middle of discussing options on debt stock reduction methodologies; a discussion in which we are participating but which individual country economist are not generally abreast of. Decentralized independent action in preparing and presenting reports on debt reduction may lead outsiders to view the Bank as not being coordinated on an important subject.

As you know, the Zambian case figures prominently in the paper on SILIC debt which is almost ready for dissemination to Governments and multilateral creditors. We believe the most constructive way in which to address debt cancellation questions is within an overall framework, rather than on a piecemeal basis. IEC, together with FRS as the guardian of the Bank's and IDA's interests in debt matters, is the best placed department to conduct this dialogue. One practical suggestion is that senior management issue a note reminding regional staff to clear all debt workout scenarios or related presentations with IEC before they are used in any external document.

Masood Ahmed

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Document Date	Document Type	
30 March, 1994	Memorandum	

Correspondents / Participants
From: Attila Karaosmanoglu, Managing Director
To: Marc Antoine Autheman, Executive Director for France

Subject / Title
Zambia Consultative Group

Exception(s)
Communications of Executive Directors' Offices

Additional Comments

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Salma Berrada	June 13, 2025

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File Title	Barcode No.
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Document Date	Document Type	
18 March, 1994	Board Record	

Correspondents / Participants
From: Vice President and Secretary
To: Executive Directors and Alternates

Subject / Title
Executive Directors' Meeting - March 10, 1994

Exception(s)

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Document Date	Document Type	
09 March, 1994	Board Record	

Correspondents / Participants
From: Vice President and Secretary
To: Executive Directors and Alternates

Subject / Title
Executive Directors' Meeting - March 10, 1994 - Statement by Mr. Gerber

Exception(s)

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Mr. Ray
(1) HB
(2) ML
CSP file

DATE: January 11, 1994

TO: Distribution

FROM: David Cook, Acting Director, AF6

EXTENSION: 3-3321

SUBJECT: **ZAMBIA CSP - Minutes of the President's Review Meeting**

Attached please find the minutes of the President's Review Meeting chaired by Mr. Preston on January 7, 1994.

Attachment

Distribution:

Messrs./Mesdames: Preston, E. Stern, Sandstrom, Karaosmanoglu, Kalantzopoulos, Fox, McHugh (EXC); Bruno (DECVP); Shihata (LEGVP); Linn (FPRVP); Eccles (CTRVP); Husain (LACVP); Kaji (EAPVP); Wood (SASVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Kashiwaya (CFSVP); Serageldin (ESDVP); Lindbaek (CEX); Paul (CLADR); Iida (MEGEX); Ray (DECVP); Iskander (PSD); West (MIGGU)

Regional Loan Committee:

Messrs./Mesdames: Jaycox, Martinez (AFRVP); Lafourcade (AF1DR); Colaco (AF2DR); Aguirre-Sacasa (AF3DR); Lim (AF4DR); Marshall (AF5DR); Cleaver (AFTDR); Husain (AFRCE); Denning (o/r) (AF6DR); Ofusu-Amaah (LEGAF)

AF6 Management Team:

Messrs./Mesdames: Edstrom, Tidrick (AF6DR); Patel (AF6CO); Pomerantz (o/r) (AF6IN); Grawe (AF6PH); Helman (AF6AE)

JTodd:lim

President's Review Meeting - January 7, 1994
Zambia: Country Strategy Paper
Minutes of the Meeting

1. The following is a summary of the discussion of the President's Review Meeting of the Zambia Country Strategy Paper. Present at the meeting were Mr. Preston, who chaired the meeting, and Messrs./Mesdames A. Karaosmanoglu, M. Bruno, I. Serageldin, I. Shihata, M. Nishimizu, J. Adams, M. McHugh, K. Jaycox, F. Scaduto-Mendola, D. Cook, P. Patel, L. Fox, and J. Todd.

External Financing Arrangements

2. The Region provided some background on the external financing arrangements put in place for Zambia in 1990 at which time it had been decided to meet Zambia's exceptionally high external financing needs with exceptional levels of balance of payments support rather than with more fundamental and path-breaking debt restructuring. The Region noted that this arrangement had been successfully implemented over the past three years despite the 1992 drought and the recent drop in copper prices. Because the Paris Club agreement and the IMF rights arrangement both expire in March 1995, a new arrangement will need to be made during 1994 to cover 1995 and beyond.

3. The Region also reported that the December CG had gone better than expected. Donors had met $1.1 billion of the $1.2 billion needed, with full closure of the gap dependent on the government fulfilling promises made at the CG on corruption and related governance issues.

Degree of Adjustment

4. In response to questions raised about adjustment effort, the Region noted that domestic savings was projected to grow to 17 percent of GDP by the year 2000 and that any faster growth would cause per capita consumption levels, which are already low even by African standards, to fall over this period. This would undermine the political acceptability of the program. On exports, it was noted that mineral exports account for 90 percent of total exports at present, but have limited growth prospects. Non-metal exports were projected to grow rapidly by about 10 percent per year in real terms, implying a significant redirection of domestic production, but would only still represent 20 percent of total exports by the end of the decade.

Burden-Sharing

5. The Bank's share of total external assistance to Zambia is about 20 percent, and of balance-of-payments support, about 40 percent. The Region felt that these proportions are not exceptional. Thus the issue is less one of the Bank's percentage share than of the absolute level of balance-of-payments support required in per capita terms. This amount is high because of the heavy bilateral and multilateral debt service that Zambia must pay. The Bank will not proceed with its assistance unless adequate financing to fill the financing gap is fully committed by the other parties. This would include adequate resources to meet fully the debt

service payments due to the Bank and Fund and to reduce arrears with the Fund according to the agreed schedule.

IBRD Debt Stock

6. The Region apologized for the unfortunate use of the term "write-off" in Annex C with respect to various proposed strategies for reducing the stock of IBRD debt. The idea was to use additional BOP support to retire or prepay the IBRD debt, currently about US$300 million, in order to reduce Zambia's debt service burden and to reduce the risks of debt service suspension.

Performance Benchmarks

7. In response to questions about the "triggers" for continued assistance to Zambia, the Region noted that for macro stability, primary reliance would be placed on meeting IMF benchmarks while for structural policies, the emphasis would be on meeting current, and following through on past, adjustment operation conditionalities. It will be important that these requirements for continued support of the program be clearly understood, easily monitorable, and directly relevant to the goals of structural adjustment, economic growth, and poverty alleviation. This will require special attention to monitoring of final results, especially in terms of the supply response, and not just policy changes. Conditions relating to social services and poverty alleviation should be given equal importance with economic policy conditions if that part of the program is to make equal progress. This is being done in the adjustment operation under preparation.

Conclusion

8. The meeting endorsed the proposed strategy.

Cleared with Mr. A. Karaosmanoglu.

cc:FC

A L L - I N - 1 N O T E

DATE: 10-Dec-1993 11:37am

TO: Stephen Denning (STEPHEN DENNING)

FROM: Hans Binswanger, AGRDR (HANS BINSWANGER)

EXT.: 31871

SUBJECT: Zambia: Country strategy paper

This is an interesting paper and the overall approach appears very appropriate.

The paper says surprisingly little on the issues in Agriculture, from where much of the growth will have to come. For example, how will a supply response be achieved in an environment of an appreciating exchange rate and high real interest rates in the domestic economy? Would it make sense to consider cuts in the lending if the repatriation of private capital accelerates, so as to limit the appreciation? How can the problems of lack of supply response whic have plagued so many other adjustment programs be avoided? What is the role of the ASIP program in this?

Since the last adjustment effort got derailed on account of food price and subsidy policy, more attention to food consumption and nutrition in the strategy might be warranted. Are the efforts described sufficient to prevent serious malnutrition, or should additional measures be contemplated? Given that there are sectoral operations planned in both agriculture and health, would it make sense to consider a coordinated approach which would encourage targeted food subsidies through the health posts as food stamps? This should ensure highly cost-effective and precise targeting to the most vulnerable and greatly increase the attractiveness of the primary health care services.

CC: Gershon Feder (GERSHON FEDER)
CC: Michel Petit (MICHEL PETIT)
CC: David Steeds (DAVID STEEDS)
CC: Douglas Forno (DOUGLAS FORNO)
CC: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU)
CC: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)
CC: Ernest Stern (ERNEST STERN)
CC: Sven Sandstrom (SVEN SANDSTROM)
CC: Jane Armitage (JANE ARMITAGE)
CC: Orsalia Kalantzopoulos (ORSALIA KALANTZOPOULOS)
CC: D. Joseph Wood (JOE WOOD)
CC: Gautam S. Kaji (GAUTAM KAJI)
CC: Wilfried Thalwitz (WILFRIED P. THALWITZ)
CC: Caio Koch-Weser (CAIO KOCH-WESER)

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O F F I C E M E M O R A N D U M

DATE: January 10, 1994 11:09am

TO: See Distribution Below

FROM: Mark Baird, DECVP (MARK BAIRD)

EXT.: 31666

SUBJECT: India and Zambia CSP Review Meetings

Mr. Stern chaired the India CSP review meeting on Friday (Mr. Preston joined the meeting half-way through). Mr. Vergin briefed the meeting on recent developments. The State election results and the outpouring of support for the Minister of Finance had strengthened the Government's hand. The sharp increase in private capital flows was good for the balance of payments, but might undermine the resolve for reform. The discussion focussed on the following issues:

- IMF coordination. An IMF mission was just back from India and it was unlikely that there would be agreement on an ESAF program. The major stumbling block was agreement on a three-year program of fiscal adjustment. Michael, supported by Mieko Nishimizu and Mr. Shihata, strongly opposed the idea of the Bank going ahead with adjustment lending under these conditions (a view Mr. Preston also seemed to endorse in a following discussion with Michael). However, the outcome of the meeting on this issue was unclear.

- Trade reform. The Region argued that there had been a lot of progress in this area. QRs were only left on consumer goods (we subsequently clarified that QRs still affect two-thirds of domestic production). Mr. Wood suggested that trade reform was closely linked to fiscal reform. However, in response to a query from Michael, Mr. Vergin confirmed that this was not the case.

- Public enterprise reform. The IFC representative took a tough line on the need for PE reform.

The Zambia CSP review meeting was chaired by Mr. Preston. The discussion was not well focussed. In response to issues we had raised, the Region responded as follows:

- The CSP presented a good case, rather than a base or high case.

- The triggers for higher lending were agreement with

the Fund and the sectoral reforms as set out in Mr. Cook's memorandum of January 4.

- The Paris Club assumptions were conservative. With more debt relief, balance of payments support could be reduced.

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CAS/
C.S.P fm

ZAMBIA: Troubled President Updated On:Thursday, December 9, 1993

11/25/93

EVENT: President Frederic Chiluba's ruling party lost five out of eight parliamentary by-elections this month.

SIGNIFICANCE: Continued economic recession and deep political rifts have eroded popular support for the president.

ANALYSIS: The Chiluba administration has disappointed on two fronts:

-- Although it has followed -- almost to the letter -- the economic prescriptions of the World Bank and other donors, the economy is in worsening recession, leaving campaign promises on social issues unlikely to be fulfilled.

-- Seventeen members of parliament, including senior and founder members of the ruling Multiparty Democracy Party (MMD), have been expelled or have resigned in protest at alleged government corruption, posing a serious challenge to the president's authority.

It was always likely that the MMD would fragment. It swept into power with a huge majority two years ago, unseating former president Kenneth Kaunda's 27-year administration (see OADB, November 4, 1991, V). MMD was a marriage of convenience, an umbrella organisation bringing together political activists from across a broad spectrum, united only in their determination to oust Kaunda's ruling United National Independence Party (UNIP). Chiluba, a Methodist trade unionist, had little in common with many of his supporters, other than their dislike for Kaunda's one-party state and a commitment to reverse the deterioration of the economy.

Chiluba surprised many in his own party first by winning a huge majority in the 150-member parliament in October 1991, and then by implementing an unpopular World Bank/IMF economic reform programme. This includes tight monetary controls, which pushed interest rates as high as 140% early this year; massive increases in the prices of basic goods, including maizemeal (the staple food) and petrol; the elimination of subsidies which formerly absorbed one-fifth of the government budget under Kaunda; and across-the-board cuts in public spending.

nomic conditions. The recession has not eased. Hopes of measurable economic growth after last year's drought-driven 5% downturn have faded and economists say there will be only marginal expansion during 1993 despite improved agricultural production. Underlining the government's plight, the UK-owned

ZAMBIA: Troubled President

Dunlop tyre plant at Ndola was recently forced to close for the second time this year, laying off more than 400 workers indefinitely because, even with 20% price cuts, sales remain depressed.

All major sectors are experiencing difficulties:

1. Copper. Record copper stocks around the world have depressed prices for Zambia's main export which accounts for over 90% of foreign currency earnings. In September, copper output fell more than 15% to 33,000 tonnes while prices were down by more than 5%.

2. Agriculture. Around 200 of the country's 700 large-scale commercial producers -- suffering the effects of high interest rates and inflation -- may be on the verge of bankruptcy. The liberalisation of the economy has meant that wheat imported from South Africa is cheaper than Zambian cereals and the government is carrying a 70,000 tonne wheat stockpile which millers will not buy.

3. Industry. Earlier this month, the state-owned Nitrogen Chemicals of Zambia said it was cutting prices by a quarter because imported South African fertilizer was cheaper than the domestic product. The Chiluba government, however, has signed an agreement to import 80,000 tonnes of South African fertilizer -- which is promoted by export subsidies -- at a cost of 18 million dollars. Textile manufacturers tell a similar tale: 18 manufacturers have closed so far this year because they could not compete with imports from South Africa and Zimbabwe.

The MMD at first supported Chiluba's economic programme. Now, however, after two years of austerity and few signs of a recovery, the government's popularity is waning. The president is accused of imposing unemployment and harsh economic conditions while failing to bring down inflation (still running at 200%), and allowing business leaders who supported the MMD enthusiastically at the polls two years ago to enrich themselves.

Political arena. Chiluba appears to be losing control of his party and cabinet:

-- In April, he fired several cabinet ministers -- including Finance Minister Emmanuel Kasonde, Mines Minister Humphrey Mulemba and Agriculture Minister Guy Scott -- accusing them of inefficiency and incompetence.

-- In August, nine MMD members -- including Kasonde -- resigned from the MMD and launched a new opposition party, the National Party (NP).

ZAMBIA: Troubled President

-- Three more MPs have since quit with Stanford Hlazo resigning this week in protest at government corruption. Hlazo criticised the decision to spend 3.5 million dollars on luxury vehicles for the president's office during a recession.

The NP, which won four of this month's eight by-elections (UNIP won one and MMD three), has emerged as the main threat to Chiluba's beleaguered administration.

The political crisis comes at a particularly bad time, just as Chiluba is under increasing pressure from the World Bank to accelerate the privatisation programme and, specifically, to announce details of the promised privatisation of the state-owned copper mining group, Zambia Consolidated Copper Mines (see OADB, May 10, 1993, V). This is a highly sensitive political issue since any sell-off to South African mining groups, particularly to Anglo American Corp of SA, would leave the president vulnerable to attack from just about every faction in Zambian politics.

Even if Chiluba loses more seats when four further by-elections are held, probably early next year, his government is not under immediate threat, since he still has a comfortable working majority. The next elections are not due until the second half of 1996, giving the MMD three years to turn the economy around. However, the ultimate fate of the administration lies with the economy. Having already wiped out some popular support, continued economic weakness is a serious threat to Chiluba's re-election.

The immediate outlook is not encouraging. Copper prices are forecast to remain weak at least for another year and possibly two, while the run-down infrastructure and skills shortage are major deterrents to new investment. In the current economic climate, the government cannot hope to deliver on its election promises to improve Zambians' living conditions.

CONCLUSION: Chiluba is likely to survive his term. However, without an economic upturn, his chances of re-election in 1996 are very low.

Keywords: AF, Zambia, IMF-World Bank, economy, politics, industry, agriculture, growth, metals, government, election, party, corruption

CSP file

ZAMBIA: Copper Privatisation Updated On:Monday, May 10, 1993

05/10/93

SUBJECT: The programme to privatise copper operations.

SIGNIFICANCE: Since copper accounts for 90% of exports and the industry is the largest single employer, privatisation is a controversial issue, especially since foreign companies will play a key role.

ANALYSIS: In his successful campaign to oust the government of former president Kenneth Kaunda, Frederic Chiluba committed his party to privatising state companies. Shortly after taking office in November 1991, the Movement for Multiparty Democracy (MMD) set up the Zambia Privatisation Agency (ZPA) to spearhead privatisation of companies which account for almost 80% of GDP and employ nearly one-third of all formal sector workers.

Many -- indeed most -- of the 150 businesses to be privatised over the next few years are small and non-strategic. Their disposal is largely uncontroversial, but this is not the case for Zambia Consolidated Copper Mines (ZCCM). When the minister responsible for privatisation, Ronald Penza, said that there were no 'sacred cows' in the government's investment portfolio and added that it would not retain a majority stake in either the copper mines or public utilities, he was roundly attacked by the labour unions.

The success of the government's overall privatisation programme, however, will be judged by its disposal of ZCCM, traditionally the country's main source of fiscal revenue. No timetable has yet been set, but ZPA officials talk of 1994/95 as a "provisional" target date. Recently, the ZPA listed 29 companies that will comprise the second tranche of public sector disposals, including relative heavyweights like Zambia Breweries, Zambia Sugar, the country's two edible oil companies (ROP Ltd and Premium Oils Industries) and Chilanga Cement. The first tranche of 19 were all very small concerns.

A World Bank team is advising the government and the ZPA on how to proceed with ZCCM privatisation, and while some in the government are keen to set a date -- one minister said recently that he wanted disposal to start in 1994 -- others are urging caution, arguing that the selloff should be phased over a three or even five-year period. Humphrey Mulemba, dismissed last month as minister of mines, was in the 'slow track' camp, while his deputy, Mathias Mpande, has urged greater speed.

More important than timing though is the strategy. Three principles seem clear:

ZAMBIA: Copper Privatisation

-- The government will ensure that Zambians can buy a stake, either directly as individuals or indirectly through employee share ownership schemes or pension fund purchases.

-- Heavy new investment is needed soon.

-- Foreign participation is considered essential, since there is no other source of the fresh investment or technical expertise that the industry so urgently needs.

The need for fresh capital will thus affect the timing of the decision. By the turn of the century, the huge Nchanga open pit mine will become uneconomic. A replacement source of ore must therefore be developed within the next seven years. The Konkola mine could be developed in the next six years, but only with substantial foreign investment. It will cost more than 550 million dollars to develop, but it will guarantee copper production of at least 450,000 tonnes annually, a substantial increase on the 387,000 tonnes mined last year.

Donors will also press for speedy privatisation. In view of Zambia's current economic difficulties, its heavy debt burden and its reliance on foreign aid, the strong probability is that the donor community -- especially the World Bank -- will tie any future financial assistance to ZCCM privatisation. Donors will argue that without privatisation there will simply be no foreign capital to develop Konkola.

In any event, the South African mining house Anglo American Corporation, which along with the US AMAX group dominated the copper mining industry prior to nationalisation in 1971, has a 27.3% stake in ZCCM. It is known to be interested in participating in the privatisation exercise, but wants to achieve a controlling stake (though not necessarily a majority stake) and to assume responsibility for management. Two other South African mining houses -- Johannesburg Consolidated Investment (JCI), an affiliate of Anglo American, and the rival Gencor group -- have also expressed interest in participating in both the privatisation and the development of new ore bodies.

An obvious solution would be to 'unbundle' ZCCM, breaking it down into separate mining operations, granting the foreigners from South Africa and elsewhere a controlling stake, but insisting that Zambian investors hold a substantial minority of the shares. do this will take time and the 1994 timetable is too optimistic. The Zambian government will probably be reluctant to be seen selling such a major national asset to a South African mining house, at least until multiparty elections are held in South Africa, probably in early 1994.

ZAMBIA: Copper Privatisation

The most likely scenario is a commitment in principle -- perhaps later this year, but more likely next -- to privatise on the basis of selling shares to foreign mining houses, but with a provision for a substantial Zambian minority interest. A local stock market is being organised in Zambia, which should be reasonably well established by early 1994, providing the vehicle for Zambian participation. To protect the government's position, a 'golden share' provision is also probable, giving Chiluba the right of veto in respect of key strategic policy decisions, but granting day-to-day management to private investors, both Zambian and foreign.

One of the lessons of privatisation in Africa -- and elsewhere too -- is that it is usually dangerous to rush the process. The Zambian authorities will thus show the donor community that they are advancing with the small and medium-scale industrial and commercial operations, but taking more time to ensure that they get the crucial mining privatisation right. However, the government cannot delay too long because the Konkola investment decision has to be made -- and made soon -- and without privatisation, ZCCM, as presently constituted, will be unable to finance such a large project.

CONCLUSION: No immediate action on privatising copper is to be expected, but the need to develop the Konkola mine means that it will probably be announced next year, and then take place in 1995 or 1996.

Keywords: AF, Zambia, IMF-World Bank, economy, industry, politics, policy, private sector, foreign investment, aid, metals, mining, government

Zambia - ESP

ZAMBIA

Chiluba exposed

The recent alleged attempt by UNIP functionaries to topple the MMD government has brought into sharp focus the inherent fragility of President Chiluba's rule, with many ex-UNIP men in his own cabinet, writes *Desmond Davies*.





The glory days are over

EVER SINCE President Frederick Chiluba's and the Movement for Multiparty Democracy's (MMD) momentous victory over Kenneth Kaunda and UNIP in November 1991, the new Zambian leader has been hamstrung. The mere fact that his party allowed ex-UNIP stalwarts to worm their way into the MMD put paid to any notion of Chiluba being his own man. His every move was frustrated by the UNIP elements within his Cabinet.

The recent announcement, therefore, that UNIP was behind a plot, the Zero Option, to destabilise the government was a culmination of the power struggle that had been raging within the regime ever since the MMD assumed control. The vested interests, it appeared, were turning out to be too powerful for Chiluba to handle. Indeed, he himself had grown weary of the constant struggle. He said in January that in future the indiscipline and petty politics that had constantly embarrassed the government and had left the public wondering who was in charge would no longer be tolerated.

This forthright statement could well have been the cue for certain UNIP elements to strike before Chiluba asserted his long-needed authority. To some members of the *ancien regime*, a strong Chiluba would be too much of an inconvenience to them.

The continued disagreements with the Cabinet over almost every policy move was the root cause of the muddled way the government was run. When decisions were finally agreed in Cabinet, these would be immediately countermanded by a minister when he was called upon to implement them.

Observers point out that the reason for this policy debacle was, to a large extent, due to the inclusion of former Kaunda ministers in the MMD government, many of whom are occupying strategic positions. Top of this list has been Humphrey Mulemba, Minister of Mines, seen by many as the power broker.

Kaunda, too, has played his own part in adding to the confusion. Seeing the disorder within the MMD and the absence of a solid economic policy, he decided to make a claim for the moral high ground and started accusing the regime of incompetence and corruption. He took advantage of the fact that the MMD lacked economic competence, and the admission of the existence of a Group of 7 (G7) ministers, all ex-UNIP, who hand bankrolled Chiluba's election campaign and were calling in their debt.

Realising that Chiluba was weak and hardly capable of taking him on to answer charges of corruption and human rights abuse, Kaunda undertook a vigorous propaganda campaign against the MMD, accusing it of harassing himself and his family.

What was happening was that corruption was rampant and the democratic process appeared to have been hijacked by the ex-UNIP ministers. The onus, then, was on Chiluba to initiate clear cut policies and to assert his authority or face the demise of the MMD before its term expired.

Coup danger

Indeed, sources have told *New African* that Chiluba was warned a long time ago by Zambian exiles that resistance to government policies by ex-UNIP ministers presented the real danger of a coup that would bring in a government made up of Kaunda's MMD elements and a reformed UNIP.

The main concern of exiles was that though a democratic transition took off peacefully, there was no guarantee that a reversal could not take place if UNIP felt it could call on some sections within the security and armed forces close to the President to oust the MMD – something that is not uncommon in African politics.

The MMD, having succeeded in defeating UNIP, after 27 years in power, found it extremely difficult to function as a vigorous and dynamic government because of the divisive elements within the Cabinet, many of whom appeared to have been serving the interests of the wily Kaunda. So for most of the time Chiluba was involved in crisis management, the very antithesis of the good government Zambia very much needs.

By inviting some of Kaunda's ministerial failures to join the MMD Cabinet, Chiluba brought the government into direct conflict with powerful vested interests. This only helped to accentuate Chiluba's frailty as leader.

He needs to assert his authority at this critical period. But already he has given in to pressure from international donors and the diplomatic community to reduce the period of detention without trial from 28 days to one week; this came just after the destabilisation allegations. In the days of UNIP Kaunda would not have batted an eyelid in the face of international criticism, observers noted.

Nevertheless Chiluba still has a chance to make amends, more so on the issue of privatisation. A battle royal has been raging within the Cabinet over the indecent haste with which Mines Minister Mulemba wants to dispose of the country's economic lifeblood, Zambia Consolidated Copper Mines (ZCCM).

He has announced that three companies – Anglo American Corporation, General Mining Corporation (Gencor) and Johannesburg Consolidated Investment (JCI) – all South African-based – are interested in bidding for ZCCM. When Kaunda attempted to sell the mines in 1987, it was valued at £2 billion. It cannot be worth much more than that, analysts say.

But the deal being worked out by the Mines Ministry has been open to question. Sources say the successful bidder of the mines would have to pay one-third of the amount immediately, with the rest coming from future profits. This has been the crux of the matter. Going by the past experience of multinational mining companies in Africa, Zambia's copper will be overexploited while creative accounting will ensure that no more profits are recorded until the mineral has been exhausted.

In all this there is a salutary lesson for the rest of Africa: old habits die hard. As the new corp of politicans prepare to take control from those who have bankrupted their countries, and who are bereft of any new ideas to revive a flagging continent, the new generation should be wary of teaming up with the old guard. ■

This news item appeared on page 3 of the February 10, 1993 issue of

FINANCIAL TIMES (UK)

CSP file

Now Zambia points way to fiscal rectitude in adversity

Tony Hawkins on a hoped-for economic example to follow a multi-party political one

HAVING provided a rare African example of successful transition from one-party rule to multi-party politics, Zambia may be offering another important pointer for the continent: how to balance the budget in adversity.

Describing the country's inflation record – 207 per cent in the year to December – as "totally unsatisfactory", Mr Emmanuel Kasonde, finance minister, last week unveiled a disinflationary, balanced budget.

If he can make it stick, it will go a long way towards promoting sustained recovery in an economy sapped by mismanagement and weak prices for its main export, copper.

Failure, however, will reinforce the view that, without additional resources, economic recovery is beyond the reach of even the best-intentioned African governments. It will also undermine the government of President Frederick Chiluba, which swept to victory in the elections in October 1991.

The year has not started well. After severe drought last year, maize production should recover strongly from the 1992 crop of only 5.2m bags (of 90 kg), compared to 12.2m in 1991. But the mid-January dry spell has raised fears of another mediocre season.

Meanwhile, the copper price, which averaged 103.5 US cents a lb last year, seems set to stagnate for much of 1993. Since the mineral accounts for around 90 per cent of export earnings, this suggests that any improvement in the balance of payments from last year's $94m current account deficit is dependent on reduced food imports and lower debt-service payments.

Mr Kasonde's target of an annual inflation rate of 10 per cent by December looks out of reach, with inflation still running at an annualised 200 per cent in the final quarter of 1992 – though well down on the annualised 350 per cent recorded in the first quarter.

ZAMBIA: KEY INDICATORS COMPARED WITH ZIMBABWE (1992)

	Percentage p.a. Zambia	Zimbabwe
Real GDP growth	-2.8	-9
Decline in agricultural output	-39.0	-35
Inflation	207.0	49
Money supply growth	99.0	19
Budget deficit (% of GDP)	2.2	11

Money supply also doubled during 1992, with government borrowing from the Bank of Zambia and the commercial banks, up by 81 per cent, accounting for 56 per cent of the increase in bank lending.

If Mr Kasonde gets his way this will change drastically during 1993. "The budget," he told MPs, "has been framed so that financing comes first; expenditure is the residual."

The Bank of Zambia will simply say no when government ministries seek to overspend. Extra revenues that might arise from "higher than programmed inflation" will not be spent. Treasury bill borrowings will be used to roll over existing debt, while government plans to repay "much of its outstanding" domestic commercial bank debt.

The Zambian track record suggests that they mean what they say. Last year, despite a 2.8 per cent fall in real GDP, a 39.3 per cent decline in farm output and inflation of more than 200 per cent, the government was able to cut the budget deficit from the 7.4 per cent of GDP inherited from the Kaunda administration in 1991, to only 2.2 per cent, or 0.3 per cent if drought-related spending is omitted.

This year, the spending target will rise 80 per cent to K231bn ($630m).

A debt-relief agreement last July with the Paris Club of official creditors, whereby debt-service costs were reduced by some $270m a year in the three years to 1995, will contribute substantially towards budgetary savings.

But some bitter political battles are looming. Mr Kasonde has a fight on his hands on public spending, on wage increases, and over civil service retrenchment – with some analysts suggesting that 50,000 people, or half the civil service, will have to be laid off. He hopes that effective tax cuts, achieved by raising thresholds substantially and broadening the three income tax bands (of 15 per cent, 25 per cent and an unchanged top rate of 35 per cent), will alleviate pressure for wage rises. This too is optimistic.

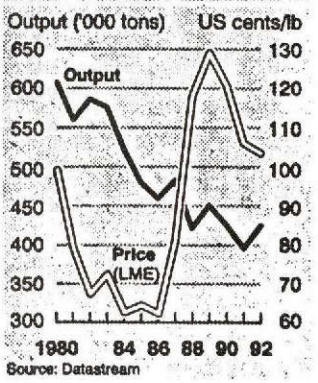
However, a reduced rate of corporate tax, the promised abolition of exchange controls, inherited at independence 29 years ago, and the assertion that government no longer has a role to play in fixing the exchange rate, are all grist to the private enterprise mill.

Some perspective can be gained too from a comparison with Zambia's far more industrialised and prosperous neighbour Zimbabwe, which like Zambia suffered from severe drought in 1991-1992 and which is also undergoing structural reform, albeit in a far more leisurely manner.

But these impressive achievements and worthy intentions will prove inadequate to the task of rebuilding the economy unless private sector investment recovers strongly. That is not going to happen without substantial public sector investment in the infrastructure, especially transport, education and training.

These are long-haul strategies which means that the Zambian recovery, when it comes, will be slow.

Zambia: copper



Source: Datastream

This news item appeared on page 4 of the February 16, 1993 issue of

FINANCIAL TIMES (UK)

Terrorism costs Egypt $700m in lost earnings from tourists

MR FOUAD SULTAN, Egypt's tourism minister, said yesterday that Moslem militant attacks on foreign tourists had cost the country $700m (£496m), Reuter reports from Cairo.

Despite tough security measures taken by the government to safeguard the country's main source of foreign currency, hoteliers and tourist operators say business is slack.

Mr Sultan said militant attacks, in which one British woman was killed and two Britons and five Germans were wounded late last year, caused a 20 per cent reduction in revenues compared with the same period the year before.

"Between $60m and $70m is lost in receipts each month. The losses have reached about $700m so far," Mr Sultan said. "If that pace continues, the losses in the fiscal year 1992-93 [which ends in June] will reach about $1bn."

He said that when calculating revenues based on government forecasts, the losses could be even more. Egypt had expected 4m visitors for the fiscal year 1992-93 and more than $4bn in revenues.

Mr Sultan said in the year 1991-92 an estimated 3m tourists visited Egypt, generating $3.5bn.

He said the tourism industry accounted for 30 per cent of Egypt's foreign currency receipts and 10 per cent of its gross domestic product.

Many people employed in the tourism business fear for their jobs.

The pyramids and ancient Pharaonic temples – Egypt's main tourist attractions – are virtually empty. Luxury hotels, tourist villages and Red Sea beaches are quiet. Egyptian hoteliers are nostalgic about the boom days. Boats and river cruisers lie idle along the banks of the Nile waiting for clients. Souvenir shops have everything except shoppers.

Zambia - CSP file

This news item appeared on page 6A of the JULY 2 1992 issue of

THE JOURNAL OF COMMERCE

Zambia Looks to the West

By RICHARD JOSEPH

A battle is raging in Africa largely out of view of the world community. It is not the kind of conflict that is eagerly reported by the media: communal violence in South African townships, ethnic strife in Kenya, Islamic Jihad in Sudan. It is a more silent struggle between viruses that have infected the body politic of African nations in recent decades — autocratic rulers, single parties, military regimes, corruption and statist economic policies — and antibodies that have been set loose in countries that have opted for democratic pluralism and free market economies.

The case for helping the new Commonwealth of Independent States and the Eastern European nations with economic, social and political reforms has been repeatedly and effectively made, most recently by Chancellor Helmut Kohl at the United Nations and by former Soviet President Mikhail Gorbachev in his fund-raising jaunt across the United States. But who is making the case for the dramatic changes that are occurring in several African countries and pointing out the extraordinary prospects they represent for a new partnership with American society?

It is instructive to look at Zambia in southern Africa, which is emerging as a model of economic liberalization following its change of government through peaceful elections on Oct. 31. Zambia came to independence in 1964 with one of the most promising economies in the continent. A quarter-century later, the sustained drop in the world price for its primary export, copper, the lack of accountability in its "one-party democracy," the over-reliance on state regulation and ownership of economic operations and gross mismanagement and corruption had brought the country to its knees.

Today, it is on its feet again, throwing out the detritus of the past under the leadership of President Frederick Chiluba, a longtime labor leader. An armory of regulations that had strangled private investments, domestic and foreign, is being revoked. Costly public subsidies of the staple food, maize, are being slashed. The near-totality of state-owned enterprises, from the copper mines to the corn mills, are being privatized. The country's abundant potential in commercial agriculture, cattle-rearing, tourism and precious stones, so poorly exploited in the past, are being systematically developed.

On the other side of the ledger, however, are the difficult challenges of streamlining overstaffed government agencies, devaluing a currency that has lost much of its value in recent years, permitting prices of goods to rise to their market level and managing one of the highest-per-capita national debts in the world.

In brief, a peaceful but precarious revolution with profound implications for the future of Zambia, as well as all of southern Africa, has been launched in a matter of months. The ripples from these developments will soon reach our shores. The fastest growing sector of U.S. foreign trade is with the developing world, and the United States is the leading producer of goods used to build nations.

The American people have been poorly served during the current presidential campaign by discussions of the U.S. stake in overseas economic development. It often seems as if the only issue is the net outflow of aid dollars to help reform other countries' economies, or of "American jobs" being lost because of overseas private investment.

In fact, most of the external trade of countries such as Zambia is with the industrialized nations of the West, and they often import far more from the United States than they export. (In 1990, $80 million vs. $29 million). It is self-evident that the rapid growth of the Zambian economy will bring America a dynamic trading partner, generating demands for U.S. products and spurring domestic job creation.

Moreover, the democratic antibodies set loose within Zambia will not remain within its borders. Already, opposition forces in Malawi have been emboldened by Zambia's transformation and are challenging the 93-year-old president-for-life, Hastings Banda. Across another border, in Zaire, the ways in which President Mobutu Sese Seko has manipulated and obstructed the democratic process contrast starkly with Zambia's systematic return to multiparty politics. Meanwhile, in Mozambique and Angola on the eastern and western borders, populations wearied by prolonged civil wars are drawing inspiration from the Zambian model of a peaceful transition.

Americans should rise to the challenge posed by this comprehensive process of political and economic renewal. Roads in Zambia must be rebuilt, school systems and hospitals rehabilitated, polluted rivers cleaned up, wildlife and forests protected, mining operations rationalized, non-traditional crops introduced, a devastating drought resisted — the list is endless.

We were challenged to help rebuild Western Europe after World War II, and we responded. We are being challenged to assist former Cold War adversaries, and we are earnestly seeking, in collaboration with our allies, ways to meet the demand for loan and equity capital. We are consequently compelled to ask: How about Africa? How about Zambia?

Richard Joseph is director of the African Governance Program of The Carter Center of Emory University, Atlanta, Ga.

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This news item appeared on page of the Mar.30-Apr.12'92 issue of

BUSINESS & FINANCIAL TIMES (GHANA)

WORLD BANK $127m CREDIT TO GHANA

In appreciation and support for the on-going Economic Recovery Programme in Ghana, the Board of Directors of the World Bank approved the provision of a record three credit facilities totalling US$127.8 million (50.5 billion) for Ghana, in just one sitting. The credits are to be used in financing three projects negotiated earlier by the Government of Ghana, two for the agricultural sector, and one for the social sector.

According to a release by the World Bank Resident Mission in Ghana, the biggest of the credits, US$80 million (31.6 billion), is to support the Agricultural Sector Adjustment Programme which seeks to re-address policy and regulatory impediments obstructing the smooth development of the entire agricultural sector. The main areas of particular attention and concern are agricultural pricing, marketing and input supply. One of the major aims of the programme is to find lasting solutions to problems facing Ghanaian farmers upon whose labour and toil the Ghana economy is dependent, but who have not sufficiently reaped the fruit of their labour. Not only are they faced with a pricing system which has been most unfavourable to them, but also they have to battle with a marketing situation which greatly affects their productivity and income.

Many cocoa farmers, for example, have had to head-carry their loads to the purchasing centres, and when it comes to payment, they have had to wait months before they get paid. Farmers' access to credit facilities from the banks also still leaves much to be desired. The Ghana Food Distribution Corporation has not lived up to expectations because right from its inception, it has been saddled with finance and structural problems which are compounded by its inability to work out an effective pricing system.

It is in view of these that the injection of some amount of private participation and competition in the marketing of the key agricultural exports has become necessary today. Coffee and sheanut marketing were privatized last year, and reports indicate that the private companies engaged in the trade are already doing very well. It is hoped, therefore, that private Ghanaian businessmen would take due advantage of the recent bold attempt by the Government of Ghana in the privatization of the internal marketing of cocoa, to help revamp the entire cocoa industry, and make the marketing of cocoa more efficient and less problematic.

The release said the second project the National Agricultural Extension Project - US$30.4 million (12 billion) seeks to integrate and strengthen the entire agricultural extension system in all the ten regions of the country. It will also promote and support research programmes and projects to unearth Ghana's tremendous agricultural potential.

In addition, it will promote a widespread use of more effective agricultural technologies and farming practices that would increase farm output, improve labour efficiency, and conserve soil and water resources; strengthen the technical departments of the Ministry of Agriculture to improve its capacity to test the relevance of technologies proposed to farmers before they are adopted; and facilitate human resource development, particularly in the area of providing appropriate training for extension personnel and making it possible for them to deliver useful and practical extension services to the farmers of Ghana.

Both projects form an integral part of Government's medium term agricultural strategy, and have inbuilt environmental protection packages which seek to ensure that all agricultural practices engaged in are environmentally sound.

The release said the main objective of the third project, the Functional Literacy Project - US$17.4 million (6.8 billion), is to ensure that all Ghanaians, especially those in rural areas who have never been to school, will have the opportunity to become literate and numerate in their mother tongues, and be brought more into the mainstream of development activities.

The credit would be used to improve the existing literacy programme, thereby, making about 900,000 adults functionally literate; to ensure that all new literates, whether from the school system or from the literacy programme have access to a range of reading materials in Ghanaian languages; to help expand the coverage of the FM broadcasting system to support the functional literacy programme and to increase the frequency of educational broadcasting in Ghanaian languages. The three credits, like all other World Bank credits to Ghana, are interest-free, have a service charge of 0.75 of 1%, and are repayable over 40 years, with 10 years grace period, the released added.

Z. ZIA: Reform Predicament Updated On:Friday, April 3, 1992

CS1 file

04/03/92

EVENT: Western donors have pledged 1.35 billion dollars to support Zambia's liberalisation strategy.

SIGNIFICANCE: After five months in office, the Chiluba government is poised to accelerate its politically unpopular reform programme.

ANALYSIS: When Frederic Chiluba's Movement for Multi-party Democracy (MMD) ousted former President Kenneth Kaunda's United National Independence Party (UNIP) in last October's election (see OADB, November 4, 1991, V), few expected the new president to move as far, or as fast, in trying to revive the Zambian economy.

Kaunda, who ruled Zambia for 27 years -- much of it under the umbrella of a one-party state, negotiated numerous economic restructuring packages with the World Bank and the IMF. All of them ended unsuccessfully, primarily because UNIP lacked the political will to force through reforms that meant higher food p. es, fewer public sector jobs and a loss of state control over the economy.

Chiluba, whose trade unionist background makes him an unlikely supporter of IMF-style reforms, has surprised and pleased the business and donor communities by tackling reform with vigour. His path has been eased -- initially -- by being able to blame the previous government for the country's ills. When Kaunda raised the price of maize meal in 1986 and 1988 -- Zambia's staple foodstuff -- there were food riots; Chiluba has managed to double the consumer price of maize since taking office without sparking widespread public protest. However, if all subsidies are to be eliminated, as planned, maize meal prices will have to double again by the end of this year. With the severe 1991/92 drought forcing Zambia to import high-price maize from overseas, the MMD government is seeking donor support for an extension of the subsidy elimination timetable.

Indeed, at the Donor Consultative Group meeting in Paris on March 23-4, the Zambian delegation sought western assistance that would allow it to continue to subsidise maize prices for the time being, while gradually phasing in the higher prices. This is made more urgent by the drought, which will force Zambia to import a minimum of 800,000 tonnes of maize over the next year. Because its traditional suppliers -- Zimbabwe and South Africa -- r. also victims of drought, Lusaka is having to buy maize from t. United States and Argentina at much higher prices.

Before the Paris meeting, Zambian officials had said they needed

at least 1.7 billion dollars both to finance the reform programme (1.4 billion dollars) and to pay for essential food imports (300 million dollars). They ended up 350 million dollars below target, but with donors promising sympathetic consideration to extra requests for emergency aid. The donors, however, warned that they were facing similar pleas for emergency drought relief from Zimbabwe, Malawi, Angola and Mozambique.

In addition to slashing subsidies, Chiluba has devalued the kwacha from last year's average rate of 60 to the dollar to 127 to the dollar. Fuel prices have also been raised and the government is committed to privatising state-owned enterprises, including its majority share in the copper giant, Zambia Consolidated Copper Mines (ZCCM), which accounts for upward of 90% of export revenues.

Economic performance in the final ten years of UNIP rule was poor. During the 1980s, GDP grew at less than 1% annually, while the population was growing at 3.7% a year. As a result, per capita GDP fell almost 3% a year. In the last three years the decline has accelerated; output is down almost 5%, while per capita income has fallen nearly 10%.

Real wages today are no more than a third of what they were in 1980, while formal sector employment has fallen from roughly a quarter of the population in 1980 to less than a tenth last year. The public sector deficit exceeded 11% of GDP in 1991, while annual inflation has averaged 100% over the past three years.

Chiluba realised from the outset that he had no alternative but to patch up relations with the donor community -- which he has done successfully -- and to take the most unpopular measures while he can still blame Kaunda for the suffering caused.

When he took office, there were high hopes that this would only be a temporary prelude to a resumption of growth. A policy framework paper, drawn up with the IMF and World Bank, projected a return to economic growth this year, with output rising to 2%.

However, since this forecast was made, the full significance of the drought has become evident, and the likelihood now is that 1992 will be the fourth successive year of economic contraction. Growth will also be hampered by the low world copper price (see OADB, January 7, 1992, III), and low copper export volumes due to the transport bottlenecks created by giving priority to food imports.

S' 'larly, the policy framework paper expected the economy to g faster than population next year, with output rising by 4%. This too looks over-optimistic. The impetus would have to come from agriculture, manufacturing and tourism, since no mining

recovery is forecast.

In foreign affairs, Chiluba has reversed Kaunda's hostile stance towards South Africa. Major South African mining groups -- Anglo-American Corporation and Gencor -- have had talks with the government about rehabilitating the copper industry; Zambia is also interested in bringing in foreign partners in mining through its privatisation programme. South Africa and Zambia have now established formal trade links, opening trade missions in each country, and the Johannesburg-based Murray and Roberts industrial and construction group has signed an agreement with the government to help refurbish infrastructure and build houses. Investec Merchant Bank of South Africa has been hired to advise on financial matters including aspects of privatisation.

CONCLUSION: Faced with drought and depressed mining conditions, the government must depend heavily on donor support if it is to weather its first two years in office without an upsurge in political unrest.

Keywords: AF, Zambia, South Africa, IMF-World Bank, politics, economy, industry, government, policy, aid, debt, natural disasters, agriculture, mining

8487

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

LEWIS T. PRESTON
President

94 JAN 11 PM 5:16

January 7, 1994

Mr. Edward V.K. Jaycox

Re: **Zambia Country Strategy Paper**

The Bank assistance strategy proposed for Zambia is a high-case one, responsive to Zambia's exceptional needs if accompanied by continued good performance. It is accepted. The proposed high levels of Bank assistance must be accompanied by continued strong support from the donor community. Any form of IBRD debt write-off is out of the question. However, bilateral assistance to help Zambia pre-pay IBRD debt is welcome.

Given the high levels of IDA lending and Zambia's limited track record, the program should be closely monitored and reviewed regularly. If the agreed policy measures do not produce the expected supply response and improvement in living conditions of the poor, the program should be revised accordingly.

Lewis T. Preston

cc: Messrs. Karaosmanoglu, Bruno, Choksi, Eccles, Jaycox, Kashiwaya, Linn, Rischard, Serageldin, Shihata, Lindbaek, Iida, McHugh, Denning

Sandstrom, Stern, Husain, Kaji, Koch-Weser, Thalwitz, Wood

Mesdames. Fox, Kalantzopoulos

M. Bruno's Notes

Jan. 7, 94

Zambia

Vice Chairman Gap of $100 Mark another meeting

Concern about Governance & drug trafficking

Fiscal deficit negotiations

News on (6)

S/A project to increase to 17%. by 2000

More work remains during G

Experts mind stickers

drug Kingpin Syndrome threatened (6% Non Violent Rapists)

(DA Rebel no).

20% of drop assistance.

They agree it is a high case scenario

not base, pessimistic or normal

use of cuts "off" projections

Note about Paris Club Consensus

If more banks do can give less

The Maurice Falk Institute
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מכון פאלק למחקר כלכלי
בנין פרץ נפתלי, הר-הצופים
ירושלים 91 905

How serious?

today

Excess with det. - possibly removed

Price controls removed last year / down

Inflation is higher - for 3m/. / down to 2% - October -ve

Institutional weakness PE's social sectors

Fund projects in place - their benchmarks act as signals

Adjustment programs

Triggers - follow the Fund -

As actual etc, they are integrated &

they will carefully follow & monitor.

Employment a fund issue.

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8961

cc. M. Bruno

To M Bruno Law

94 JAN -6 AM 10:00

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Office of the President

January 5, 1994

To: Distribution

Attached for your information are the Issues for Discussion for the Zambia Country Strategy Paper. The review meeting will be held on Friday, January 7, 1994 at 11:00 a.m. in the Conference Room E-1227.

M. Louise Fox

Louise Fox

Attachment

Messrs. Preston, Karaosmanoglu, Sandstrom, Stern, Bruno, Choksi, Eccles, Jaycox, Kashiwaya, Linn, Rischard, Serageldin, Shihata, Lindbaek, Iida, McHugh, Denning

cc: Messrs. Husain, Kaji, Koch-Weser, Thalwitz, Wood
Ms. Kalantzopoulos

PRESIDENT'S REVIEW MEETING - JANUARY 7, 1994
ZAMBIA - COUNTRY STRATEGY PAPER

Issues for Discussion

The CSP clearly documents the legacy of past borrowing combined with poor policies that now constrains the Zambian economy. In response, a level of IDA assistance is proposed which, on a per capita basis, is among the highest in Africa and is expected to reflect a performance rating at the top of IDA countries worldwide.

A. Zambia's prospects

1. As the CSP notes, only a strong effort from the Zambians, combined with a high level of external support, can restore sustained growth and thus reduce poverty. However, the CSP projections show modest results to be expected from the Zambian efforts. By 1996, domestic savings would only reach 10 percent of GDP, exports are only expected to grow at 2 percent per annum in real terms, and little diversification would take place. The Region might wish to comment on whether deeper structural reforms should be expected from the Zambians in order to generate a stronger supply response, a better domestic savings performance and higher export earnings, thus reducing the dependence on donor support.

2. Although a weak prospect, the Region might wish to comment on what should be done if copper prices start picking up.

B. The level of Bank assistance

Exceptional efforts for Zambia could be justified by exceptional performance. The CSP states (para. 64) that the proposed lending scenario is predicated upon three conditions: continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. A follow-up note from the Region clarifies that achievement of the first two conditions, and the results achieved, will be assessed prior to proceeding with each adjustment credit.

3. The Region might wish to be more specific with respect to the performance benchmarks which will be employed to evaluate Zambia's progress and justify the high levels of IDA assistance proposed, including: inflation and fiscal performance, public sector efficiency (e.g. privatization/liquidation of the parastatal sector), improvements in the performance of the agricultural and mining sectors, and improvements in social sector service delivery. For example, in the mining sector, would we be satisfied with the setting up of a cabinet process, or would we expect more tangible results in terms of production efficiency and investment? How will we know that adequate efforts have been taken to privatize state lands?

4. The Region might wish to clarify what is envisaged under the possible IBRD debt "write-off" discussed in Annex C, para. 7.

C. The donor response

5. In addition to requiring strong efforts from Zambia, the Bank needs to insure that the overall external financing requirements are appropriately shared. The CSP proposes that IDA finance 35-40 percent of the total requirements (25-30 percent including rescheduling). The Region might wish to brief the meeting on the views of Paris Club governments with respect to major action to alleviate Zambia's debt service burden, and to confirm that under the proposed strategy, the repurchase obligations to the Fund will be met.

6. Some donors have conditioned their response on an adequate response to governance issues, demonstrated by changes in attitude which result in sustained measures. Is the financing strategy threatened by this condition, or can the measures listed in para. 6 be expected to satisfy the donors?

D. Elements of the assistance strategy

7. The last adjustment effort failed on account of an inability to implement agreed changes in food price and subsidy policy. Does this suggest that more emphasis on nutrition in the Bank's health and agricultural operations might be warranted, including support for targeted interventions through health posts? In general, is the Region satisfied that the assistance program pays adequate attention to the employment and income prospects of the poor in the medium term?

cc: MB

THE WORLD BANK
RESOURCE MOBILIZATION DEPARTMENT
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
FRMRP 432/20

FACSIMILE TRANSMITTAL FORM

FAX NO.: 202 477-0861
PHONE NO: 202 458-0565

NO. OF PAGES: 3
(including this page)

DATE: January 5, 1994

TO: Mr. Michael Lav, DPG

FAX NO.: 71569

FROM: Kathryn Larrecq, FRMRO

SUBJECT: **Zambia CSP**

Thanks for the copy of your memo to EXC. Ours is attached here.

Kitty

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 5, 1994

TO: Mr. Attila Karaosmanoglu, EXC

FROM: Mieko Nishimizu, Acting Vice President, FPR

EXTENSION: 80600

SUBJECT: Zambia CSP: President's Review

We would propose the following issues for the agenda for the President's Review.

1. Country Performance

The CSP proposes a single case scenario built around a lending program averaging US$ 160 million p.a FY94-98. Of this, 60 percent would be in quick-disbursing form. The paper thus proposes a continuation of lending at exceptional levels, though moderately below the FY92-93 average of US$ 200 million p.a.

For the FY95-97 period, proposed lending is 23 percent above the allocation agreed in the recent LAR (SDR 269 million, or US$ 14.2 per capita p.a.), which reflects a 1993 performance rating of 3.1. The proposed, higher allocation amounts to US$ 18.6 p.c. p.a., which implies a performance rating for Zambia of "4", the top rating among IDA countries worldwide. In Africa, the nearest comparator would be Ghana, with a performance rating of 3.7, for which the FY95-97 allocation amounts to US$16.0 p.c. p.a.

The CSP states (para. 64) that the proposed lending scenario would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance.

- What performace benchmarks in each of these three areas could be employed to justify the levels of lending proposed?

We believe that exceptional efforts for Zambia, including incremental lending to "ratchet up" donor financing, could in principle be acceptable, providing (a) that overall external financing requirements, notably those arising from Zambia's severe debt overhang, are appropriately shared, and (b) that the lending program adequately supports investment in growth and poverty reduction (items 2 and 3 below).

2. External Financing Requirements

Burdensharing. In addition to implying strong country performance, the exceptional levels of lending, and the exceptional share of that in quick-disbursing form as proposed in the CSP, could be warranted only as part of an equitable burden sharing package among all donors concerned. The CSP indicates that IDA's share of Zambia's external financing requirements would amount to 35-45 percent of the total over the five-year period (para. 58). This high share in fact represents a moderate increase in the share met by IDA

since the onset of the program in 1991. The CSP does not indicate, however, the conditions under which the Bank would be prepared to meet such a share.

- An exceptional level of support such as that proposed should be made contingent upon commensurate action by all other donors in the context of a broadly agreed financing strategy.

Debt Strategy. The key component of such a financing arrangement will inevitably be a strategy for reducing Zambia's debt burden. A commercial debt buyback is already under preparation with proposed support from IDA's Debt Reduction Facility. In addition, serious consideration will need to be given over the next 12 months to a longer term debt strategy in anticipation of the expiration of both the current Paris Club agreement and the IMF's Rights Accumulation Program.

- Can the Region confirm its intention to pursue with the Government and donors a financing strategy which will include major action to alleviate debt service owed to Paris Club governments as well as to facilitate Zambia's meeting its repurchase obligations to the Fund?

It is further noted that, while we agree that a durable solution to the debt problem must be high on the development agenda for Zambia, the approaches proposed in the paper have implications beyond just the Zambia case. Some of the suggestions which have been made could in fact be counterproductive. We believe in particular that IBRD debt is not a significant part of the debt problem of Zambia. Under no circumstances, moreover, can a "write-off" of IBRD debt be envisaged, contrary to Annex C, para. 7. Similarly, the paper is not the right vehicle to propose changes in IMF policy.

3. Growth and Poverty Reduction Strategy

The CSP recognizes that achieving targeted growth, savings and investment and simultaneously addressing Zambia's pervasive poverty will be difficult.

- How well does the size and composition of proposed IDA project lending fit Zambia's public investment priorities?

- How would operations envisaged address identified constraints to growth, including institutuional constraints, particularly in the key sector of agriculture?

- Which of the operations proposed are envisaged as being specifically targetted to the employment and income prospects of the poor in the medium term?

cc: Mr. Linn (o/r), Ms. Donovan, Fox, Kalantzopoulos, Yap, Larrecq

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: January 4, 1994

TO: Ms. Louise Fox

FROM: Mark Baird

EXTENSION: 33666

SUBJECT: ZAMBIA - Country Strategy Paper President's Review Meeting
Proposed Agenda Items

1. The CSP raises important short and medium term issues. In the short run, assuming the policy program stays on track, the key issue is the external financing program. The CSP argues for continued high levels of IDA balance of payments support. The risks are contained by making effectiveness of the ESAC conditional on closing the financing gap. But is the proposed burden sharing appropriate? We would have liked to have seen a much more explicit presentation of the short-term financing plan in terms of Zambia's proposed contribution, as well as the contributions of IDA, the Fund and bilateral donors (including debt relief). The CSP also argues that any "unexpected developments" would have to be offset by "increased assistance from all parties". Is there nothing more that Zambia should do under these conditions?

2. Concerning the medium term, the CSP proposes only one scenario, termed the base case. However, concerning IDA allocations, the CSP scenario is actually a high case scenario. By contrast, the CSP projects economic performance concerning domestic savings, exports, and debt management along the lines of what would best be described as a base case scenario. It would have made more sense to present two scenarios. First, a base case scenario, with a lower IDA allocation which could be justified by the kind of performance and projections now contained in the CSP. Second, a case based on improved performance, better than that now projected in the CSP which could be commensurate with the lending program now proposed in the CSP. This improved performance would generate more resources with higher domestic savings, better debt management, and export diversification (see below). The high IDA allocation and an improved resource position associated with this second case could in turn support a higher rate of investment than now projected. If a base case and a high case scenario were developed along the lines suggested, then it would also be appropriate to identify triggers to guide the Bank as to whether it would be appropriate to move to the high level of IDA lending as now proposed in the CSP.

3. Domestic Savings and the Financing Envelope. The CSP proposes only a base case which requires high levels of IDA commitments, described as a minimum in view of Zambia's high debt service and the import requirements to support copper production which leave only a minimal amount to support the adjustment program. Given donor limits and the needs of the adjustment program, the total financing envelope is importantly constrained by domestic savings. Domestic savings are now quite low, having declined from about 19% of GDP in 1980 to 15% in 1990 and to only 6% in 1992. Domestic savings are projected to recover only very slowly to 10% of GDP in 1996, and reach 17% of GDP only by the year 2000. While some variation in domestic savings would be expected on account of the GDP declines since 1989, the CSP

projects these to be more than fully offset by 1994. With GDP at about US$3.5 billion, a recovery of domestic savings rates (accompanying the actual and projected recovery in GDP) would imply about US$450-500 million annually in additional resources for the financing envelope. With the decontrol of interest rates already achieved, and the financial sector component of the operational work programs for FY94 and FY95, could not Zambia achieve a more rapid recovery of savings and thereby alleviate the financing constraints somewhat?

4. Debt Management. Zambia is in a difficult position regarding debt. However, have all the possibilities regarding debt management been fully explored? Debt service due to the Paris Club creditors is projected to increase from US$62 million in 1994 to US$140 million in 1995 (the year in which the current agreement expires), and to remain at that level or higher levels until the year 2002. However, Zambia's agreement with the Paris Club includes a commitment by the Paris Club to meet with the Zambian authorities in 1995 to discuss a new agreement, provided only that Zambia maintains good relations with the creditors and has an appropriate arrangement with the IMF. In these circumstances, it would be extraordinary for Zambia not to receive a new agreement, with the expectation in view of recent discussions at the Paris Club that the new arrangement would be at least as beneficial to Zambia as the existing agreement. Would further work on debt management be appropriate so that reasonable possibilities are fully incorporated in the projections and to ensure that in the future all possible relief is obtained ?

5. Exports. Exports are projected to grow at only 2% per annum in constant prices until the year 2000. Further, no export diversification appears to be projected, so that exports comprise solely copper, zinc, and cobalt. With so much agricultural potential (the CSP notes that over 1 million hectares of arable land is unutilized), the liberalization of the economic framework, and several adjustment operations programmed for agriculture, would it not be reasonable to expect at least some export diversification?

cc: Messrs. Karaosmanoglu, Bruno, Lav, Ms. Kalantzopoulos

→ Mark Baird

FYI 1/4

Mike

Midday News Service

formally applied for NATO membership for the Baltic state. It is the first request by a former Soviet Republic to join the North Atlantic Treaty Organization.

NEW DELHI: The number of AIDS cases in India doubled in 1993, according to the government-run National AIDS Control Organization. According to the organization, India had 522 AIDS cases in 1993, spread across the country's 19 states and central-government-ruled territories. Experts have said India could be one of the countries to face a large-scale AIDS problem in the years to come.

LUSAKA: Vernon Mwaanga, Zambia's foreign minister resigned today, throwing the spotlight on corruption at high levels and President Frederick Chiluba's lack of control over officials. Mwaanga said he was resigning to give the government time to investigate allegations of drug dealing by cabinet members.

ROME: Jacques Diouf of Senegal offically took over today as director-general of the Rome-based Food and Agriculture Organization, succeeding Edouard Saouma.

Sent

THE WORLD BANK
DEVELOPMENT POLICY GROUP
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
DPG 626/05 - S9055

FACSIMILE TRANSMITTAL FORM

FAX NO.: 202 477-1569
PHONE NO: 202 473-5100

NO. OF PAGES: 3
(including this page)

DATE: January 4, 1994

TO: Ms. Kathryn Larrecq

FAX NO.: 70861

FROM: Mike Lav

SUBJECT: Zambia - CSP

Further to our conversation on Zambia, this may be of interest.

Attachment

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

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FROM: Mark Baird

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cc: Messrs. Karaosmanoglu, Bruno, Lav, Ms. Kalantzopoulos

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

8454 cc: MLav

M. Baird

DATE: January 4, 1994

TO: Mr. Attila Karaosmanoglu, Managing Director

FROM: David Cook, Acting Director, AF6 D Cook.

94 JAN -5 AM 11:25

EXTENSION: 3-3321

SUBJECT: ZAMBIA - Clarification on Adjustment Lending

1. In response to your request, this note clarifies the policy accomplishments or "triggers" that we anticipate would be required for going ahead with the next three adjustment operations for Zambia. Questions have also been raised about burden sharing in filling the external financing gap, and a table with additional information on that subject is also attached.

2. The amounts and frequency of adjustment lending depend on many factors, most importantly the need of the country for balance of payments assistance and the expected contribution of the policy reforms to be supported to the attainment of sustainable development.

3. In Zambia's case, the need for balance of payments assistance, even with continued import compression and export promotion, will be considerable, largely because of the high level of external debt. The policy agenda is also considerable, despite the extraordinary policy achievements of recent years, because the policy environment was so bad to start with and because several of the policy areas -- notably increasing public sector capacity and eliciting a strong investment response from the private sector -- inevitably take several years to accomplish.

4. For those reasons, we are proposing a lending program with an adjustment operation in each year. This will enable us to retain an active and highly leveraged voice in the policy development process and in the Consultative Group. Management of the operations will be rotated between the Country Operations and Industry and Energy Divisions.

5. Our decision on proceeding with each adjustment credit will be based on an overall evaluation of the adherence to the policy agenda, the successful implementation of these policies, and an assessment of the results achieved. The exact policy reforms chosen as conditions for these operations will depend on our judgment at the time of the most pressing policy concerns. We will try to ensure that the specific conditions chosen are:

i) important and effective in contributing to sustainable development;

ii) achievable by the government; and

iii) monitorable by the Bank.

6. In all adjustment operations, attention will be given to maintaining a stable and appropriate macroeconomic environment, especially a low level of inflation and market determined prices and exchange rates. There will also be attention to follow-up actions in areas supported by

previous operations, particularly those areas that are critical for eliciting a strong supply response including deregulation of the business environment, privatization and parastatal reform and export development.

7. For the FY94 adjustment credit, the primary requirements have been lowering the rate of inflation, maintaining market-based pricing, improving the 1994 budget allocations to social services, beginning the decentralization of social service delivery, and beginning the process of developing a market for state land. The primary objectives of the operation are to consolidate progress in reducing inflation, reduce bottlenecks to agricultural expansion and export production, and improve delivery of vital social services. These should improve the climate for private sector expansion while providing an immediate and visible improvement in living standards for most Zambians. The social service improvements will also begin the longer-term process of increasing investment in human capital.

8. The FY95 adjustment credit will focus on mining and the financial sector. The "triggers" for proceeding with this operation -- in addition to the general requirement of holding to the reform program -- will be the improvement in the business climate (through stabilizing prices, reduced government interference, and a more efficient public sector), establishing the beginning of a stock market, and setting up a cabinet level process for making the big decisions on bringing private capital and management into the mining sector. The primary objective of the reforms to be supported by the credit will be to accelerate the growth in private investment, with special attention to the mining sector. A critical indication of success will be the establishment of new copper mining ventures with primary reliance on new private capital.

9. The FY96 adjustment credit will put increasing emphasis on increasing employment growth. Going ahead with this operation will depend particularly on the successful implementation of the reforms supported by the previous operations, particularly those involving privatization, social service improvements, and facilitating private sector investment. The particular reforms to be supported in the labor market area are not as well defined as in the other areas because the main pieces of ESW are just underway. The concerns are clear, however, as the process of labor shedding in the public and parastatal sectors will generate even more unemployment against a background of already high levels of un- and under- employment. Some of Zambia's economic regulations are designed for a highly unionized system with clear and substantial barriers between the formal and informal sectors. These regulations and institutions may be a deterrent to private sector employment growth in the new private sector oriented environment. (For example, requirements for industry wide bargaining may discourage new entrants.) The focus of this operation will be on making the best use possible of Zambia's human resources in moving to a widely-shared and sustainable economic development. Special attention will also be given to ensuring that new entry is facilitated for small scale businesses and for new entrepreneurs in general, including women.

Attachment

cc: Messrs.\Mmes. Preston, McHugh, Sandstrom, Stern, Kalantzopoulos, Fox (EXC); Bruno (DECVP); Choksi (HROVP); Eccles (CTRVP); Kashiwaya (CFSVP); Linn (FPRVP); Rischard (FPDVP); Serageldin (ESDVP); Shihata (LEGVP); Lindbaek (CEXVP); Iida (MIGEX); Husain (LACVP); Kaji (EAPVP); Thalwitz (ECAVP); Wood (SASVP); Jaycox (AFRVP); Koch-Weser (MNAVP); Litvak (OPRPR); Denning (AF6DR)

Africa Information Service Center; Institutional Information Service Center

DCook\gbj

ATTACHMENT

ZAMBIA: EXTERNAL FINANCING PLAN
(US$ MILLION)

	1993	1994	1995	1996
Uses of Funds	1015	1174	1039	946
Non-interest Current Account Deficit	264	507	484	501
Debt Service	652	617	525	415
Bank	82	78	57	57
Fund	68	65	43	31
Other Multilateral	63	68	55	53
Other	439	406	369	274
of which:				
Paris Club	336	297	292	202
Changes in Reserves	-20	-30	-30	-30
Other Capital Items	79	20		
Sources of Funds	1015	1174	1039	946
Rescheduling	305	275	152	62
of which:				
Paris Club	247	235	152	62
Other	58	40	0	0
DFI	7	15	40	131
Financial Assistance	703	884	847	753
Projects	234	300	290	330
Bank	22	28	37	41
Other	212	272	253	289
Bank BOP	202	225	140	115
Other BOP 1/	267	359	417	308
Fund	0	0	0	0
Gap	0	0	0	0

1/ For 1993 it includes -40 millions of US$ in short term.

-68 -65 -43 -31
142 175 120 99
282 432 398 270

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

8454 cc: MLou

M. Baird

DATE: January 4, 1994

TO: Mr. Attila Karaosmanoglu, Managing Director

FROM: David Cook, Acting Director, AF6 D Cook

EXTENSION: 3-3321

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Other	58	40	0	0
DFI	7	15	40	131
Financial Assistance	703	884	847	753
Projects	234	300	290	330
Bank	22	28	37	41
Other	212	272	253	289
Bank BOP	202	225	140	115
Other BOP 1/	267	359	417	308
Fund	0	0	0	0
Gap	0	0	0	0

1/ For 1993 it includes -40 millions of US$ in short term.

net

Fund:	-68	~~-43~~ -65	~~-43~~	-31
Bank	142	175	120	99
other donors	224	432	340	385
Zambia	-264	-507	-484	-501

please file
Zambia
CSP

THE WORLD BANK
RESOURCE MOBILIZATION DEPARTMENT
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
FRMRP 432/20

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(including this page)

DATE: January 3, 1994

TO: Mr. Michael Lav, DECVP

FAX NO.: 71569

FROM: Kathryn Larrecq, FRMRO

SUBJECT: **Zambia CSP**

See attached, as discussed, our comments in the November version.

Kitty

A L L - I N - 1 N O T E

DATE: 22-Nov-1993 08:25am

TO: Stephen Denning (STEPHEN DENNING)

FROM: Paula Donovan, FRMDR (PAULA DONOVAN)

EXT.: 32390

SUBJECT: ZAMBIA - CSP

Steve,
Thankyou for the note on Zambia. The note is helpful in spelling out the financing and burdensharing issues immediately ahead for 1994, and certainly helps explain why the energy of the group is at present heavily focussed on the short term. I think the request for an early CSP -- given the short term uncertainties and preoccupations poses a dilemma for both you and for us.

The 'normal' focus of a CSP on the medium/longer term, with emphasis on development strategy, growth prospects and resource needs/sources would lead to a proposed IDA allocation, with justification. We understand the difficulties in the Zambia case, but our dilemma remains, on what basis can we agree to what is really an exceptionally high level of continued IDA suuport (and its proposed composition) based on the documentation which we have seen so far. Two main concerns emerge:

First, the size of the gap and how its financing is shared from 1995 onwards, i.e. the continued implications of the issues identified in the note.

Our main questions here are whether donors are doing -- and will do -- their share, and whether IDA is acting as a catalyst among them, as opposed to just filling the gap (i.e., whatever gap emerges as developments unfold).

Our second concern is for a growth strategy.

For an exceptional level of adjustment lending to Zambia as in the past and as proposed, we would expect to see an exceptional effort to exploit the country's growth potential.

We have no quarrel in principle with the idea of making exceptional efforts for Zambia, including incremental lending to "ratchet up" donor financing to meet the gap (i.e., IDA lending above the norm or previously approved levels), providing that this is somehow persuasively justified. Part of the justification would have to be that (1) gap financing is 'equitably' shared and (2) the lending program supports investment in growth and poverty reduction.

While we are eager to see this case made, we did not insist that

It be done by what may be an impossible deadline for you. We would find it useful to build the findings of the forthcoming CG and the ongoing mission into the CSP since the CSP covers 95 and beyond. This would help give a 'reality check' to the strategy so that it builds on, rather than preempts, the CG (since a shared strategy (as well as burden) is at the heart of this special CSP case).

Alternatively, if you believe that an agreed CSP within the BAnk, is important before the CG, then at least it should have more than one scenario.

Donors should understand what a 'normal' allocation for Zambia would look like. Tactically -- as well as practically, this would seem to be a sensible base case.
The high case scenario could specify the exceptional criteria which would trigger 'your' high case.

If exceptionally high IDA allocations are being requested, the CSP is exactly the right place to make the case. We only need to establish some fairly clear criteria that distinguish this case from other 'deserving' situations, without leaving the potential requirements completely open ended. The essence of our comments on the draft CSP so far is that this exceptional case is not made yet.

Hope these comments are helpful. Please let us know your next steps and how we can help.
All the best,
paula

CC: Kathryn Larrecq (KATHRYN LARRECQ)
CC: Lorene Yap (LORENE YAP)

e c M Law

003
H. Baird

93 DEC 29 AM 9:45

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: December 28, 1993 03:42pm

TO: See Distribution Below

FROM: Louise Fox, EXC (LOUISE FOX)

EXT.: 32462

SUBJECT: Zambia: Country Strategy Paper - President's Review Meeting

Mr. Preston will chair a meeting to review the Zambia Country Strategy Paper on Friday, January 7, 1994 at 10:45 a.m. in Conference Room E1227. Please send comments, if any, to Mr. Karaosmanoglu by cob Tuesday, January 4, 1994.

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

8430
→ M. Baird

DATE: December 22, 1993

TO: Mr. Attila Karaosmanoglu, Managing Director

THROUGH: Mr. Edward V.K. Jaycox, Vice President, Africa Region

FROM: Roger Grawe, Acting Director, Southern Africa Department

22/12

EXTENSION: 3-4049

SUBJECT: ZAMBIA - Country Strategy Paper

1. Attached is the revised Country Strategy Paper (CSP) for Zambia. This CSP reflects the positive outcome of the Consultative Group Meeting for Zambia held in Paris December 8-10, 1993. It also includes additional material on external debt, downside scenarios and the medium-term outlook. At the CG meeting, donors renewed their commitment to finance the program contingent on Zambia's fulfilling its own commitments made at the meeting to take concrete action early in 1994 in the areas of governance, corruption, and drug trafficking.

2. We would like to discuss this CSP with the President during the week of January 3, 1994, so that we can move on to formal negotiation of the next adjustment credit ("ESAC") appraisal of which was completed prior to the CG. ESAC documentation and an accompanying Policy Framework Paper (PFP) would then be distributed to the Board in late January. Following the precedent set in 1992, we would condition the effectiveness of ESAC on closing the external financing gap for 1994. Donors at the recent CG meeting agreed to reconvene in March 1994 to consider closing the $100 million external financing gap, subject to satisfactory progress on the Government undertakings noted above.

Distribution:

Messrs\Mmes — Stern, Sandstrom, Kalantzopoulos, Fox (EXC); Wood (SASVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Kashiwaya (CFSVP); Bruno (DECVP); Choksi (HROVP) Rischard (FPDVP); Serageldin (ESDVP); Linn (FPRVP) Shihata (LEGVP); Einhorn (TREVP); Eccles (CTRVP) Picciotto (DGO); Messenger (PAAVP); Thahane (SECGE) Ryrie (CEXVP); Mante (CAFDR); Husain (AFRCE) Pulgar-Vidal (AFRSA); Muhsin (AFRCA); Cleaver (AFTDR)

cc: Messrs\Mmes — Denning, Tidrick, Edstrom (AF6DR); Patel, Kisa, Todd (AF6CO) Helman (AF6AE); Cook (AF6IE); Pomerantz (AF6IN)

Zambia Country Team; Africa Information Center

RWGrawe\JJKisa\gbj

8447
To MR. Baird

THE WORLD BANK/IFC

ROUTING SLIP					DATE: December 30, 1993
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RE: Zambia - Country Strategy Paper

REMARKS:

Attached please find a new copy of the Zambia CSP. We have just found out that the Copy Center inadvertently omitted Page 1 of the report in the printing process.

With our apologies, please kindly substitute this for your previous copy of the report.

Many thanks.

FROM: Lema Merid, AF6CO	ROOM NO.: J11-086	EXT.: 34796

P-1862

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COUNTRY STRATEGY PAPER

ZAMBIA

DECEMBER 22, 1993

AFRICA REGION
SOUTHERN AFRICA DEPARTMENT

COUNTRY STRATEGY PAPER

ZAMBIA

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EXECUTIVE SUMMARY

Background

1. Zambia after Independence was one of the more prosperous countries in Africa, but a combination of deteriorating copper prices, an unwillingness to adjust, and excessive public sector dominance resulted in a decline of nearly 50% in per capita incomes and left Zambia with an inappropriate economic structure and a very high level of external debt. Various reform efforts were attempted in the 1980s. The last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985 during one of these reform cycles, but the effort was abandoned as Zambia abruptly changed course early in 1987. Policy dialogue resumed in 1989, culminating in an IDA adjustment credit of US$210 million in March 1991. Disbursements were suspended again in September 1991 after a policy impasse over maize subsidies resulted in cessation of donor support and accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed in February 1992.

2. **Zambia has accomplished an extraordinary turnaround in economic policy since then. It has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates have been decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10% of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Stabilization policy was initially far less successful than structural reform, but inflation has declined from an annual rate of 300% in the first half of 1993 to just over 20% in the second half. This is an exceptional record, particularly considering the Government's limited implementation capacity and the distractions of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993.** Much remains to be done, but the Government has shown itself to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services.

3. Government's commitment to adjustment is paralleled by dramatic progress in developing new approaches to investment lending. In agriculture, the Agriculture Sector Investment Project (ASIP) represents a new approach to the channelling of development assistance which, if successful, is likely to spread quickly in Africa. In the ASIP approach, the entire sector investment program is "the project"; it is prepared entirely by Zambians and supported by all the donors. Procurement, accounting, auditing, and reporting procedures will be standardized and accepted by all the donors. In health and education, Zambia has already made impressive steps to decentralize the management of service delivery and the accountability for public funds. Government officials have transformed the research and extension services for livestock and agriculture from one of the worst to one of the most promising on the continent. Finally, Zambia is making determined efforts to establish and maintain an effective system of client consultation. Under the system, potential beneficiaries from development

activities are consulted, their views are taken into account in developing the activity, their participation in its planning and execution are sought, and their evaluation of the results of that activity is used as feed-back into the design of future projects and programs. These initiatives reflect the understanding and commitment of the new Government to the principles of a liberalized economy to foster private sector growth and a revitalized public sector aimed at providing services and not employment.

4. Despite significant improvements in the policy environment (and demonstration of political will to maintain the reform program), Zambia faces two major difficulties in both the short and medium run. First, in light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and the recent drop in copper prices. Maintaining this level of donor support over the medium run will require the Bank to maintain a very large program of assistance and to play a critical role in donor coordination. Donors still show strong support for the Zambian program. Although they have expressed concerns about governance in recent months, which the Government will need to address, they demonstrated their continued strong support for the program at the recent CG meeting by pledging external assistance to Zambia in 1994 amounting to US$1.1 billion compared with a requirement of US$1.2 billion. (The total pledges include debt rescheduling, project and commodity assistance, and balance of payments support.) These pledges left a financing gap of US$100 million that is to be addressed in a follow-up donor meeting scheduled for March 1994.

5. Second, given the tightness of the resource constraints and the need to show concrete results soon, the ability of the Government politically to stick to the reform program might be difficult. The new Government won nearly 80% of the vote in 1991, largely on the strength of opposition to the failed policies of, and general lack of confidence in, the Kaunda Government. The next general election is not required until 1996, but in the meantime there will likely be more changing of parties and by-elections. The new Government continues to have considerable support, but there is growing discontent over the continuing economic stagnation, reports of corruption, and the limited improvements in public services.

6. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5% a year through higher productivity and increased investment. **The basic prerequisite for reaching this goal is continued balance of payments support by the international donor community both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are macroeconomic stability, political stability, human resources development, public service reform, private sector development, infrastructure development, and sound environmental policies.**

Bank Assistance Strategy

7. The goal of the Bank's assistance strategy for Zambia is to assist the Government in its strategy of achieving sustainable economic growth and reducing poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on

continued donor support. As is discussed more fully in Annex C, the 1990 arrears clearance deal provided for the bulk of the extra support in the form of exceptional levels of new balance of payments commitments, leaving Zambia's debt structure largely intact. As long as these arrangements prevail, there is no middle ground in Zambia. Even a modest shortfall in foreign assistance will drive the economy into debt service arrears, lead to a suspension of lending, and leave the reform program with little chance of success even if Government stays the course. **Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as the Zambian Government continues its adjustment program.** More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

Recommendation

8. Approval is sought for the lending program proposed in this CSP for the period FY94-98 of US$816 million for 18 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. In the outer years, the share of adjustment credits in total lending will decline. The level of lending proposed is 23% above the latest IDA allocation from the region. (For FY95-97, the proposed IDA allocation is $377 million compared to $463 million recommended in this CSP). To keep within the region's allocations would require a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. In addition, there remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, mining and financial sector restructuring which needs to be addressed through adjustment lending. Therefore, Bank adjustment lending should be scaled down gradually.

9. This lending scenario would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. It will also depend on future copper prices and the levels of support given by other donors. Copper prices are projected to continue to fall through 1995 and then to rebound sharply. Although this pattern was projected at the time of the 1990 deal, current projections are 6.7% (1995) to 7.8% (2000) below previous projections. If the price of copper collapses further, or fails to rebound as expected, and the resource gaps cannot be filled by other donors, we would be forced to suspend our operations should the Government be unable both to maintain the adjustment program and to service its Bank debt. Given the range of uncertainty around copper price projections, this is a serious possibility. Bank strategy under such adverse circumstances would require revisiting the underlying arrangement, especially with respect to Zambia's debt structure and the balance among new commitments, forgiveness, and restructuring. Annex C provides more details on handling the downside scenario. Given that the current Paris Club agreement ends in early 1995 and given that donors cannot be expected to provide such high levels of balance-of-payments support

indefinitely, longer-term issues of debt restructuring for Zambia will be examined in 1994 to seek creative solutions in the area of external debt in order to decrease the precariousness of Zambia's external financing prospects.

10. On the basis of our current strategy, macroeconomic performance would be measured against the benchmarks agreed with the IMF. The Zambia program is consistently applying beneficiary assessments to ensure the relevance of planned and ongoing project interventions to the poor. So far three assessments have been carried out. They have had immediate impacts on the design of ongoing projects (Social Recovery and Education Rehabilitation) and have helped shape the design of future operations as well as provided a base-line for impact monitoring (Health Sector, Second Social Recovery, Education Sector and Economic and Social Adjustment). In the structural reform area, the key expectations in defining good performance are that Zambia will continue to rely on markets for the setting of all prices including exchange and interest rates, accelerate the privatization program to be on course to divest most of the parastatal sector over the next four years, liberalize the market for state land, reorient the public sector to infrastructure and social services, increase the operating efficiency of remaining utilities, broaden and deepen capital markets, and move to an integrated sector approach for donor-funded investment projects. The impact of these structural reforms will be more difficult to measure, since progress only becomes perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements. Any shortfalls in these three areas would trigger reductions in lending in the area concerned, while keeping in mind that any substantial reduction in balance of payments assistance for any length of time could well result in a complete interruption due to the difficulties in meeting multilateral debt service payments.

ZAMBIA

COUNTRY STRATEGY PAPER

I. Introduction

1. Zambia after Independence was one of the more prosperous countries in Africa, but a combination of deteriorating copper prices, an unwillingness to adjust, and excessive public sector dominance resulted in a decline of nearly 50% in per capita incomes and left Zambia with an inappropriate economic structure and a very high level of external debt. Various reform efforts were attempted in the 1980s. The last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985 during one of these reform cycles, but the effort was abandoned as Zambia abruptly changed course early in 1987. After a two-year hiatus, a policy dialogue resumed in 1989, culminating in resumption of normal relations in March 1991, with the approval by the Bank's Board of Executive Directors of an IDA adjustment credit of US$210 million. The period of normalcy was short-lived, however, since disbursements had to be suspended again in September 1991 because a policy impasse at mid-year on maize subsidies resulted in accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed in February 1992.

2. Zambia has accomplished an extraordinary turnaround in economic policy in recent years. For all of the 1970s and most of the 1980s, the economy was characterized by excessive interference by Government and dominance of parastatal enterprises. The precipitous decline in copper revenue in the mid-1970s brought little in the way of structural adjustment. Instead, Government used up its international borrowing capacity in support of unsustainable levels of consumption and unproductive public sector investments. Profits were possible for certain favored producers, but generally there was little incentive for private sector investment, particularly for exports.

3. In just a few years, Zambia has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates have been decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10% of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Progress on inflation has been uneven, but the money supply has been well contained since June, and inflation has averaged below 2% per month since July. The box below summarizes the major accomplishments on Zambia's policy agenda.

4. This is an exceptional record, particularly considering the Government's limited implementation capacity and the distraction of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993. These have not been halfway measures enacted by a reluctant Government to gain donor support. Much remains to be done, but the Government has shown itself time and again to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services.

ZAMBIA: PROGRESS ON MAJOR POLICY ISSUES

Policy Objective	Fully Accomplished	In Process	Planned for Future
• Contain deficit and money supply	1993	1994-1995	
• Market-determined exchange rate	Since 91/92		End capital controls
Abolish export bans	1993		
Decontrol interest rates	December 1992		
• End maize subsidies	1992		
Limit funding to Zambia Airways		1994 plan under review	
Lower and compress tariff rates	Schedule agreed	On schedule	
Shift to VAT	Timetable	Technical work	Implement 1995
Develop market in state land	Policy agreed	Drafting legislation	Implement 1994
Cut civil service/rationalize pay		Downsizing	Restructure pay
Increase efficiency of civil service		Program launched in 1993	
• Reduce debt burden	First Paris Club	Buy-back	Next Paris Club
Streamline Customs and Tax		Revenue Authority in 1994	
• Private 150 of 160 parastatals		10 percent done	
Phase out ZIMCO's role	First restructuring	More needed	
Commercialize utilities	Higher prices	Operating efficiency	
Reform commercial legislation	Some passed	Most drafted	Implementation
Improve operating efficiency of ZCCM		SRI Study	
Privatize ZCCM	Option study	Consideration	Implementation
• Foreign capital in new mines		Consideration of options	
Restructure Zambia Railways		Plan adopted	Implementation
Integrated sector projects	Approach agreed	In health and agriculture	Other sectors
Improve funding for social services			1994 Budget
Decentralize service provision	Approach agreed	Health, Education, and Agriculture	
Implement population policy		Initiated late 1993	
• Highest Priority			

5. The Bank's role has been one of helping the Zambians to fashion the sequencing and particulars of these policies, coordinating international financial support, and providing IDA's share of the necessary resources. In light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require

exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and lower copper prices. (See Annex C for more details on the evolution of this strategy.) The Bank has played an active role in assisting the Government to mobilize the necessary external support. To this end, the Bank has supported Zambia's efforts to obtain concessional assistance and debt relief from its creditors and increased its own annual lending, with policy-based lending accounting for a sizable share of total lending.

6. Donor support for the Zambian program remains strong. This was amply demonstrated at the recent Consultative Group meeting held in Paris December 9-10, 1993. The financing requirement of the program in 1994 was estimated to be US$1.2 billion. Pledges at the meeting (including rescheduling previously agreed) amounted to US$1.1 billion, leaving a financing gap of US$100 million. This support by the donors was encouraging, especially in view of the concerns they had expressed over governance issues in Zambia. The Government responded to these concerns by reporting that it was taking strong measures to deal with these problems. These include the Government's intention to submit to Parliament an Ethics Act and amendments to the Corrupt Practices Act, investigation by the Anti-Corruption Commission of cases of misuse of donor funds and provision of the results to the donors concerned, establishment of a Human Rights Commission in May 1993, establishment of private broadcasting stations to enhance the freedom of the press, appointment of a Constitutional Review Commission, and reform of the electoral laws to achieve universal adult suffrage. Several major donors (including the UK and US) explicitly conditioned their continued assistance in 1994 on the resolution of these governance concerns, but they were encouraged by the Zambian delegation's strong assurance of swift action in this area and agreed to meet again in March/April 1994 to discuss how the remaining gap could be closed. The economic program continued to receive high marks.

7. Despite significant improvements in the policy environment (and frequent demonstrations of political will to maintain the reform program), Zambia faces two major difficulties in both the short- and medium-term. First, given Zambia's debt burden, any growth or even the maintenance of economic activity requires very large inflows of foreign aid. The balance of payments position, even under the most optimistic scenarios, is expected to remain tight because under the generous Paris Club rescheduling, Zambia will continue to transfer between 10% and 15% of its domestic production abroad as debt service for the remainder of this decade and beyond. Maintaining a level of donor support over the medium-term that will allow Zambia to make these payments and still achieve modest economic growth will require the Bank to maintain a very large program of assistance and play a critical role in donor coordination. Second, the tightness of the resource constraints and the political demands for improvements in living standards, will challenge the ability of the Government politically to stick to the reform program. The new Government won nearly 80% of the vote in 1991, but largely on the strength of the opposition to the failed policies of, and general lack of confidence in, the Kaunda Government. (The average real income in Zambia had dropped by more than a third since the mid-1970s.) A result of this impressive majority has been the diversity of its membership which covers a wide variety of interests, including businessmen, trade unionists, small-scale and large-scale farmers, students, bureaucrats, and the unemployed. This diversity is a source of strength, but it can also lead to splintering of the coalition. A small but powerful faction left MMD in August 1993 (including several ex-Ministers) and formed an opposition party that will likely replace UNIP as the major opposition party. Their complaints were largely about corruption. In the by-elections of November 11, 1993, the new

opposition party (National Party) won 4 seats out of a total of 8, MMD won 3 seats, and UNIP 1 seat. The next general election is not required until 1996. In the meantime, the Chiluba Government continues to enjoy considerable support, although there is growing discontent over the slow response from the economy.

8. Thus, the key to success will be delivering economic growth. Domestic policies to maintain the decline in inflation, improve public sector implementation capacity, and foster the productive potential of urban areas through improved infrastructure and social services remain central to improving the prospects for growth. If Zambia can continue these adjustments and hold to its current course, it should be able to break inflationary expectations and initiate a virtuous circle of lower interest rates and higher investment and exports, leading to lower inflation and increased growth.

II. Recent Developments and Policy Performance

9. Prior to the adoption of the current SAP, Zambia's economy was in deep crisis. The economic infrastructure had deteriorated substantially. Basic institutions were unable to function efficiently. The incentive system was seriously distorted. Measures to restore economic growth required not only major policy reform, but substantial physical reconstruction and institutional rehabilitation. This situation was aggravated by heavy dependence on copper whose price had collapsed, a neglected agricultural sector, an uncompetitive and import-dependent manufacturing sector, a dominant and inefficient parastatal sector, an overvalued exchange rate, and a cumbersome regulatory framework. The challenge was to remove the existing economic distortions and to reverse the decline in income per capita.

10. The SAP combined trade policy reforms, deregulation, and exchange rate adjustment aimed at enhancing the competitiveness of the non-copper sectors with stabilization policies designed to restore fiscal and balance of payments equilibrium and price stability. Efforts were made to downsize the public sector and to enhance its efficiency, while stimulating private sector development. The Government eliminated subsidies on maize and fertilizer, decontrolled prices, and revised investment laws, rules and regulations. Zambia has completely decontrolled the exchange rate with the establishment of bureaux de change, freed interest rates, reduced the budget deficit (excluding grants and interest) from about 7% of GDP in 1991 to 3% in 1992, embarked on privatization of parastatals, and retrenched 12,000 redundant public employees. These achievements were made despite the devastating drought which hit the country in 1992.

11. Zambia maintained good policy performance in 1993, despite some lapses in implementation. The major accomplishment has been that inflation on an annualized basis has declined from 300% in the first half of the year to just over 20% in the second half. The decline in inflation has been brought about by fiscal restraint and monetary targets so stringent that the exchange rate actually appreciated for several months. The authorities, recognizing that this outcome was not consistent with achieving long-term sustainability, reduced foreign exchange sales which allowed the exchange rate to find a more suitable long-term level. Interest rates have fallen from over 300% to about 80% and are still falling. After the devastating drought of 1992, agricultural production nearly doubled in 1993 compared to a negative 40% in 1992. Despite these positive developments, the country will still face major challenges in 1994. Controlling inflation will continue to be difficult because reversing the

recent appreciation of the exchange rate will add to price pressures, while measures to undertake spending deferred in 1993 will add to budgetary pressures. On the external side, the lower copper price will make it difficult to fill the balance of payments gap.

12. The over-arching challenge facing Zambian authorities now is to reduce poverty through the resumption of sustainable and equitable economic growth and improvements in the composition and efficiency of public services. In particular, Zambia needs to:

- balance the budget and control the high rate of inflation;
- mobilize sufficient external support;
- implement the public service reform program;
- implement the privatization of parastatals program;
- stimulate private sector investment, especially in mining;
- expand non-traditional exports; and
- improve the delivery of social services.

III. Policy Agenda for Stability and Growth

13. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5% a year through higher productivity and increased investment. The basic prerequisite for reaching this goal is continued **balance of payments support by the international donor community** both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are **macroeconomic stability, political stability, human resources development, public service reform, private sector development, infrastructure rehabilitation and development, and sound environmental policies**. In addition, trends in demographics will play an increasingly significant role.

Macroeconomic Stability

14. Controlling inflation will be critical to the resumption of economic growth. A resurgence of inflation would inhibit the supply response to the policy reforms currently underway. Inflation creates uncertainty and speculation among potential investors, and thus hinders private investment. Controlling inflation is accorded high priority in the Government's policy agenda. On the fiscal front, the Government has announced its intention to expand the scope of the ongoing tax reform to encompass introduction of a value-added tax. Improved tax administration and broadening of the tax base will also enhance revenue collection. This, combined with expenditure restraint, will help eliminate budget deficits and prevent inflation from rising again. Past efforts at stabilization have been frustrated by lapses in spending restraint and declining revenues, sometimes due to shortages of political will but

increasingly the result of shortcomings in implementation. The record of recent months has demonstrated firm political commitment, but implementation capacity will need to be similarly strengthened.

Human Resources Development

15. Past economic decline contributed to the neglect of human resources development. Budgetary allocations were drastically cut, and the quality of services deteriorated considerably. With a highly urbanized population, and approximately 55% of the urban population living below the poverty line, the impact has been particularly pronounced in urban areas. Availability of health, water, sanitation, solid waste, housing and transport services directly influences both the welfare and productivity of poor urban residents. Further, there is a close relationship between availability and quality of water, sanitation and solid waste services and environmental and health conditions.

16. The Government is now taking bold steps to reverse the negative trends in social indicators and to restructure the delivery of social services. The thrust of the restructuring is to improve budgetary allocations and decentralize service delivery. Initiatives include district management in health and education, devolution of safety-net measures to local groups (including NGOs), and restructuring of the water supply and sanitation sector. This approach complements the reforms designed to move Zambia toward a free market economy.

17. In breaking with the previous centralized and planner-knows-best practices, the proposed social sector reforms recognize that the provision of welfare takes place at the household level. Thus, public services must support households in this effort. This shift in philosophy will help ensure better decision-making in the social sectors and improve their efficiency and effectiveness. The goal is to provide a quality-assured package of basic services as close as possible to the household.

18. The Government has already decided to shift the responsibility for delivering health services to autonomous District Health Management Boards. Provincial authorities will change from institutions that control financing and implementation to institutions that support these Boards and provide technical and financial audits. The central Ministry will no longer implement vertical programs; it will downsize to focus on mobilizing resources, setting policy, developing human resources, and providing technical support to districts. District staff have been trained in bottom-up planning techniques, accounting, and budgeting. A pilot program is currently underway using donor funds allocated to all districts based on simple health plans. Although managerial capacity of the Education Ministry is certainly more limited than in Health, a draft policy document to decentralize the management of education services to districts and school management boards has been completed. In the meantime, the devolution to Provincial level is being deepened with increased budgetary authority for Provincial Education Officers, who represent, relatively, the best administrative talent in the Ministry.

19. In the area of protecting vulnerable groups, Zambia had an excellent experience with the response to last season's drought through the Program to Prevent Malnutrition (PPM). That Program worked through committees at local levels consisting of NGOs, public servants, and civic leaders. Other positive experiences in reaching vulnerable groups have been accomplished by the Program for Urban Self Help and small development projects funded by the Microprojects Unit (MPU). Based on the PPM experience, fifty NGOs and the Government have come together to form a coordinating NGO, the Program Against Malnutrition (PAM),

that will finance and monitor activities in rural areas across the country. The Ministry of Community Development and Social Services is improving its Public Welfare Assistance Scheme (PWAS) to serve the indigent poor that also relies on local committees for its implementation. The program needs to overcome severe logistical and targeting problems. The implementation of the next medium-term plan for AIDS alleviation will include both public and private (for profit and non-profit) agencies. Current AIDS alleviation activities, while limited in scope, are being carried out in a decentralized manner, so there is some experience in Zambia already.

20. The restructuring of the budget to improve the efficiency and effectiveness of public sector programs will have an important impact on improving social service delivery and social safety nets. Government policy is directed toward: (a) ensuring a sufficient share of total spending in social sectors (as a measure of Government commitment to social development); (b) within recurrent expenditures, ensuring increases in funding for primary services within non-salary recurrent expenditures, including drugs and district health services under health, provincial allocations to primary education, and activities to protect vulnerable groups; and (c) focusing on rehabilitation programs within the capital budget, especially for education and water supply.

21. Even when money is allocated to the social sectors, service delivery is hampered by an unreliable flow of resources from the Budget Office to service delivery points. As a result, although they have the greatest contact with service recipients, decentralized social-service institutions have little say on the resources budgeted for them and on how those resources are used. The removal of all these financial bottlenecks will require that District Health Management Boards become fully independent budgetary entities; in education Provincial Education Officers will be subwarranted with the allocation for primary services; and districts will receive funding for the rehabilitation of water supplies in peri-urban areas. The Government is also taking steps to ensure that the social sectors become self-financing to a greater degree.

22. To support the reforms outlined above, there is a need for revising policies and improving coordination of all sectors, especially as the systems become gradually more and more decentralized. In health, the basic thrust of the reform program must be followed up by revision of sub-sectoral policies relating to human resources, drugs and supplies management and logistics, delivery norms and practices, and private sector participation to reflect the new service delivery system. In education the Government will continue to remove key bottlenecks to improved access and quality of primary education while formulating longer-term policies. Teacher training is being improved and school managers are being trained along with education inspectors. The Ministry also continues to improve the examinations system to remove delays in processing the results of secondary school entrance examinations. The Government has confirmed its commitment to primary education as the basis for a well-functioning educational system. Vocational and technical training is being restructured to enable students with less than grade 7 education to participate and to refocus the curriculum on skills development relevant to the private sector. In water supply and sanitation, the Government has established a Program Coordinating Unit. The major principles of future sector policies are generally agreed. They include: (a) separation of water resource management and water supply and sanitation functions; (b) separation of regulatory/supervisory and executive functions; (c) devolution of responsibility for service delivery to local authorities, including establishment of autonomous public-owned enterprises; (d) user and community participation, including hygiene education; (e) substantial cost-recovery in the

long-term and lower tariffs for the poor; (f) training and incentive measures for human resource development; and (g) increased use of appropriate technology. Nutrition activities also have suffered from a serious lack of policy guidance and coordination. An analogous approach to that being used for water supply and sanitation will be required to get things moving: Since the Government is moving towards decentralization, and urban areas represent a high percentage of the population and the locale in which issues of poverty, public performance in delivery of services, and productivity come together, efforts to specifically address the urban sector as a focal point need to be intensified.

23. Zambia's population of 8.3 million is growing at an annual rate of 3.2%. At this rate, the population will double in the next twenty years. If measures are not taken now to control population growth and, through removing distortions in the business environment and attendant rationalization of incentives, promote efficient migratory and population distribution patterns, it will become increasingly difficult for Zambia to provide adequate essential services, employment, and incomes for the growing numbers. The Government has adopted a population policy whose implementation is yet to get underway in earnest. Intensified efforts need to be made in this area.

Public Service Reform

24. Improving the management of public resources will also help to accelerate economic growth. An efficient public service is essential for raising public savings, implementing investment projects, supporting the private sector, and reorienting public expenditure toward poverty alleviation. Limited capacity within the public service for identifying, appraising and implementing investment projects has been a constraint on accelerating economic growth. It is necessary to build up at central Government level the requisite capacity by introducing incentives for attracting skilled personnel into the public service retaining them, and changing the management culture with emphasis on delegation of authority and evaluation of results. There is also a need to devolve responsibility for project design, selection and maintenance from central to local authorities provided adequate implementation capacity exists or can be created. Municipal and district councils and local community organizations know local needs and priorities better than agencies at central Government level. They are more likely to respond to local constituencies if given adequate responsibilities and resources.

25. Bank assistance toward public service reform is being provided in collaboration with bilateral donors and multilateral agencies. With support from the United Nations Development Programme (UNDP), the Government has developed a framework for capacity building. In the context of that framework, an assessment has been made of existing development management capacity in the public service. On the basis of this assessment, weaknesses have been identified, and a strategy developed for enhancing the capacity for policy formulation and project implementation. With support from IDA, the Government is developing an outplacement and business development program for retrenched employees. In addition, a Financial and Legal Management Upgrading Project was approved by the Bank's Board of Executive Directors in July 1993. A project to address issues of urban development and local Government is included in the lending program. Capacity building is also a key objective of investments in such sectors as agriculture, education, energy, and transport. A draft Poverty Assessment Report has just been completed, and initial sector work on urban issues is underway.

Private Sector Development

26. Zambia's economic reform program has substantially improved the environment for private sector development. A greater role for the private sector in the economy is part of the Government's development strategy, especially for increasing the growth of non-traditional exports. Controlling inflation will provide a strong impetus for private saving and investment as will improved infrastructure and human resource development. The Bank has provided support for privatization of parastatals through the first Privatization and Industrial Reform Credit (PIRC) of US$200 million, a technical assistance credit of US$10 million, and the second PIRC of US$110 million. The Government has embarked on an ambitious program to privatize 150 of the 160 existing parastatals. In addition, a Mining and Financial Sector Adjustment operation is provided in the lending program for FY95. Assistance in the financial sector will emphasize capital market improvements based on results of recent sector work while the mining reforms are expected to focus on attracting private capital to this critical sector. In agriculture, the Agricultural Marketing and Processing Infrastructure Project is providing support for liberalization of agricultural pricing and marketing, development of infrastructure, and farm credit.

27. Improving the efficiency of international trade and promoting non-traditional exports are policy priorities for restoring economic growth in Zambia. The current US dollar value of copper exports is below that of 1970, and copper still accounts for 75% of total exports. From the beginning of the 1990s, the Government has initiated a number of trade-supportive reforms. They include a more appropriate macroeconomic policy framework, particularly with regard to the exchange rate and the foreign exchange market, and also trade-specific measures, mainly the expansion of the export retention scheme for exporters of non-traditional goods; the simplification, reduction and narrowing of external tariffs; and lowering of company income tax and harmonizing indirect taxes.

28. However, in spite of these achievements, some policy constraints faced by Zambian exporters have not been corrected. First, the remaining protection still makes it more attractive to produce for the domestic market than for export. The Government intends to continue the process of reducing the level and dispersion of tariff protection consistent with the policy of fiscal restraint. Second, import duties and sales tax paid on inputs increase the cost for domestic producers and exporters compared with producers in other countries which have access to inputs at world prices. The Government intends to extend the coverage of the duty drawback system to include all imported raw material and intermediate inputs for exporters. Procedures for claiming the drawback will be simplified and the computation changed to an exemption system based on physical input/output coefficients rather than a refund system. Finally, an exporter has to go through cumbersome procedures without export financing mechanisms. The European Community is helping the Government to create an export revolving fund to assist exporters.

29. The adoption of a value-added system is also urgently needed to (a) increase the tax-base in Zambia (producers have to be registered to get tax deduction), (b) avoid double-taxation on productive activities, and (c) shift the tax burden from producers to consumers. An implementation plan for a value-added tax system is being prepared with a view to introducing the tax in 1995.

30. Minimizing the use of discretionary practices in the granting of exemptions on imported capital goods is also necessary to consolidate the reforms and to protect the revenue

base. The granting of Ministerial exemptions to industrial and commercial organizations was discontinued in 1990. However, a significant number of exemptions are still granted as a result of the 1991 Investment Act. The new Investment Act, enacted in August 1993, also entitles a wide range of activities to exemption from customs duties and sales taxes on machinery and equipment. Exemptions are necessary to promote investment in Zambia, but the authorities must ensure that discretionary exemptions remain limited to charitable organizations, and that industrial and commercial exemptions are dealt with only in the context of the Investment Act. The broader issue of limiting further exemptions granted to new businesses is being addressed in the context of the Regional Integration Initiative. Strict criteria and procedures will be defined so that exemptions granted under the Investment Act are as automatic and transparent as possible.

Urban and Infrastructure Development

31. Attention to urban development issues in Zambia is essential for the country to achieve its overall development goals. With an estimated 51% of Zambia's population currently residing in urban areas, such areas represent an opportunity for growth. However, for the benefits of the concentration of urban population and economic activities to take hold, key constraints must be removed. Among these are infrastructure deficiencies that reduce the productivity of firms and households, a regulatory framework that inhibits the functioning of urban markets for land and housing, and weak municipal institutions.

32. Because of limited public resources, it is necessary to encourage the private sector to play a greater role in infrastructure development and maintenance than has hitherto been the case. Such opportunities range from sub-contracting most road maintenance to the private sector with maximum involvement of local consultants and contractors to opening railway infrastructure maintenance, workshops and support services to private sector participation. To effect this change, the Government has embarked on a program of institutional and regulatory reform, which includes devolution of responsibility, enhanced revenue generation, greater cost-recovery from the users of infrastructure services, and better accountability in the use of funds. This program is compatible with and builds on the larger program of public sector reform. In this regard, a Transport Engineering and Technical Assistance Project, approved by the Board in June 1993, is assisting with the implementation of these reforms in the road sector to be followed in FY97 by a Roads Rehabilitation Project, which would coordinate and support a comprehensive, multi-year program to rehabilitate Zambia's roads.

33. Zambia today is faced with an escalating shortfall between the basic infrastructure and service needs of urban populations growing at about 3.7% per annum, and the capacity of local governments to maintain even a minimal level of service delivery to the 40% of urban dwellers who live in the officially recognized, formal areas of the main urban centers. The remaining 60% who live in the largest cities' illegal settlements remain largely unserved. Faced with problems of rapid growth, decreasing financial and human resources, and escalating costs, local governments have virtually given up the battle to maintain existing infrastructure, utilities, facilities and services. These problems have been made even more difficult by the sudden cessation of central government grants, the failure on the part of central government to settle outstanding debts to local government, the continued involvement of central government in areas such as staffing and salaries at the local government level, as well as elimination of subsidies for food, water, transport and energy.

34. These pressing problems clearly point to the need to develop an integrated and appropriate urban policy framework, not only to address medium and long-term issues, but also to guide the transition from subsidized infrastructure and devolution of service delivery from central government to local entities. To help the Government manage this process, an Urban Water Supply and Sanitation project proposed for FY95 would address the more urgent requirements in the short-term and establish the agenda for reform in the medium-term. A subsequent Urban and Local Government project, planned for FY98, would facilitate such reforms in the provision of urban infrastructure overall.

Environmentally Sustainable Growth Strategy

35. Zambia's major environmental issues are land degradation, deforestation, wildlife depletion, impact of mining activities on the health of the people, water contamination and inadequate sanitation. The impact of these issues manifests itself in declining quality of water in the country's rivers and streams, deteriorating air quality in areas of heavy industrial emissions, and poor quality of urban life due to inadequate sanitation and disposal of waste material. These problems are exacerbated by inefficient, unsafe and unsustainable use of available natural resources. Government intervention will not only improve the environment but also help alleviate poverty. It can also shift some of the associated investment and conservation costs to private beneficiaries. For instance, Government policies should aim to induce mining and logging companies to bear some of the environmental costs of their operations to the country. Provision of clean water and improved sanitation, and control of toxic chemicals used in mining can reduce health risks considerably. Current Government policy aims to ensure that environmentally sustainable development is pursued vigorously. A National Environment Action Plan (NEAP) is currently under preparation with Bank support. To help implement the NEAP, the Bank has proposed an Environment sector operation in FY97. The Government has demonstrated its commitment to dealing with environmental issues by establishing a Ministry of Environment and Natural Resources and a National Environment Council.

Poverty Reduction

36. Especially given the substantial deterioration in the living standards of the average Zambian over the past 18 years, the Government has recognized that it cannot continue to undertake the stringent measures necessary to stabilize the economy and restore growth without ensuring that the bulk of the population begin to experience an improvement in welfare levels. As initial findings from the recent Poverty Assessment indicate, the negative impacts on the urban poor has been particularly severe. Following the increasingly precipitous welfare decline of recent years and the expectations associated with political liberalization, the future of the whole reform program hangs in the balance. While the measures taken to promote agriculture, exports, and the private sector generally should lead to sustainable and indeed rapid growth in key sub-sectors of the economy, this impact will neither be widely spread nor dramatically apparent in the short term. Focusing on improvements in delivery of urban services across sectors will provide some short-term alleviation. More broadly, a welfare safety-net that builds on the successful approach to alleviating the impact of the 1992/93 drought, combined with a reorientation of social services to meet widespread basic needs (defined as responsive services at the delivery point - the health center, the primary school, the community water system), will offer tangible evidence that less Government can also mean better Government in precisely those areas that are critical to the welfare and economic prospects of the poor in Zambia. Budget restructuring

and a reorientation of Government delivery capacity to getting results in the field through decentralization and a partnership with successful NGOs and the private sector will improve the distribution of social welfare significantly and quickly and will lay the basis for the longer-term economic participation of the poor in Zambia's recovery and growth.

IV. Medium-Term Prospects and External Financing Requirements

Growth

37. The Zambian economy has the potential to generate a positive rate of growth in 1994 of at least 4% if stabilization measures succeed. Growth prospects after 1994 will depend on full implementation of the agenda outlined above. A rate of 5% is possible provided constraints to bringing more land under cultivation are reduced, the balance of payments needs are met, and the policy environment continues to improve. In the short-term, improvements in allocative efficiency and increased land utilization will be major contributors to this growth. In the longer-term, continuing this rate of growth will rest on increased investment and human resource development.

38. This may seem an optimistic growth rate given Zambia's record of economic stagnation, policy distortions, and deteriorating infrastructure, but Zambia has some clear advantages as well. First, there is adequate land (over 1 million hectares of unused high-potential land in commercial agriculture alone) and rainfall to support a considerable increase in agriculture. Even with poor (though) improving policies, the trend rate of agricultural growth in the 1980s was nearly 4% per year. With recent policy changes, there are already shifts away from inefficient monocropping of maize. Second, because economic efficiency was so bad in the 1970s and 1980s, there is considerable scope for economic growth through increased efficiency with existing capital. Privatization of inefficient state enterprises could, with only marginal investment, result in much higher output. Third, the Zambian Government has a genuine commitment to a policy of private sector-led growth which is already translating into an improved business climate for domestic and foreign investors. This will open up opportunities not only in manufacturing and mining, but in agriculture, transport, tourism, and other services. Fourth, Zambia has considerable potential for expanding non-traditional exports, including agricultural products (cotton, cut flowers, horticultural products, tobacco, maize, coffee); manufacturing (engineering products, textiles and garments); and gemstones. Non-traditional exports have been conservatively projected to grow at about 10% per year, albeit from a low base, in view of their demonstrated responsiveness to changes in the real effective exchange rate.

39. Most of the growth in the early years will come from increased production in agriculture and services, including tourism and financial services. As the privatization program gets underway, manufacturing should follow in the later years. Accelerated agricultural growth will require removal of existing constraints to increasing productivity, viz., inadequate technical support services, neglected rural infrastructure, and poor access to inputs, especially for women. Making available additional land will be essential for the high rate of economic growth assumed in the projections. Government strategy in agriculture emphasizes promotion of increased productivity and diversification, particularly in the smallholder sub-sector, by redirecting research and extension services to drought-resistant crops, increasing access to financial services, improving rural infrastructure (especially feeder roads), strengthening agricultural information services, and rehabilitating and expanding

veterinary services. Some parts of the manufacturing sector may not be profitable with the new price structure, but some existing and new manufacturing sector capacity can be expected to contribute to economic growth, provided sufficient credit is available to the private sector and constraints to exports are addressed. In order to facilitate private sector industrial growth the Bank will support, through upcoming adjustment operations, a proactive stance on investment and industrial promotion, including a more rapid dismantling of parastatal monopolies, release of land for commercial exploitation, lower real interest rates and export promotion measures modeled on the successful Asian experience. Mining output from existing mines, especially of copper, is expected to grow modestly in the early years as efficiency increases. However, dramatic increases in output will be contingent upon substantial investments in opening up new mines.

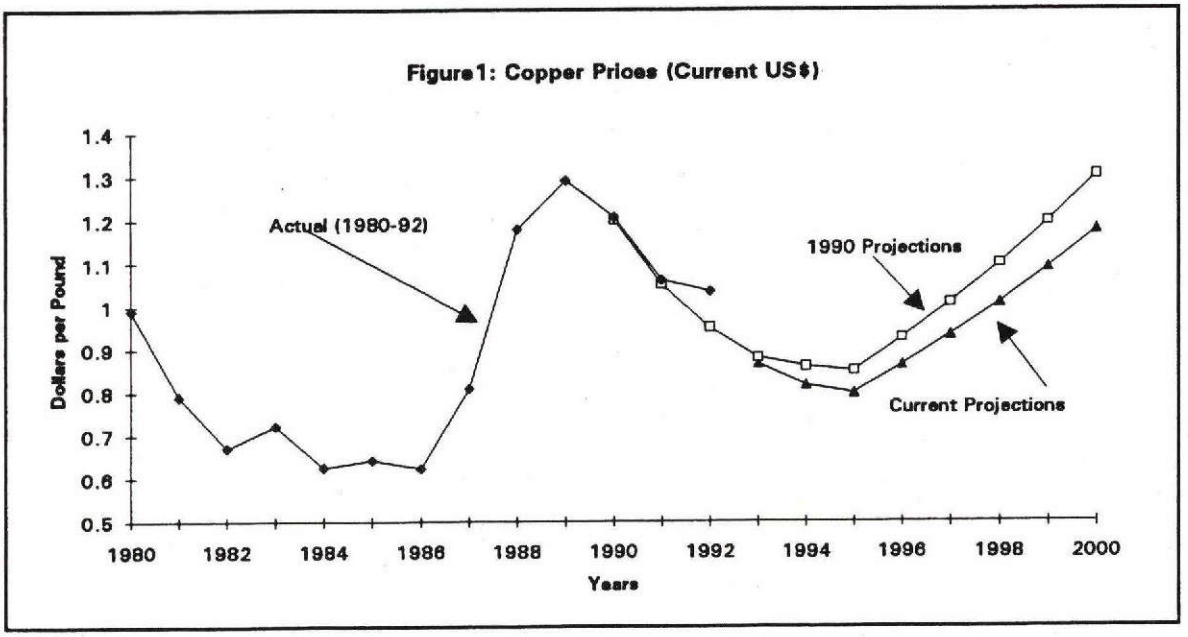
40. Overall, total investment is projected to rise from 13% of GDP in 1991 to 22% and domestic saving from 11% of GDP to 17% by the end of the decade. These are ambitious targets. While the overall investment level is similar to levels reached in Zambia's past, the increase in private investment would be unprecedented. However, the targets are consistent with the higher efficiency, profitability, and retained earnings expected in the private sector (including newly-privatized parastatals), and with continued progress in fiscal performance. Assuming that the annual rate of population growth declines from the current 3.2% to 3.0% during this period, average GDP per capita consumption could increase by at least 1.0% per annum, even with the projected increase in savings and investment. While this in itself would not result in dramatic improvements in living standards, it would reverse decades of economic decline and start a process of long-term sustainable economic growth.

External Financing

41. External assistance will need to stay at or near the currently very high levels. Over the next five years, foreign aid will finance much of the needed public investment. In later years, however, a larger share of the investment will have to be financed out of domestic saving. This should be possible because there is scope for increasing public sector saving by increasing revenue and restraining expenditure on consumption and because non-traditional export growth should eventually permit a better balance between exports and imports. Policies to stimulate private saving will take time to have an impact. However, as private sector income grows, an increasing share of domestic saving should come from this sector.

42. External assistance needs are particularly difficult to predict in Zambia's case because of the high dependence on copper, whose price has fluctuated considerably in recent years, and because of the large debt service burden and the desire of major creditors to deal with this problem only for the short term. Donors (in their various positions as direct donors, Paris Club members, and directors of the multilateral organizations) are unwilling to make long-term concessions in part because of concerns over burden-sharing (across donors and across institutions) and in part because of the uncertainties over Zambia's future policy performance.

43. When this arrangement was made in 1990, copper prices were projected to fall until 1995 and then to rebound sharply. So far, prices have fallen more or less in line with projections, but the present price is below previous projections and the price is now projected to remain 6% - 8% below previous projections for the remainder of the decade (as shown in the Figure below). Moreover, the eventual workout depends critically on a price rebound in 1995, and turning points are notoriously difficult to project. Even though non-copper exports



were projected to grow at nearly 10% in value terms, copper still accounts for over 75% of merchandise exports. Overall external financing needs will remain critically dependent on the price of copper for the next several years.

44. When Zambia approached the international community in 1989, it was clear that exceptional measures would be needed if Zambia were to meet its international obligations and still have sufficient imports to achieve sustainable growth. Arguments were made at the time that unprecedented concessions should be made on the stock of both bilateral and multilateral debt, but it was decided that it would be better to solve the immediate problem with exceptional levels of balance-of-payments assistance and a rights arrangement which would take most of the IMF arrears off the table until 1995. The Paris Club added generous rescheduling. As a result, Bank arrears were paid in full and most Fund arrears ($1.2 billion) were handled by the rights arrangement. This allowed the program to resume without a major (and potentially time-consuming) alteration in international debt policies. A more complete discussion of this history can be found in Annex C.

45. With an outstanding debt of over US$7 billion, Zambia is one of the most indebted countries in Sub-Saharan Africa (SSA). Comparable data for 1990 for Sub-Saharan African countries indicate that only Mozambique, Tanzania and Somalia had higher debt-to-GNP ratios. Zambia's position has deteriorated further since 1990 due to the fall in national output and the depreciation of the local currency. A similarly glaring picture is observed in terms of the debt-to-export ratio which is about 6 to 1. Zambia's external debt situation has raised serious concerns about the country's economic reform program and its growth prospects in the medium- to the long-term. Since 1991, Zambia has benefitted from debt relief and rescheduling operations, but the debt service ratio is high, particularly in light of the dwindling export earnings from copper. In 1991, the debt service ratio was exceptionally high

-- 51.4% of exports -- due to the need to clear arrears with the World Bank to facilitate the resumption of operations. In 1992 and 1993, the debt service ratio still amounted to an average of a third of export revenues, even after rescheduling.

46. The structure of Zambia's debt by major groups of creditors and debtors is given in Annex B4. About 43% of Zambia's debt is owed to multilateral creditors, including the World Bank Group and IMF. The Fund, with 42.7% of total multilateral debt, stands as the major creditor, while IDA and IBRD account for 24% and 10.9%, respectively. The rest is shared by 9 other multilateral creditors. Most of the non-multilateral credit is owed to bilateral donors mainly belonging to the Paris Club. Of the non-Paris Club creditors, the former centrally planned economies of Eastern Europe, particularly USSR, and China, Saudi Arabia and Iraq, are important. Short-term credit accounts for about 12.2% of the total debt. On the other side, 77% of the debt is owed by the Government; borrowing by public corporations, including ZCCM and ZIMOIL, amounted to 12%.

47. When the arrears clearance deal was designed in 1990, it was recognized that the debt issue would most likely have to be addressed again later in the decade when Paris Club debt repayments are scheduled to increase and when the IMF rights disbursement will need to be repaid. Options for this next round of debt policy will need to be assessed over the coming year and a dialogue with the donors and the Fund resumed on these topics. (The debt service flows shown in the tables in Annex B include some rescheduling in later years on an indicative basis to reduce the levels of BOP support that would be needed to close the financing gap).

48. The arrangement made in 1990 is still functioning, but it has been strained by the 1992 drought, the 1993 fall in the copper price, and the growing donor difficulty of justifying increased aid budgets to their legislatures exacerbated by the end of the political honeymoon with the new Government signalled by state of emergency imposed by the Government from March to May 1993. These concerns have continued largely over allegations of corruption and drug trafficking against high officials in the Government. As noted above, the Government has promised swift action to deal with these issues. If the measures are fully implemented, the attitude of the donors will improve, but keeping this external financing strategy in place will be one of the biggest challenges to the success of the program. On the one hand, Zambia needs all of this assistance just to keep going. Any substantial shortfall would lead to debt service arrears, further reductions in aid, and eventual suspension. On the other hand, the exceptional levels of support being asked of IDA and the donors will require an equally exceptional level of performance by Zambia, on both policy and implementation.

V. Bank Assistance Strategy

49. The goal of the Bank's assistance strategy for Zambia is to assist the Government to achieve sustainable economic growth and to reduce poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on continued donor support. Any growth or even the maintenance of economic activity requires very large gross inflows of foreign aid. Under the current arrangement there is no middle ground. Even a modest shortfall in foreign assistance will drive the economy into arrears through the linkages of Paris Club, IMF and World Bank financing, lead to a suspension of lending, and place the reform program in mortal danger. Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as

the Zambian Government continues its adjustment program. More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

50. Bank strategy in Zambia as currently constrained by the 1990 arrangements could be characterized as coping with a knife edge situation. Serious uncertainties in Zambia's external financing program lurk well beyond the control of both Zambia and the Bank (copper prices, lack of donor staying power or other forms of disenchantment, and combinations of the two). Other countries also face uncertain export prices and donor support. What makes Zambia's position more precarious is that it is on the outer boundary of what donors, including IDA, are willing to give. Any shortfall jeopardizes the entire program because no donor can take up the slack.

51. Zambia has limited capacity to adjust to a shortfall in external financing. The first recourse, as with the drought in 1992, is to request an increase in donor financing. If that is not possible, or if the shortfall is a direct result of decreased donor funding, Zambia has limited room for maneuver. Liquid reserves are only about one month's worth of imports. Reducing the level of imports is not easy because a large fraction is needed for the minimum requirements of the copper mines. Imports not needed for copper production and not funded by donor project funds are only about US$700 million. Thus, a shortfall of US$100 million in external financing -- with no change in debt service -- would force a 15% decrease in available imports, which would put the economy in a tailspin. The Government recognizes that reimposing exchange controls would not avoid that; it would only make the impact even less efficient. Therefore, any substantial and prolonged shortfall in external financing will inevitably result in debt service arrears which will, in turn, lead to an unraveling of the remaining external support.

52. Under such circumstances, can the path for muddling through be broadened, so that Zambia's commitment to stay the reform course would have a greater chance of success? Clearly the only viable option under such circumstances would involve renegotiating the 1990 arrangement. Without fundamental debt restructuring or an increase in reserves (which the donors are unlikely to fund), Zambia's adjustment path will continue to be the knife edge we face today. Restructuring would have to involve major debt forgiveness on official bilateral debt well beyond extended Toronto terms and a reassessment of the current arrangements for the Bank and Fund. Path broadening for Zambia would in effect be path breaking for the rest of the world. To date donors and IMF shareholders have (understandably perhaps) been unwilling to take on this challenge in the context of a small African economy; but such restructuring is, in fact, the only way to create a middle ground for Bank strategy in Zambia.

53. Adjustment operations have in the past focused on macroeconomic stabilization and privatization of parastatals. The proposed Economic and Social Adjustment Credit (ESAC) currently under preparation would continue to support reforms in the areas of macro stability and growth while increasing the emphasis on improving the delivery of services to the poor which will be critical to the overall sustainability of the adjustment program. Future adjustment operations will continue macroeconomic reforms as well as sector-specific issues in mining, finance, industry, and parastatal reform, thus building on the results of the first round of adjustment. The FY95 adjustment operation is expected to focus on reforms in mining and

the financial sector, in particular to assist the Government to attract private capital and management into the mining sector through privatization and new private sector ventures and to provide support for broadening and deepening the capital market by reforming policies on development finance and contractual savings institutions. The FY96 adjustment credit will support continuing reforms in the sectors covered to-date with increased emphasis on removing the regulatory and institutional constraints to labor absorption, including expanding opportunities for the informal sector and self-employment. Adjustment operations will be complemented by follow-up investment operations in individual sectors and by economic and sector work (ESW). The format for these sector investments will shift from isolated projects in a single area to broader support for a sector investment operation in which the Government will combine donor support with its own resources into a single, integrated investment program. Future ESW will be undertaken in agriculture, finance, small-scale enterprise development, employment services, telecommunications, education and health (especially the impact of AIDS). Investment projects are planned in infrastructure (railways, energy, roads and urban services), and a sector program will be supported in agriculture. Capacity in the public sector is being strengthened through a Financial and Legal Management Upgrading Project approved by the Board in July 1993. A Poverty Assessment has been completed. The policy reform in social sectors initiated by the proposed ESAC will be followed up by sector investment operations in health, public sector management, water supply and sanitation and education over the next three years.

54. The overall level of Bank lending over the next five years will remain high. BOP assistance from the Bank was particularly high in 1991, in part because it was necessary for Zambia to clear about $350 million in accumulated debt-service arrears to the Bank. In 1992, IDA support through PIRC I was increased from $100 million to $200 million in response to drought needs. And in 1993, a sector adjustment operation (PIRC II) of $110 million was added to the portfolio to increase the 1993 disbursements by $40 million to help fill the extraordinary financing gap brought about by the carry-over impact of the drought, debt-service arrears from 1992, the lower price of copper, and increased debt-service obligations. This high level of BOP assistance will continue to be a major element of the Bank's assistance to Zambia for the rest of this decade, as a consequence of Zambia's heavy debt service burden (even after rescheduling) and the dwindling prospects for copper exports which cannot be offset in the short-term even with strong growth in non-traditional exports and continued economy in the use of foreign exchange. The Bank will continue to play a leadership role in securing sufficient assistance so that adequate imports are available to allow resumption of economic growth. Of course, the future level of financial support will depend on to Zambia's performance under the economic reform program.

Bank Operations

55. Since the resumption of Bank operations in March 1991, the Bank has been the largest source of external assistance for Zambia's economic recovery program. During this period, the Bank has provided US$577.2 million in adjustment credits and US$142.5 million in investment credits. Through these operations, the Bank has played a key role in macroeconomic and sectoral policy formulation. Investment operations have also served as vehicles for bringing about sectoral policy and structural reform (agriculture, education, transport, social services, energy, and transport). The Bank's ESW program will need to focus increasing attention on the identification of sub-sector constraints to a stronger private sector supply response, especially in the areas of infrastructure, credit, and deregulation. Zambia will continue to need substantial assistance from the Bank over the next five years. Its debt service

payments are high, and adjustment policy reforms remain. If the adjustment program is to remain on track, the Bank must continue to meet its share of the external financing requirements. Bilateral donors have made extraordinary efforts to maximize their commitment of resources to Zambia. The Bank's role as a direct source of assistance and as chairman of the CG process will be critical to maintaining that support.

56. Both the levels of IDA assistance and the share of adjustment lending will continue to be high by comparison to comparable countries if IDA is to meet its leadership share in the total financing needs discussed above. Two issues concerning this assistance will need to be carefully monitored. First, what are the prospects that this assistance can eventually be phased out so that Zambia can be launched on a genuinely self-sustaining economic growth path? Second, what is IDA's appropriate share of the total financing needs, and is this level of support justifiable in terms of improvements on the ground in Zambia?

57. As discussed above, the primary unknowns in estimating Zambia's needs for continuing donor assistance are the price of copper and the debt reduction strategies that will be adopted by the Paris Club (and IMF) to deal with the projected increases in debt service payments in the later part of the 1990s. If the copper price returns to $1.00 a pound (in 1993 dollars), projections suggest that balance of payments assistance can be gradually phased out if actual debt service payments are contained at present levels. If debt service payments rise (or if copper prices fail to return to the $1.00 area), the donor community as a whole, including the Bank and the Fund, would have a choice between increasing assistance or risking debt service arrears. Thus, there will be considerable pressure to contain debt service payments so that a gradual phase-out of balance of payments assistance can be consistent with Zambia meeting its international obligations. The difficult part will be reaching a mutually agreeable sharing of the debt reduction burden across all of the creditor groups.

58. It is likely that IDA's share of that assistance will continue in the 35%-45% range (25%-30% if rescheduling is counted as assistance). It will be important to make it clear to the donors that we are willing to meet our share and to take a leadership position, but we are not willing to fill in for every shortfall in donor assistance to keep the program financed. Unexpected developments (such as the drought) will have to be offset by increased assistance from all parties. Donor concerns over political corruption issues pose a particular challenge to the Government in this regard. Our mandates preclude taking account of such issues unless they directly affect broader economic targets, but several bilateral donors could decide to reduce support over specific alleged instances of corruption or criminal activity. However, as noted earlier, the Government is adopting measures for coping with this challenge.

59. In all of these discussions, all parties are mindful of Zambia's special characteristics. The need for assistance is very large, and any substantial shortfall would likely result in a complete unraveling of debt service and external assistance. The position of the community as a whole continues to be that the Zambia program merits this substantial support and that the debt service issues can be dealt with in time to permit a gradual but eventual transition to self-sustaining development. We will continue to monitor this situation closely to ensure that these issues are addressed in a timely manner and that IDA's level of assistance represents an appropriate share of the total.

60. The implementation of the Zambia program will be carried out with maximum Government and beneficiary involvement and "ownership" to ensure the sustainability of the intended development impact. The first Country Portfolio Performance Review (CPPR) was

held in February 1993, and the recommendations are being implemented. A second CPPR is scheduled for March 1994. A seminar for project staff on procurement and disbursements was held in October 1992, and regular follow-ups are taking place. Bank guidelines have been distributed and discussed with project implementers, Resident Mission higher level staff have been increased to five (with more specific responsibility for facilitating implementation), and finally more Government leadership in design of programs and projects is being supported. A concern for the proliferation and uncoordinated nature of the many donor programs in several sectors has prompted the development of integrated sectoral approaches first in agriculture and health and later in education. These integrated programs are based on a strategic investment plan prepared by Government, which all donors (including the Bank) will buy into. This has required substantial facilitation and capacity building up front, but the expected benefits in terms of the impact of a jointly agreed sector program are large. The first two experiences will be closely monitored and evaluated to ensure sufficient feed-back to the rest of the portfolio.

61. The Zambia program is consistently applying beneficiary assessments to ensure the relevance of planned and ongoing project interventions to the poor. So far three assessments have been carried out. They have had immediate impacts on the design of ongoing projects (Social Recovery and Education Rehabilitation) and have helped shape the design of future operations as well as provide a base-line for impact monitoring (Health Sector, Second Social Recovery, Education Sector and Economic and Social Adjustment).

Future Bank Support

62. During this CSP period, the main elements of Bank support will be:

(a) maintaining the momentum of economic reforms, with increasing attention to delivery of social services;

(b) supporting capacity building activities at various levels -- policy-making, economic management, expenditure control, and project implementation;

(c) accelerating the privatization program and promoting private sector development and export growth;

(d) reducing poverty through faster economic growth and re-orientation of public expenditure toward activities benefiting the poor; and

(e) strengthening environmental management while developing the country's natural resources.

TABLE 1
PROPOSED LENDING PROGRAM FY94-98

(US$ MILLION)

FISCAL YEAR	OPERATION	COMMITMENT (US$ Million)	SUB-TOTAL
FY94	Economic and Social Adjustment Credit (ESAC)	150.0	
	Petroleum Rehabilitation	30.0	
	Financial and Legal Management Upgrading	18.0	
			198.0
FY95	Mining and Financial Sector Adjustment Credit	100.0	
	Health Sector	30.0	
	Agriculture Sector (ASIP)	40.0	
	Urban Water Supply and Sanitation	20.0	190.0
FY96	Adjustment	90.0	
	Power Rehabilitation	10.0	
	Education Sector	30.0	130.0
FY97	Adjustment	80.0	
	Roads Rehabilitation	40.0	
	Environment Sector	18.0	163.0
	Social Recovery II	25.0	
FY98	Adjustment	70.0	
	Agriculture Sector (ASIP II)	30.0	
	Health Sector II	20.0	
	Urban and Local Government	15.0	135.0
	GRAND TOTAL FY94-98		**816.0**

63. The CSP proposes a lending program for the period FY94-98 of US$816 million for 18 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. The FY94 adjustment credit will focus on policy reforms for improving the delivery of social services along with continued progress on stabilization and reform. The level of lending is 23% above the latest IDA allocation from the region. (For FY95-97, the IDA allocation is $377 million compared to $463 million in this CSP). To keep within the region's allocations would require

a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. There remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, and mining and financial sector restructuring which needs to be addressed through adjustment lending, but the amount of adjustment lending should be scaled down gradually. It is the intention to use sector investment credits in agriculture, education and health with emphasis on sectoral policies, donor coordination, and acceleration of disbursements. Once sector objectives and investment programs are agreed, all donors will be encouraged to provide assistance within the agreed sector investment program framework. The proposed lending program is shown in the table above. The focus of ESW will be on better understanding of and creative solutions to major issues affecting the long-term performance of the economy. Donor coordination will include the usual heavy load of donor briefings and CG meetings as well as increasing attention to longer-term issues of burden sharing through the analysis of options for dealing with Zambia's considerable external debt.

64. The lending scenario shown above would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. Macroeconomic policy performance would be measured against the benchmarks agreed with the IMF. In the structural reform area, the key expectations in defining good performance are that Zambia will continue to rely on markets for the setting of all prices including exchange and interest rates, accelerate the privatization program to be on course to divest most of the parastatal sector over the next four years, liberalize the market for state land, reorient the public sector to infrastructure and social services, increase the operating efficiency of remaining utilities, broaden and deepen capital markets, and move to an integrated sector approach for donor funded investment projects. The impact of these structural reforms would be more difficult to measure, since progress will only become perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements.

Donor Coordination

65. The Bank has played a key role in coordination of donor assistance since 1990. This effort has been pursued in the context of consultative group meetings, the SPA meetings, and regular contacts with individual donors. The CG will provide a forum for reviewing program performance and financing requirements. As noted earlier, sector lending will provide a vehicle for coordinating donor assistance in agriculture, education, and health. A major share of the resources allocated for preparing and implementing the integrated sector programs are being applied to assisting Government in donor coordination.

Risks and Overall Assessment

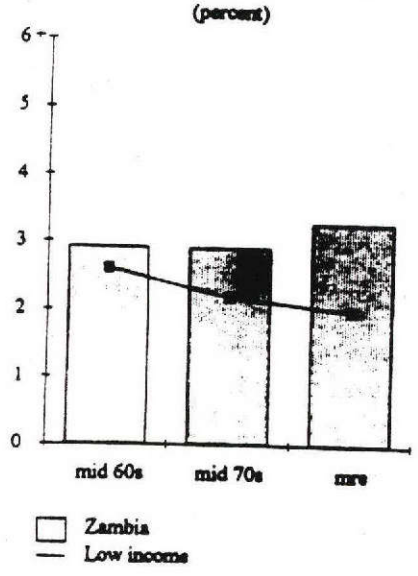
66. There are considerable risks in the Zambia program. The high level of reliance on balance of payments assistance and the high debt service burden mean that any significant policy shortcoming could result in an interruption in assistance causing an interruption in debt service and a complete unraveling of international support. The long and steep decline in living standards means that the population will not long be patient if the present Government does not deliver some immediate tangible benefits, and this could result either in Government relaxing the fiscal restraint or reducing civil liberties, either of which could be disastrous for continued donor support. Zambia also remains vulnerable to external developments such as a

decline in copper prices or an interruption in the southern transport corridor. With the help of the international community, Zambia is taking strong measures to address these sources of risk, and performance to date has merited the exceptional levels of support it has received, but the Zambia program will continue to need very close monitoring. On the brighter side, Zambia has accomplished an unprecedented peaceful political transition, managed to deal with the worst drought of the century, and dramatically transformed the economy from state domination to private markets in less than two years. The opportunity is now at hand to begin to see some positive results from these efforts, and the Bank can play a critical role in this transition. Success in Zambia would send a very positive signal to the many countries in need of similar reforms.

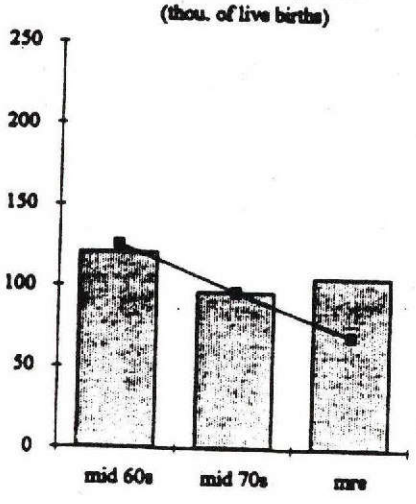
Zambia: Priority Poverty Indicators

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
POVERTY							
Upper poverty line	local curr.	..	..	1,380	..	..	..
Headcount index	% of pop.	..	..	64	..	..	..
Lower poverty line	local curr.	..	..	962	..	..	..
Headcount index	% of pop.	..	..	54	..	..	..
GNP per capita	US$	260	550	460	350	350	1,610
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	5	9	1,438	..	..	..
Lower income	"	..	..	..	..	..	..
Food	"	..	..	769	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	3	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	53	97	95	70	113	100
Male	"	59	105	99	76	122	106
Female	"	46	88	91	60	106	98
Mortality							
Infant mortality	thou. live births	121	96	106	104	70	40
Under 5 mortality	"	..	..	176	177	98	53
Immunization							
Measles	% age group	..	..	80	40	73	70
DPT	"	..	..	66	35	81	74
Child malnutrition (under-5)	"	..	24	23	..	..	..
Life expectancy							
Total	years	44	49	49	51	63	67
Females/males	ratio	1.07	1.07	1.07	1.06	0.95	1.08
Total fertility rate	births per woman	6.6	6.7	6.5	6.4	3.7	3.5
Maternal mortality rate	100,000 live births	..	..	..	..	..	..

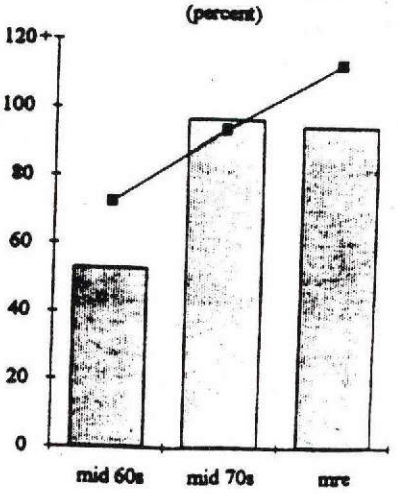
Population growth rate
(percent)



Infant mortality rate
(thou. of live births)



Primary enrollment
(percent)



Zambia: Resources And Expenditures

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
HUMAN RESOURCES							
Population (mre=1991)	thousands	3,614	4,841	8,319	488,932	3,127,265	773,803
Age dependency ratio	ratio	0.92	0.97	1.07	0.97	0.66	0.71
Urban	% of pop.	23.3	34.8	51.0	28.7	40.1	53.9
Population growth rate	annual %	2.9	2.9	3.3	3.0	1.9	1.7
Urban	"	8.3	5.6	5.5	5.0	5.2	3.1
Labor force (15-64)							
Agriculture	thousands	1,287	1,665	2,744	203,947	1,448,104	302,448
Industry	% of labor force	79	75	..	..	..	..
Female	"	8	9	..	..	..	..
Female per 100 males		28	28	29	37	33	32
Urban	number	..	87	..	..	..	..
Rural	"	..	123	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	753	753	753	23,066	38,828	23,990
Density	pop. per sq. km	5.0	6.0	10.0	20.0	77.0	31.0
Agricultural land	% of land area	46.9	47.1	47.4	51.0	47.4	41.8
Change in agricultural land	annual %	0.1	0.0	0.1	0.0	0.0	0.0
Agricultural land under irrigation	%	0.0	0.1	0.1	5.5	13.7	12.6
Forests and woodland	thou. sq. km	306	299	289	6,651	9,197	5,396
Deforestation (net)	annual %	-0.2	-0.2	-0.2	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	..	63	..	..	..	..
Share of bottom 40% of households	"	..	11	..	..	..	..
Share of bottom 20% of households	"	..	4	..	..	..	..
EXPENDITURE							
Food							
Staples	% of GDP	..	22.7	25.8			
Meat, fish, milk, cheese, eggs	"	..	5.9	5.5	..	..	..
Cereal imports	"	..	10.0	12.8	..	..	..
Food aid in cereals	thou. metric tonnes	45	164	100	..	..	..
Food production per capita	"	..	5	3	7,838	36,008	44,418
Fertilizer consumption	1979-81=100	100	138	83	2,677	6,669	4,047
Share of agriculture in GDP	kg/ha	2.0	11.0	18.0	94	122	101
Housing	% of GDP	14.3	13.1	15.7	14.5	47.5	94.2
Average household size	% of GDP				29.2	28.7	
Urban	persons per household	..	5.8	7.6	..	..	..
Fixed investment: housing	"	..	4	..	..	..	..
Fuel and power	% of GDP	..	..	..	..	..	..
Energy consumption per capita	% of GDP	..	4.8	0.3	..	..	..
Households with electricity	kg of oil equiv.	..	1.9	3.1	..	..	..
Urban	% of households	464	533	379	100	350	1,249
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	..	..	..	..	..
Fixed investment: transport equipment	"	..	3.9	3.8	..	..	..
Total road length	km	..	6.0	1.7	..	..	..
INVESTMENT IN HUMAN CAPITAL		..	..	37,359	..	..	..
Health							
Access to health care	% of pop.	..	..	..	..	..	..
Population per physician	persons	11,401	13,486	11,290	..	..	..
Population per nurse	"	5,829	1,698	603	..	..	..
Population per hospital bed	"	..	300	..	..	..	..
Access to safe water	% of pop.	..	42.0	58.0	1,328	1,048	509
Urban	"	..	86.0	76.0	36.7	70.6	..
Rural	"	..	16.0	41.0	74.3	79.3	..
Oral rehydyration therapy (under-5)	% of cases	..	..	87	24.2	62.8	..
Education					35	32	..
Gross enrollment ratio							
Secondary	% of school-age pop.	7	15	20	18	44	56
Female	"	3	10	14	14	37	..
Pupil-teacher ratio: primary	pupils per teacher	51	48	44	39	39	25
Pupil-teacher ratio: secondary	"	19	23	28	..	20	..
Pupils reaching grade 4	% of cohort	..	96	..	69	..	..
Repeater rate: primary	% of total enroll	..	2	2	..	..	..
Illiteracy	% of pop. (age 15+)	..	..	27	51	39	..
Female	% of fem. (age 15+)	..	..	35	62	52	..
Newspaper circulation	per thou. pop.	7	22	17	5	..	..

Source: World Bank International Economics Department, April 1993

Base Case Projection

ZAMBIA--KEY INDICATORS

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Real Growth Rates:										
Gross Domestic Product (GDP)	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.0%	12.3%	5.3%	4.5%	5.7%
Gross Domestic Income (GDY)	-2.8%	11.4%	-14.0%	5.9%	2.3%	-11.8%	7.0%	-0.7%	5.5%	6.6%
Real Per Capita Growth Rates:										
Gross Domestic Product (GDP)	-0.3	2.5%	-4.7%	-4.1%	-5.0%	-13.2%	9.1%	2.1%	1.4%	2.7%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	11.6%	-2.0%	-0.5%	0.9%	-0.3%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	10.5%	-0.2%	-0.8%	0.8%	-1.8%
Debt Service (LT+ST+IMF): 1/										
Debt Service (US$M) 2/	..	751.9	711.3	801.0	783.0	743.0	652.0	617.0	415.0	687.0
Debt Service / Exports (GNFS) 2/	..	61.9%	47.6%	59.7%	67.2%	62.2%	60.7%	67.5%	35.0%	39.3%
Debt Service / GDP	..	20.7%	16.4%	21.6%	20.4%	17.5%	14.9%	11.9%	6.8%	8.4%
Interest Burden (LT+ST+IMF):										
Interest (US$M)	221.2	423.4	427.0	318.9	387.3	315.0	314.0	250.0	212.3	211.4
Interest / Exports (GNFS)	13.8%	34.9%	28.6%	23.8%	33.1%	26.4%	29.2%	27.4%	17.9%	12.1%
Interest / GDP	5.7%	11.7%	9.8%	8.6%	10.1%	7.4%	7.2%	4.8%	3.5%	2.6%
Gross Investment / GDP	23.3%	11.4%	9.9%	15.5%	13.0%	15.0%	14.1%	17.2%	18.3%	21.6%
ICORs (5-yr ending year shown) 3/	77.00	5.90	6.40	8.00	12.40	-8.70	-28.80	15.80	4.80	4.10
Domestic Savings / GDP	19.3%	16.4%	14.8%	14.8%	10.7%	6.4%	8.8%	8.1%	10.7%	17.1%
BOP Resource Balance / GDP 4/	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-8.6%	-5.3%	-9.1%	-7.6%	-4.5%
BOP Current Account Balance / GDP 5/	-14.0%	-7.2%	-5.1%	-10.5%	-13.4%	-16.8%	-13.2%	-14.6%	-11.7%	-7.4%
Marginal Domestic Savings Rate	0.78	0.54	0.86	1.84	2.20	1.96	0.83	4.54	0.30	0.64
Government Investment / GDP	..	4.7%	4.7%	5.5%	4.7%	5.6%	4.8%	6.1%	6.7%	7.6%
Government Savings / GDP	-9.8%	-8.0%	-4.1%	-1.0%	0.5%	8.8%	6.5%	16.7%	16.2%	15.0%
Private Investment / GDP	..	6.7%	5.3%	10.0%	8.3%	9.4%	9.3%	11.1%	11.6%	14.0%
Government Revenues / GDP	24.0%	18.8%	19.2%	21.9%	23.5%	31.7%	31.9%	32.1%	28.4%	25.9%
Government Expenditures / GDP	44.3%	27.3%	28.8%	29.3%	30.6%	28.5%	21.2%	22.2%	19.4%	18.9%
Budg. Def. (-) or Surplus / GDP	-20.3%	-8.5%	-9.6%	-7.4%	-7.1%	3.2%	10.7%	9.9%	9.0%	7.0%
Consumer Price Index (% growth)	11.7%	55.6%	96.3%	109.6%	93.4%	226.1%	147.5%	46.8%	10.0%	5.0%
GDP Deflator (% growth rate)	11.8%	42.8%	102.0%	113.7%	97.5%	226.1%	147.5%	46.8%	10.0%	5.0%
Real Exchange Rate (1987=100)	232.3	155.7	205.8	173.4	153.6	161.6	170.7	179.6	179.6	179.6
Terms of Trade Index (1987=100)	..	136.1	150.1	132.7	114.1	106.6	88.8	81.0	80.5	99.2
Export (GNFS)/Volume Growth Rate 6/	-3.1%	-5.9%	-1.4%	15.9%	-16.6%	9.1%	-2.0%	-2.2%	2.7%	16.1%
Exports (GNFS) / GDP	41.4%	34.2%	32.0%	34.7%	30.4%	28.1%	24.5%	17.6%	19.5%	21.3%
Imports (GNFS) Volume Growth Rate	..	0.2%	25.0%	1.1%	-10.1%	18.9%	-16.7%	2.8%	4.3%	5.9%
Imports (GNFS) / GDP	45.4%	26.9%	27.6%	35.4%	32.3%	36.7%	29.7%	26.7%	27.2%	25.8%
BOP Current Balance (US$M)	-544.6	-263.2	-222.4	-388.2	-512.7	-714.0	-578.0	-757.0	-713.3	-610.7
Net Reserves (US$M)	..	..	..	..	..	..	..	..	..	..
Reserves Level(US$M)	78.0	134.0	116.0	193.0	185.0	280.0	300.0	330.0	390.0	515.0
Net Reserves (months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.2	2.4	2.5	2.7

Note: All ratios are calculated from data in current prices and exchange rates. ICOR and growth rates are based on constant price data.

1. "LT" denotes long-term debt; "ST" denotes short-term debt.
2. Figures show debt service before rescheduling.
3. Incremental capital output ratios with a 5-year period.
4. "BOP" denotes "Balance of Payments.
5. Current account balance is before official transfers.
6. Goods and nonfactor services.

ZAMBIA--NATIONAL ACCOUNTS

Base Case Projection
1991 Per Capita GNP (US$) 429.4
Mid-1991 Population (Mil) 8.3

PART A: CURRENT PRICE DATA
(Millions of LCUs)

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	3063.6	30020.8	60024.5	127649.7	247623.2	726457.9	2018039.0	3121152.0	4147911.0	6596558.0
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	70231.0	207548.0	346638.0	463145.0	741005.0
GDP at Factor Cost	2842.6	28710.1	57323.5	119515.9	232006.9	656226.9	1810491.0	2774514.0	3684766.0	5855553.0
Imports (GNFS)	1391.2	8065.6	16537.6	45148.6	75370.4	266691.6	600300.0	832800.0	1126956.0	1698660.0
Exports (GNFS)	1268.0	10266.2	19226.2	44258.0	71901.2	204174.0	494040.0	548460.0	810252.3	1402113.0
Resource Balance	-123.2	2200.6	2688.6	-890.6	-3469.2	-62517.6	-106260.0	-284340.0	-316703.7	-296547.0
Total Expenditure	3186.8	27820.2	57335.4	128540.3	251092.3	788975.5	2124298.7	3405492.4	4464614.1	6893104.5
Total Consumption	2473.5	24407.2	51371.7	108957.1	217708.2	679953.5	1840488.9	2868213.3	3704745.2	5466381.7
Government	781.6	4582.4	8460.8	14453.3	25220.9	84832.4	200150.9	319842.3	410010.2	700230.7
Private	1691.9	19824.8	42910.9	94503.8	192487.3	595121.1	1640338.0	2548371.0	3294735.0	4766151.0
Gross Domestic Investment	713.3	3413.0	5963.7	19583.2	33384.1	109022.0	283809.8	537279.1	759868.9	1426722.8
Government	..	1411.0	2821.2	7058.8	11757.5	40800.0	95904.9	189745.8	279103.1	501439.4
Private	..	2002.0	3142.5	12524.4	21626.6	68222.0	187904.9	347533.3	480765.8	925283.4
Memorandum Items:										
Domestic Savings	590.1	5613.6	8652.8	18692.6	29915.0	46504.4	177550.1	252938.7	443165.8	1130176.3
Net Factor Income	-161.7	-3394.8	-5620.9	-9659.2	-24815.3	-53865.0	-144440.0	-150000.0	-144918.1	-169500.5
Net Current Transfers	-144.4	-288.5	-382.6	-1299.4	-2592.1	-5625.9	-15180.0	-19800.0	-25461.2	-23091.9
National Savings	284.0	1930.3	2649.3	7734.0	2507.6	-12986.5	17930.1	83138.7	272786.5	937583.8
Optional details for RMSM-X:										
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	70231.0	207548.0	346638.0	463145.0	741005.0
Indirect Taxes	417.8	2706.7	4203.8	12048.9	21379.3	77731.0	215123.0	354250.9	470788.4	748709.7
Subsidies	196.8	1396.0	1502.8	3915.1	5763.0	7500.0	7575.0	7612.9	7643.4	7704.7

PART B: CONSTANT PRICE DATA
(Millions of LCUs, 1977=100)

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	1995.8	2247.1	2224.2	2213.6	2174.4	1956.5	2196.2	2313.5	2541.1	3103.2
Imports (GNFS)	710.4	540.4	452.7	423.7	385.9	458.8	382.2	392.9	439.4	508.6
Exports (GNFS)	632.7	476.3	469.6	544.5	454.3	495.6	485.7	475.0	501.2	573.8
Resource Balance	-77.7	-64.1	16.9	120.8	68.4	36.8	103.5	82.1	61.8	65.2
Total Expenditure	2074.4	2237.2	2172.4	1994.1	2209.4	2585.9	2639.4	2830.7	3167.5	3878.2
Total Consumption	1635.3	1992.2	1944.2	1654.6	1909.4	2192.0	2218.0	2278.5	2521.6	2950.7
Government	531.3	331.3	438.7	427.8	427.8	529.0	466.6	491.5	539.9	731.1
Private	1104.0	1660.9	1505.5	1226.8	1481.6	1663.0	1751.4	1787.0	1981.7	2219.6
Total Investment Expenditure	439.1	245.0	228.2	339.5	300.0	394.0	421.5	552.2	645.9	927.5
Government	..	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..	..
Terms of Trade (TT) Effect	14.8	211.5	-110.8	24.6	115.3	63.4	-35.1	-168.0	-81.0	33.1
Gross Domestic Income	2010.6	2458.6	2113.4	2238.2	2289.7	2019.9	2161.1	2145.5	2460.1	3136.3
Domestic Savings (TT Adjusted)	375.3	466.4	169.2	583.6	380.3	-172.1	-56.9	-133.0	-61.5	185.6

PART C: VALUED ADDED BY SECTOR
sectoral shares in percent of GDP at market price

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Agriculture	14.2%	16.8%	17.6%	18.2%	15.7%	11.6%	21.8%	22.2%	22.6%	23.1%
Industry, of which:	41.3%	45.3%	51.5%	45.3%	47.2%	65.9%	56.2%	55.6%	55.5%	49.3%
Manufacturing	18.5%	31.6%	36.5%	31.9%	36.3%	42.2%	37.7%	38.8%	38.5%	38.2%
Mining	16.4%	10.5%	12.9%	9.0%	7.3%	11.3%	5.8%	4.1%	3.7%	4.0%
Services	44.5%	37.9%	30.9%	36.5%	37.1%	22.5%	22.0%	22.2%	21.9%	27.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

PART D: LONG-TERM GROWTH RATES
(average annual growth rates calculated from constant price data)

	Actual			Projected	
	1965-73	1973-80	1980-90	1991-95	1995-2000
Gross Domestic Product (m.p.)	1.9%	0.8%	1.1%	2.8%	5.1%
Agriculture	1.7%	1.4%	2.4%	7.8%	6.0%
Industry of which	2.5%	0.4%	2.5%	2.8%	5.3%
Manufacturing	10.3%	1.0%	4.3%	0.1%	5.3%
Mining	-4.4%	-1.6%	-2.3%	2.4%	1.7%
Services	1.5%	1.0%	0.4%	2.7%	4.8%
Imports of GNFS	3.7%	-5.3%	-5.0%	2.2%	3.4%
Exports of GNFS	0.5%	-0.3%	-1.5%	1.8%	2.6%
Total Expenditures	3.2%	-1.3%	-0.4%	7.7%	5.0%
Total Consumption	1.6%	2.8%	0.1%	6.2%	4.1%
Government	9.2%	0.4%	-2.1%	4.8%	7.2%
Private	-1.4%	4.2%	1.1%	6.3%	3.4%
Gross Domestic Investment	5.8%	-10.2%	-2.5%	18.4%	9.3%
Government	..	..	..	13.2%	8.2%
Private	..	..	..	22.1%	9.9%
Memorandum Items:					
Capacity to Import	4.2%	-11.6%	-1.3%	-4.5%	7.1%
Gross National Income	3.3%	-4.4%	1.9%	1.7%	6.4%
Gross National Product	1.4%	1.5%	0.8%	4.4%	5.3%
Gross Domestic Income	3.5%	-4.5%	1.1%	0.5%	6.1%
Gross Domestic Savings	5.6%	-17.4%	-0.2%	..	..
Gross National Savings	5.4%	-26.8%	-0.2%	..	..
Population	3.0%	3.1%	3.7%	3.2%	3.2%
Labor Force	2.6%	2.7%	3.3%	..	..
GDP per capita	-1.1%	-2.3%	-2.6%	-0.4%	1.9%

PART E: ANNUAL GROWTH RATES
(anual growth rates are calculated from constant price data)

	Actual					Prel.	Proje cted		
	1980	1988	1989	1990	1991	1992	1993	1994	1996
Gross Domestic Product (m.p.):	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.0%	12.3%	5.3%	4.5%
Agriculture	-1.9%	19.3%	-2.7%	-8.9%	5.2%	-39.3%	100.0%	5.0%	6.0%
Industry	2.3%	6.7%	-0.7%	4.6%	-6.4%	-1.8%	-1.8%	5.0%	4.3%
Services	5.4%	1.0%	-0.5%	-1.1%	-0.4%	2.7%	2.3%	2.9%	3.7%
Gross Domestic Income	-2.8%	11.4%	-14.0%	5.9%	2.3%	-11.8%	6.9%	-0.7%	5.4%
Total Investment	64.6%	4.7%	-6.9%	48.8%	-11.6%	31.3%	7.0%	31.0%	9.4%
Total Consumption	-0.8%	6.2%	-2.4%	-14.9%	15.4%	14.8%	1.2%	2.7%	4.0%
Population	3.3%	3.8%	3.7%	3.6%	3.2%	3.2%	3.2%	3.2%	3.1%
Per Capita Growth Rates:									
Gross Domestic Product m.p.	-0.3%	2.5%	-4.7%	-4.1%	-5.0%	-13.2%	9.1%	2.1%	1.4%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	11.6%	-2.0%	-0.5%	0.9%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	13.6%	3.0%	2.4%	3.9%

PART F: PRICE INDICES
(national accounts deflators; 1977=100)

	1980	1988	1989	1990	1991	Prel. 1992	1993	1994	1996
	Actual					Projected			
GDP Deflator	153.5	1336.0	2698.7	5766.6	11388.1	37130.0	91887.8	134911.8	163232.9
Import (GNFS)	195.8	1492.5	3653.1	10655.8	19531.1	58123.6	157060.4	211956.1	256476.1
Export (GNFS)	200.4	2155.4	4094.2	8128.2	15826.8	41193.9	101711.1	115454.9	161662.5
Total Expenditures	153.6	1243.5	2639.3	6446.0	11364.7	30510.1	80483.5	120307.2	140951.2
Consumption	151.3	1225.1	2642.3	6585.1	11401.9	31019.9	82980.9	125883.2	146921.0
Investment	162.4	1393.0	2613.4	5768.2	11128.0	27673.6	67340.4	97299.6	117645.0
Agriculture	143.2	1159.0	2488.1	6008.5	9577.1	30728.1	79893.1	118809.1	143118.7
Industry, of which	167.1	1618.0	3714.1	6639.8	14336.0	47320.3	111709.0	161821.6	196873.0
Mining	244.5	1967.1	4396.2	2976.5	10882.2	40659.2	57195.2	63149.3	75993.3
Manufacturing	1476.1	1735.9	4031.1	6931.0	17165.7	55076.1	143198.0	212949.7	256521.5
Services	145.8	1171.8	1916.4	4873.4	9637.5	30921.9	80397.0	119558.4	144021.4

PART G: Other Economic Indicators

	1973-80	1980-90	1991-95	1995-2000	1973	1980	1990
Import Elasticity based on:							
Imports (GNFS)	-6.6	-4.5	0.8	0.7	-18.0	4.2	13.4
Marginal Savings Rate:							
Gross Domestic Saving	115.7	-0.4	..	0.4	1.5	0.8	1.8
Gross National Saving	131.0	0.3	..	0.4	1.6	4.0	0.3
ICOR (period averages)	-0.6	-3.3	-0.5	4.1	-54.00	4.50	-20.80
Labor Force(%): 1/							
Agriculture	74.3%	15.6%	..	..	75.5%	73.1%	15.2%
Industry	9.4%	32.1%	..	..	9.0%	9.8%	29.9%
Services	16.3%	52.3%	..	..	15.5%	17.1%	54.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/ For 1990 and 1980-90 is only formal sector.

ZAMBIA -- EXTERNAL TRADE

Base Case Projection

PART A: VOLUME, VALUE AND PRICES

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Volume Indices 1987=100										
Merchandise Exports:										
X.COPPER	143.3	83.7	90.7	92.7	79.1	86.1	84.2	82.1	86.3	97.9
X.ZINC	161.4	97.5	66.0	48.2	32.0	32.0	26.0	20.0	6.0	0.0
X.COBALT	48.8	120.9	97.6	113.9	116.2	77.6	77.5	122.7	123.9	123.9
Manufactures	..	..	..	..	..	..	..	..	..	..
Other Exports	..	..	..	..	..	..	..	..	..	..
Total Merchandise Exports (FOB)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Exports										
X.COPPER	1106.0	1004.0	1193.0	1145.0	833.0	866.0	722.0	647.0	722.0	1143.0
X.ZINC	25.0	20.0	22.0	13.0	6.0	0.0	0.0	0.0	0.0	0.0
X.COBALT	111.0	72.0	80.0	74.0	98.0	137.0	79.0	129.0	136.0	136.0
Manufactures	13.0	13.0	5.0	13.0	25.0	..	..	..	..	..
Other Exports	202.0	41.0	119.0	184.0	87.0	..	..	..	..	..
Total Merchandise Exports (FOB)	1457.0	1155.0	1410.0	1263.0	1085.0	1111.0	950.0	805.0	1052.0	1542.0
Volume Indices 1987=100										
Merchandise Imports:										
Food	339.5	102.0	111.8	74.8	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..
POL and Other Energy	164.2	118.9	188.3	133.8	168.7	..	..	..	..	..
Intermediate Goods	244.7	112.5	82.4	105.5	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	139.7	108.9	92.5	161.5	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Imports										
Food	55.0	14.0	14.0	9.0	16.0	258.0	50.3	0.0	0.0	0.0
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..
POL and Other Energy	248.0	80.0	152.0	141.0	83.0	53.0	63.0	65.1	74.0	97.3
Intermediate Goods	611.0	372.0	271.0	367.0	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	283.0	292.0	246.0	455.0	171.0	..	..	..	..	..
Total Merchandise Imports (CIF)	1324.0	888.0	1020.0	1084.0	952.0	1276.0	989.0	1072.0	1321.0	1766.0
US$ Prices Indices 1987=100										
Terms of Trade:										
Merchandise Export Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Import Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Terms of Trade	..	136.1	150.1	132.7	114.1	106.6	88.8	81.0	80.5	99.2

PART B: SHARES OF TOTAL AND GROWTH RATES

	Share of Merchandise Exports and Imports (in current prices)					Export and Import Volume Growth Rates (from constant price data)		
	Actual		Projected			Actual	Projected	
	1980	1990	1994	1996	2000	1986-90	1991-96	1996-2000
Merchandise Exports (%, %p.a.)								
X.COPPER	75.9%	77.5%	80.4%	68.6%	74.1%	-5.9%	1.8%	3.2%
X.ZINC	1.7%	1.0%	0.0%	0.0%	0.0%	-10.3%	-28.5%	0.0%
X.COBALT	7.6%	5.9%	16.0%	12.9%	8.8%	11.5%	1.3%	0.0%
Manufactures	0.9%	1.0%	..	..	..	..	..	..
Other Exports	13.9%	14.6%	..	..	..	..	..	..
Total Merch. Exports FOB	100.0%	100.0%	100.0%	100.0%	100.0%	..	..	..
Merchandise Imports (%, %p.a.)								
Food	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..
POL and Other Energy	..	..	..	..	..	..	..	..
Intermediate Goods n.e.i.	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..

PART C: TRENDS IN NON-FACTOR SERVICES

	Actual				Projected			
	1988	1989	1990	1991	1992	1993	1996	2000
Volume Indices 1987=100								
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..
$S Price Indices 1987=100	..	..	..	..	..	..	..	..
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..

ZAMBIA BALANCE OF PAYMENTS
(US$ millions in current prices)

Base Case Projection

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
A. Exports of GNFS 1/	1608.4	1214.4	1493.2	1342.6	1168.8	1194.0	1074.0	914.0	1187.0	-
1. Merchandise (FOB)	1456.9	1155.4	1410.1	1263.6	1085.4	1111.0	950.0	805.0	1052.0	154.
2. Non-Factor Services	151.5	59.0	83.1	79.0	83.4	83.0	124.0	109.0	135.0	206.7
B. Imports of GNFS	1765.0	1032.0	1281.0	1369.0	1257.5	1560.0	1305.0	1388.0	1651.0	2119.0
1. Merchandise 2/	1114.0	788.0	901.0	889.0	952.4	1276.0	989.0	1072.0	1321.0	1766.0
2. Non-Factor Services	651.0	244.0	380.0	480.0	305.1	284.0	316.0	316.0	330.0	353.0
C. Resource Balance	-156.6	182.4	212.2	-26.4	-88.7	-366.0	-231.0	-474.0	-464.0	-370.3
D. Net Factor Income	-205.0	-410.7	-406.9	-318.9	-383.9	-315.0	-314.0	-250.0	-212.3	-211.4
1. Factor Receips	16.2	12.7	20.1	0.0	3.4	0.0	0.0	0.0	0.0	0.0
2. Factor Payments	221.2	423.4	427.0	318.9	387.3	315.0	314.0	250.0	212.3	211.4
a. Total Interest Paid (DRS) 3/	141.8	11.5	76.0	76.5	306.7	164.7	..	..	..	..
b. Interest due	141.8	11.5	211.2	328.7	395.9	165.8	314.0	250.0	212.3	211.4
c. Other Factor Payments and discrepa	79.4	411.9	215.8	-9.8	-8.6	149.2	0.0	0.0	0.0	0.0
E. Net Current Transfers	-183.1	-34.9	-27.7	-42.9	-40.1	-33.0	-33.0	-33.0	-37.0	-29.0
1. Current Receipts	2.5	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Workers remittances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other current Transfers	2.5	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Current Payments	185.6	35.5	28.1	42.9	40.1	33.0	33.0	33.0	37.0	29.0
Current Account Balance										
1. Before official capital grants	-544.6	-263.2	-222.4	-388.2	-512.7	-714.0	-578.0	-757.0	-713.3	-610.7
2. Official capital grants	7.2	99.9	71.8	295.5	521.0	636.0	328.0	707.0	603.0	662.0
3. After official capital grants	-537.4	-163.3	-150.6	-92.7	8.3	-78.0	-250.0	-50.0	-110.3	51.3
G. Long Term Capital Inflows	162.8	16.2	-401.4	-757.8	-213.1	-131.6	85.2	-173.0	79.0	-56.9
1. Direct Investment	61.7	0.0	0.0	0.0	0.0	0.0	7.0	15.0	131.0	148.0
2. Net LT Borrowing (DRS)	390.9	228.4	-54.1	-292.5	-8.1	-131.6	78.2	-188.0	-52.0	-204.9
a. Disbursements	602.9	244.2	212.5	164.8	353.5	292.0	414.0	179.0	151.0	165.0
b. Repayments Due	212.0	15.8	266.6	457.3	361.6	423.6	335.8	367.0	203.0	369.9
3. Other LT Inflows (net)	-289.9	-212.2	-347.3	-465.3	-205.0	0.0	0.0	0.0	0.0	0.0
H. Total Other Items (net)	371.1	179.3	610.9	752.6	212.1	304.6	184.8	253.0	61.3	40.6
1. Net Short-Term Capital 4/	345.6	243.0	718.4	829.4	334.0	304.6	184.8	253.0	61.3	40.6
a. Interest Arrears	..	..	..	..	..	..	..	..	..	..
b. Other net ST capital	..	..	..	..	..	..	..	..	..	..
2. Capital Flows n.e.i.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Errors and omissions	25.5	-63.7	-107.5	-76.8	-121.9	0.0	0.0	0.0	0.0	0.0
I. Change in Net Reserves	3.6	-32.2	-58.9	97.9	-7.3	-95.0	-20.0	-30.0	-30.0	-35.0
1. Net Credit from the IMF 5/	-28.3	71.8	70.7	87.3	-37.7	-39.4	-72.8	-20.0	0.0	-105.2
2. Reserves Changes n.e.i.	31.8	-104.0	-129.6	10.6	30.4	-55.6	52.8	-10.0	-30.0	70.2
3. Escrow account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1. Goods and nonfactor services.
2. Figures on imports up to 1991 are F.O.B., and afterwards are C.I.F.
3. "DRS" denotes Debt Reporting Service.
4. Includes reduction in arrears and debt relief.
5. Includes overdue obligations.

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
J. As Shares of GDP (current US$):										
1. Resources Balance	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-8.6%	-5.3%	-9.1%	-7.6%	-4.5%
2. Interest Payment (LT+IMF+ST)	5.7%	11.7%	9.8%	8.6%	10.1%	7.4%	7.2%	4.8%	3.5%	2.6%
3. Current Account Balance	-14.0%	-7.2%	-5.1%	-10.5%	-13.4%	-16.8%	-13.2%	-14.6%	-11.7%	-7.4%
4. LT capital Inflow (F.2+G)	4.2%	0.4%	-9.2%	-20.5%	-5.6%	-3.1%	1.9%	-3.3%	1.3%	-0.7%
5. Net Credit from the IMF	-0.7%	2.0%	1.6%	2.4%	-1.0%	-0.9%	-1.7%	-0.4%	0.0%	-1.3%
K. Foreign Exchange Reserves:										
1. Gross Reserves (excluding gold)	78.0	134.0	116.0	193.0	185.0	280.0	300.0	330.0	390.0	515.0
2. Gold (end-year London price)	..	..	..	..	..	..	..	..	..	..
3. Gross Reserves (including gold)	..	..	..	..	..	..	..	..	..	..
4. Net Reserves (in months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.2	2.4	2.5	2.7
L. Exchange Rates										
1. In Nominal Terms (LCU/US$) 6/										
a. Primary (Official) Rate										
Annual Average	0.789	8.266	13.814	30.289	64.640	171.000	460.000	600.000	682.610	801.800
End-of-Year	0.803	10.000	21.640	42.700	84.000	315.500	530.000	620.820	706.790	811.900
b. GNP Conversion Factor	0.789	8.266	13.814	30.289	64.640	171.000	460.000	600.000	682.610	801.800
2. In Real Terms (base 1987=100)										
a. MUV (PAC estimates)(% change) 7/	9.70%	7.30%	-0.70%	5.70%	2.10%	4.31%	0.50%	3.43%	3.04%	2.49%
b. Index Real Exchange Rate (US$/LCU)	232.3	155.7	205.8	173.4	153.6	161.6	170.7	179.6	179.6	179.6
M. Memorandum Item										
GDP (current US$M)	3884.0	3632.0	4345.0	3704.0	3830.8	4248.0	4387.0	5202.0	6077.0	8227.0
N. Optional Details for RMSM-X										
1. Total Factor Payments	..	..	..	..	..	..	..	..	..	..
a. Government Interest	..	..	..	..	..	..	..	..	..	..
b. Private Sector Interest	..	..	..	..	..	..	..	..	..	..
c. Profit on Direct Foreign Investment	..	..	..	..	..	..	..	..	..	..
2. Official Capital Grants	..	..	..	..	..	..	..	..	..	..
a. For Budgetary Financing	..	..	..	..	..	..	..	..	..	..
b. To Extra-Budgetary Entities (OPS)	..	..	..	..	..	..	..	..	..	..
3. Government Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..
4. Private Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..

6. "LCU" denotes local currency units.
7. "MUV" denotes the unit value index of manufactured exports from selected industrialized countries (France, Germany, Japan, U.K., and U.S.) to developing country expressed in US$.

ZAMBIA: Debt Service

(US $ Million)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt Service Before Rescheduling									
Bilateral	358.0	319.2	214.4	160.9	161.5	210.1	256.0	243.1	232.9
Paris Club	297.0	292.1	201.9	148.2	148.8	197.0	245.6	237.9	228.8
Other Bilateral	61.0	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	46.6	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
Suppliers Credit	23.4	29.4	35.3	41.6	48.3	55.3	62.8	70.6	78.8
Commercial Bank	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	14.8	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Multilateral	211.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
Bank	78.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	65.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	68.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	617.0	524.8	414.9	358.6	428.0	526.7	686.3	778.1	720.5
Rescheduling									
Bilateral	266.7	152.0	61.9	0.0	0.0	47.0	75.6	67.9	100.0
Paris Club	235.0	152.0	61.9	0.0	0.0	47.0	75.6	67.9	100.0
Other Bilateral	31.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	275.0	152.0	61.9	0.0	0.0	47.0	75.6	67.9	100.0
Debt Service After Rescheduling									
Bilateral	91.3	167.2	152.5	160.9	161.5	163.1	180.4	175.2	132.9
Paris Club	62.0	140.0	140.0	148.2	148.8	150.0	170.0	170.0	128.8
Other Bilateral	29.3	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	38.2	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
' ilateral	211.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
.nk	78.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	65.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	68.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	341.9	372.8	353.0	358.6	428.0	479.7	610.7	710.2	620.5
Total Debt Service Bef. Resc./Exports	67.5	48.5	35.0	28.0	30.9	35.8	39.2	40.1	34.3
Total Debt Service Aft. Resc./Exports	37.4	34.4	29.7	28.0	30.9	32.6	34.9	36.6	29.5
Total Debt Service Bef. Resc./GDP	11.9	9.3	6.8	5.5	6.1	6.9	8.3	8.7	7.5
Total Debt Service Aft. Resc./GDP	6.6	6.6	5.8	5.5	6.1	6.3	7.4	8.0	6.4

1/ Includes interest on gap and Konkola financing.

Zambia: Debt Stock - 1993*

		US$ Million		Percent
Total Debt Stock, End of Year		7103		
Total Debt Service		389		
Total Debt as % of Gross National Product				421.0
Total Debt as % of Export of Goods & Services				594.9
Debt Service as % of Export of Goods and Services**				32.6
Major Creditors				
Bilateral		2992		42.1
of which: Paris Club	2289		76.5	
Non-Paris Club	703		23.5	
Multilateral		3056		43.0
of which: IDA	734		24.0	
World Bank	289		10.9	
IMF	1304		42.7	
Others	729		22.4	
Suppliers		135		1.9
London Club		97		1.4
Short Term		822		11.6
Major Bilateral Creditors				
Japan		2992		42.1
Germany, Fed Rep		690		9.7
UK		427		6.0
Former USSR		407		5.7
USA		380		5.4
China		229		3.2
France		160		2.3
Italy		129		1.8
Saudi Arabia		111		1.6
Iraq		80		1.1
Commonwealth Development Corp.		74		1.0
Yugoslavia		63		0.9
Others		61		0.9
		181		2.5
Major Debtors				
GRZ		5445		76.7
Parastatals		836		11.8
Others		822		11.6

* All Stocks are estimates for end-1993.
** After Rescheduling.

ZAMBIA--GOVERNMENT BUDGET
(millions of LCUs at current prices)

Base Case Projection

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Direct Taxes	313	1988	4073	8805	14335	38389	67712	201152	267146	424528
Indirect Taxes	396	2337	6029	9776	11445	77731	215123	354251	470788	748709
Non-Tax Receipts	58	494	431	424	860	5085	9489	21848	29035	6597
Total Current Revenues	711	4819	10533	19005	26640	121205	292324	577251	766969	1179833
Interest on External Debt	431	1132	2058	7275	14063	47008	110717	107641	97507	127406
Interest on Domestic Debt	..	598	1006	1584	3662	10310	-30258	-30979	-114258	-278682
Other Current Transfers 1\	..	615	1088	2909	6162	-92193	-120408	-330589	-287092	-332640
Subsidies	..	1396	1879	4060	8744	7500	7575	7613	7643	7705
Consumption	623	3827	6649	13414	24256	84832	200151	319842	410010	700231
Total Current Expenditures	1054	7568	12680	29243	56887	57457	167777	73527	113811	224019
Budgetary Savings	-343	-2749	-2147	-10237	-30247	63749	124547	503724	65158	955815
Capital Revenues	0	0	0	0	0	0	0	0	0	0
Capital Transfers	226	349	1805	1100	1012	0	21000	21000	21000	21000
Budgetary Investment	120	1178	2801	7059	11758	40800	95905	189746	279103	501439
Total Capital Expenditures	346	628	4606	8159	12769	40800	116905	210746	300103	522439
Total Deficit Financing	622	-2552	-5725	-9623	-17581	22949	7642	292978	353055	433375
External Capital Grants 2/	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	27	1220	621	1617	4812	9783	32292	54000	67680	109374
Monetary System Credit (net)	..	1509	2530	2675	12384	-32732	-39934	-346978	-420735	-542749
Other Domestic Borrowing (net)	..	48	1294	405	1205	0	0	0	0	0
ebt (at the end of the year)										
External Debt										
(in millions of LCUs)	1689	36632	58455	146780	321584	681666	1866013	2487930	2957523	3870240
(in millions of US$)	2140	4435	4231	4846	4975	3986	4057	4147	4333	4827
Domestic Debt	..	5076	8897	5256	12887	-19845	-59779	-406757	-1000000	-3000000
To Monetary System	..	5076	8897	5256	12887	-19845	-59779	-406757	-1000000	-3000000
Other Domestic Debt	..	0	0	0	0	0	0	0	0	0
Memorandum Item:										
Primary Deficit	591	-2141	-3716	-764	-17237	80266	88101	369640	336304	282099
External Grants	26	825	992	8950	31551	108756	150880	424224	411529	530537

ZAMBIA MONEY AND CREDIT
(millions of LCUs at current prices)

Base Case Projection

	1980	Actual 1988	1989	1990	1991	Prel. 1992	1993	Projected 1994	1996	2000
A. Annual Flows:										
Net International Reserves	..	908.6	1342.7	-287.7	-1971.5	16245.0	9200.0	18000.0	20478.2	28063.1
Net Domestic Credit	..	3384.0	5680.0	4445.0	35446.0	16309.9	-286377.0	-4000000.0	-723658.0	-692289.0
To Government Budget	..	1300.6	3392.9	2675.1	12384.0	-32732.0	-39934.0	-346978.0	-420735.0	-542749.0
To Other Official Entities	..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To Private Sector	..	2083.4	2287.1	1769.9	23062.0	49041.6	-246443.0	-4000000.0	-302923.0	-14954.0
Total Assets and Liabilities	..	4292.6	7022.7	4157.3	33474.5	32554.9	-277177.0	-4000000.0	-703180.0	-664226.0
Money and Quasimoney	..	3861.0	6602.0	7662.0	24061.0	126018.0	107717.0	126537.0	113142.0	167868.0
Net Other Liabilities	..	-1010.9	-1896.2	-1158.4	-3120.8	-1000000.0	-2000000.0	-880019.0	-793675.0	-815420.0
B. End of Year Stocks:										
Net International Reserves	-828.0	1107.1	1605.6	5849.7	11934.5	28179.5	37379.5	55379.5	95107.1	191508.0
Net Domestic Credit	1863.0	5314.7	11356.0	19455.0	37178.0	53487.9	-232889.0	-4000000.0	-5000000.0	-8000000.0
To Government Budget	1354.0	857.7	2307.0	5256.0	12887.0	-19845.0	-59779.0	-406757.0	-1000000.0	-3000000.0
To Other Official Entities	-1354.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To Private Sector	..	4457.0	9049.0	14199.0	24291.0	73332.6	-173110.0	-4000000.0	-4000000.0	-5000000.0
Total Assets and Liabilities	1035.0	6421.8	12961.6	25304.7	49112.5	81667.0	-195510.0	-4000000.0	-5000000.0	-8000000.0
Money and Quasimoney	907.0	10126.0	16728.0	24390.0	48451.0	174469.0	282185.0	408722.0	869086.0	1689362.0
Net Other Liabilities	128.0	-3704.2	-3766.4	914.7	661.5	-92801.0	-477695.0	-5000000.0	-6000000.0	-9000000.0
C. Offsets to Expansion of MQM:										
Increase in Money and Quasimoney	..	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Foreign Assets	..	23.5%	20.3%	-3.8%	-8.2%	12.9%	8.5%	14.2%	18.1%	16.7%
Net Domestic Credit	..	87.6%	86.0%	58.0%	147.3%	12.9%	-265.9%	-3178.3%	-639.6%	-412.4%
To Government Budget	..	33.7%	51.4%	34.9%	51.5%	-26.2%	-37.1%	-274.2%	-371.9%	-323.3%
To Other Official Entities	..	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
To Private Sector	..	54.0%	34.6%	23.1%	95.8%	38.9%	-228.8%	-2904.1%	-267.7%	-89.1%
Net Other Liabilities	..	-26.2%	-28.7%	-15.1%	-13.0%	-1109.4%	-1679.2%	-695.5%	-701.5%	-485.8%
D. Memorandum Items:										
Net International Reserves (in millions of US$)										
Change during the year (- indicate increase in reserve)	..	367.8	232.9	354.7	94.3	-95.0	-20.0	-30.0	-30.0	-35.0
Stock at the end-of-year	78.0	134.0	116.0	193.0	185.0	280.0	300.0	330.0	390.0	515.0

ZAMBIA: EXTERNAL FINANCING STRATEGY

HANDLING THE DOWNSIDE SCENARIO

1. A serious risk exists that, despite Zambia's relatively good economic performance, the program will face an unresolvable financing gap at some point, due to plunging copper prices, and/or donor cutbacks on account of policy concerns such as the current controversy over governance/drugs issues.

I. SUMMARY

2. This note provides additional information as to how the Region would handle the downside scenario in which a large and apparently unfillable financing gap emerged, despite good economic management by Zambia. Actions would depend in part on the scale of the problem and the timing, but in broad terms:

(a) The Bank would continue to make clear to the Zambia government at the highest levels the implications of non-action to resolve the issues being raised by bilateral donors, e.g., governance and drugs if these are still issues.

(b) The Bank would continue, to the extent possible, to press the donors to see the Zambia program in a balanced way, and to consider the implications of funding levels that result in collapse of the Zambia adjustment program, with all of the difficulties of financing yet another arrears workout.

(c) As in previous years, there would be close consultation with top management of the IMF as to whether actions by the Bank or the Fund could resolve the financing gap, i.e. additional IDA contributions and/or deferral of IMF debt service.

(d) As in 1991, the Bank would work with the Zambia government to keep as much as possible of the adjustment program in place despite funding shortfalls.

(e) As in 1991, the Bank would work with the Zambia government as to the optimal handling of debt service payments. This would probably imply a similar ordering of payment priorities. First to be deferred would be payment of debt service to Paris Club creditors, then payments to the IMF.

(f) The Bank would work with Zambia to continue IBRD and IDA service payments; this would continue to be in Zambia's interest so long as net transfers from the Bank group remain positive. A critical issue would quickly emerge as to whether tranches of adjustment credits could be released in a situation where Zambia was not current with the IMF. This issue would have to be addressed in the context of the time. If circumstances were appropriate, the Bank would, as in 1991, seek IMF agreement to release of IDA tranches even though Zambia was not current with the IMF.

(g) We would expect most bilateral balance of payments assistance flows to disappear in such a situation, because of debt service arrears and a growing sense that the program had lost international support.

(h) Even with major efforts by the Bank and IMF staff, we consider it unlikely that Zambia could continue to maintain IDA disbursements for more than six to twelve months under such circumstances. At some point, a cash flow problem would likely result in Zambia missing a debt service payment, causing automatic suspension of further disbursements. It is probable that the interest of the private sector in investment in Zambia would rapidly disappear in such a situation.

(i) Zambia would then rapidly accumulate arrears with the Bank and the Fund, and a new effort to develop a debt workout would need to begin again, with concurrent efforts to preserve as much as possible of the adjustment effort.

3. The remainder of this note provides additional information on how the current situation arose and on alternative tactics that have been considered to deal with it.

II. BACKGROUND

4. The debt workout arrangements in Zambia were the result of discussions held in 1989 and 1990 between senior management of the Bank and Fund and the bilaterals, including contacts with the representatives of the G7 at their various summit meetings. The principal set of problems concerned how to restructure the Zambia debt problem in such a way that it became manageable, since the $1.1 billion arrears to the IMF and the $300 million arrears to the Bank could not under any scenario be handled by Zambia's efforts alone.

5. The set of arrangements that were adopted were the result of successive approximations of workouts. It became apparent during these discussions that the G7 were not prepared to write off the stock of Zambia debt at that time, beyond the most concessional terms available from the Paris Club. Instead, a set of arrangements were worked out, including:

- The Rights Approach with the IMF whereby Zambia's debt with the IMF would be frozen at a certain point, and Zambia would accumulate rights over a certain period (around three years), assuming good economic management, at which point the arrears would be refinanced under terms to be agreed at some later point. In the Rights accumulation period, the IMF's current debt service would be paid in full, resulting in net outflows to the IMF in the Rights period of some $350 million.

- The Bank arrears of some $300 million and the post-cutoff arrears of the IMF (initially around $100) would be cleared at one moment, by assembling the necessary cash from extraordinary balance of payments support from bilaterals, and the instant disbursement of some $200 million from the first tranche of a new operation plus restructured credits in the Bank's portfolio.

- Zambia would benefit from the most generous terms available from the Paris Club.

- Zambia would benefit from the most generous support available under the Fifth Dimension to alleviate the burden of IBRD interest payments.

- Bilaterals would continue to make extraordinary balance of payments support available to Zambia throughout the Rights period to enable it to meet continuing heavy debt service burdens.

- The underlying requirement for all of the above was that Zambia's economic management stayed on an adjustment course that warranted strong balance of payments support.

6. All throughout the clearance of arrears in 1991, the suspension later that year, and the resumption of large-scale aid flows in 1992 and 1993, all participants have acted in a manner generally consistent with the broad set of understandings. Things were done which had never been done before, and by and large, the group of donors has collaborated fairly effectively. Some bilateral donors remain somewhat bitter that aid moneys are being used to repay the IMF, and the donor coalition remains fragile, but it has held together.

7. The above set of arrangements have served to clear the Bank arrears, start the accumulation of rights with the IMF, and provide continuing high levels of financing for Zambia's adjustment program. However, a number of issues have been left unresolved, including:

- The terms under which the IMF would refinance the frozen arrears. The general assumption is that these terms would need to be at least as favorable as ESAF, but even that would still leave Zambia with a heavy debt burden vis-a-vis the IMF for an extended period. This issue will have to be resolved at least by 1995.

- The possibility of a mechanism for writing off the stock of IBRD debt. This issue, which has repeatedly been raised by the Nordics, has led to Bank staff working out a scheme for accomplishing such a write-off, though it depends on additional bilateral support, and is not feasible in an environment in which bilateral support is barely sufficient or even insufficient to cover current needs.

- The precise burden-sharing arrangements. The broad set of understandings never committed any particular organization to any specific level of assistance. So any party can at any time say that it can no longer accept the broad understandings. (Indeed all donors did just that in 1991.)

- The mechanism for resolving shortfalls in bilateral financial support. This has been a repeated problem, and has been handled to date in a pragmatic fashion, since, despite intensive efforts at aid coordination, no donor is willing to make other than short-term pledges or commitments.

III. PAST TACTICS IN FILLING THE FINANCING GAPS

8. As a result of funding delays, a massive drought, and declines in the copper price, the Zambia program has involved a continuing problem of external funding shortfalls. This has been handled pragmatically up to now on a case-by-case basis.

A. The Pre-Arrears Financing Gap in Early 1991

9. In December 1990, prior to the Bank arrears clearance, a remaining financing gap of some $60 million was identified, after all parties including IDA and the IMF had put on the table their best and final offer. This problem was resolved as a result of a series of conversations between senior Bank and Fund management in which additional IDA credits and IMF service payment deferral were agreed to close the gap. Despite a relatively weak adjustment performance by the Kaunda government, and the explicit identification of high risk of failure, the IDA board enthusiastically endorsed the arrangements in March 1991, and the Bank arrears were cleared. The IMF approval of the Rights approach followed shortly afterwards.

B. Going Off Track in 1991

10. In mid-1991, the Kaunda government informed the donors that it was deferring implementation of its undertakings on removal of maize subsidies until after the election scheduled for November 1990. The Bank and IMF, after consultation with bilaterals, informed the government that the program was off track. Bank and IMF staff continued to work with the government to keep the main elements of the program in place to the extent possible. During this period, the government:

- kept in place the OGL and most other aspects of the adjustment program, apart from elimination of maize subsidies;
- deferred payment of debt service to Paris Club creditors;
- deferred payment of service payments to the IMF;
- continued to make strenuous efforts to pay IBRD and IDA service payments.

11. While disbursements under existing IDA credits continued to flow, as did some ongoing bilateral assistance, the government was unable to secure release of the second tranche of the IDA adjustment credit, which was conditioned on implementation of the elimination of maize subsidies.

12. By September 1990, the government was so short of cash that the 60 day limit on debt service arrears to the Bank was reached, and disbursements on all credits were suspended, thus formalizing the status of the program as "off-track".

13. In the ensuing months, Bank and IMF staff continued to work with government staff to preserve what could be preserved of the OGL and other elements of the adjustment program. However, suspension of IDA disbursements led bilateral donors to stop all new

commitments to Zambia, and the slim interest of the private sector in investment in Zambia disappeared totally.

C. New Clearance of Arrears in January 1992

14. By January 1992, IBRD/IDA arrears had reached some $60 million, and IMF arrears were at a similar level. Fortunately, by this time a new democratic government was in place, with a strong commitment to the previous government's adjustment program, and strong bilateral support. As a result, with prompt and generous bilateral quick-disbursing assistance, it was possible to clear the Bank/IDA arrears, and the IMF agreed to the deferral of some of its service payments then in arrears.

D. The Drought Shortfall in 1992

15. Despite very generous bilateral support, the new government was faced in March 1992 with a massive financing gap ($300 million) as a result of the disastrous drought of 1992.

16. The Bank took a leadership position in this crisis, by offering to double its upcoming adjustment operation from $100 million to $200 million.

17. The IMF management initially proposed to adopt a similar leadership position by offering to defer $100 million in debt service, but objections from its Board led it to withdraw the offer prior to the March 1992 CG. It subsequently reinstated the offer by mid-year, when it was apparent that additional bilateral support would be forthcoming only if the IMF went through with the waiver.

18. Once IMF participation was assured, the bilaterals came up with the balance of $100 million. At this point, the bilaterals were still enthusiastic -- perhaps over-enthusiastic -- about the democratic credentials of the Chiluba government and were willing to give it the benefit of the doubt on economic management and governance issues.

E. The 1993 Gap

19. Bilateral contributions in 1993 promised to be generous, but a decline in the copper price meant that a gap of some $150 million was facing the CG in April 1993.

20. IDA again adopted a leadership position by offering to increase its next adjustment credit by some $35 million, but conditioned effectiveness of the credit on closing the financing gap.

21. The IMF, in the light of its unfortunate 1992 experience, declined to make any gesture at the time.

22. The bilaterals also declined to make any additional contributions, either at the CG or in the subsequent months, as a result of disappointment with Zambia's imposition of the state of emergency, the discouraging inflation performance, and the apparent unresponsiveness of the IMF.

23. At mid-year, the program was therefore facing an unfilled gap for 1993, and a potential crisis. In July 1993, the Bank and IMF managements stepped in, with a further $10 million increment in IDA adjustment assistance, along with a $20 million deferral of debt service from the IMF. With further squeezing on the Zambia end, the program was declared to be fully funded in a technical sense, although shortfalls in balance of payments funding had in fact caused serious shortfalls in the financing of government services, including social services.

F. The Looming 1994 Financing Gap

24. Recent success in containing inflation -- till now the main macroeconomic problem -- has been overshadowed by the plunging copper prices, heightened donor concerns on governance, and the prospect of a significant financing gap for 1994. At The Consultative Group meeting in Paris in December, the Zambian delegation promised to take firm action in the governance area, and the donors agreed to continue funding of the program in the short term. A significant financing gap still exists for 1994, however, and it was agreed that donors would meet again in late March to discuss how to close that gap once government's commitment to resolving the governance issues had been demonstrated. The economic aspects of the program continued to receive high marks.

IV. PRINCIPLES USED IN DONOR COORDINATION

25. The Zambia program has required intense donor coordination with very frequent donor briefings aimed at informing donors of the nature of the problems faced and the options available for their solution. The coordination effort has been successful, despite adverse circumstances, based on the following principles, which will continue to form the basis of the donor coordination effort.

(i) Primacy of Zambia's development: The program has tried to keep at the forefront of the discussion what makes sense for Zambia's medium-term development prospects.

(ii) Transparency: Full, frank and prompt disclosure of all issues, problems and negotiating positions has been a characteristic of the donor coordination effort.

(iii) Collaboration: The Zambia donor group functions as a group, with relatively little competitiveness or distance between the members of the group. In some years, some donors have been absent, while in other years, other donors have picked up the slack. Overall, the group has been very solution-minded, with a willingness not only to make best efforts, but to do whatever is necessary to get the job done.

(iv) Pragmatism and flexibility: Al donors, including the multilaterals have shown considerable flexibility to adopt approaches that have no precedent in order to get the job done.

(v) Responsibility to the Bank as an institution: Bank management has been conscious of the responsibility to play its role in resolving the arrears problem.

(vi) Balance between the various interests: It has been important to keep the various interests in appropriate balance, particularly the primacy of Zambia's development interests, against the potentially competing interest of the multilateral donors getting repaid. This balance was most clearly demonstrated in the Bank's willingness to declare the program off-track in 1991, even though this had the inevitable impact of the Bank not receiving service payments.

V. BANK'S LEADERSHIP ROLE

26. The Bank has played a leadership role in the overall administration of the program. This has included, in addition to formal chairing of the aid coordination effort:

- Willingness to make the first move to resolve pending crises, such as the increment in IDA assistance to resolve the drought funding gap in 1992, and the 1993 funding gap.

- Willingness to go the extra mile in order to resolve unresolvable problems, such as the financing gap in December 1990 and in July 1993.

- Willingness to inform the Zambia government at the highest levels of the nature of the governance/drug issues that are bothering the bilateral donors and to make suggestions as to what actions could lead to resolution of the issues. The meeting of the Country Director with President Chiluba in September 1993 and of the Regional Vice President with Finance Minister Penza in September 1993 are instances.

- Willingness to suggest to the donors that their disenchantment with the governance/drug aspects of the Chiluba government in 1993 could be just as unbalanced as their uncritical adoration of the Chiluba government in 1992.

- Ability to look ahead and identify opportunities for improving the sustainability of the Zambia program.

VI. OPPORTUNITIES FOR IMPROVING THE SUSTAINABILITY OF THE PROGRAM

27. All participants in the Zambia program are conscious of the fragility of the funding mechanism, and the risk of the overall financing plan unravelling. There are repeated calls from the non-G7 donors, particularly the Nordics, to find a better way to handle Zambia's financing needs, and in particular to find more durable solutions to the debt issue. Among the ideas that have been considered are:

(i) getting a better deal from the Paris Club

28. The Paris Club itself has not proved to be a forum in which new debt initiatives can be launched. Instead, new initiatives have come from outside the Paris Club, and these have in some cases been taken up by the G7 at summit meetings. Since Zambia received essentially

the best deal possible from the Paris Club under its existing approach, it is unrealistic to expect more from the Paris Club itself at this time. The current Paris Club rescheduling expires at end-1994, and the case will need to be made for the best possible continued rescheduling at that time.

(ii) going back to the G7 and reducing the stock of debt

29. It does not appear to be feasible at this time to sell a new, even more extraordinary, debt relief program for Zambia to the G7 or to the IMF when (a) it's not yet clear that the existing plan isn't going to work and (b) Zambia is an unattractive country right now to do a special favor for, given the unresolved governance/drug issues. The possibility of making such an approach is kept constantly in mind, however, and may need to be made at an appropriate moment and in such a way as to make clear the implications of the new debt relief for other countries.

(iii) writing off the IBRD debt

30. Initial staff work has been done on a proposal that would in effect refinance the remaining IBRD debt on IDA terms. However, since the scheme would involve substantial bilateral participation in the refinancing, the scheme does not appear to be viable until current political controversies are settled. IBRD debt service is declining steadily.

(iv) deferral of debt service by the IMF

31. Each year, over the last three years, the Bank has asked the IMF to defer debt service to resolve particular financing needs. These requests have been met, although late and grudgingly, and with increasing opposition from the IMF Board. The Bank will continue to make such requests in future, as needed, and they have a reasonable chance of being met, provided that the request is ad hoc, that there is no other way to solve the problem, and provided that the IMF action succeeds in solving the problem for the year. Neither IMF management nor the IMF Board has shown any willingness to reconsider the debt service burden overall. Renegotiation of the Rights accumulation arrangement at this time is currently unrealistic.

(iv) terms of refinancing IMF arrears

32. Assuming the Zambia program stays on track, one issue which will have to be decided in 1995 is the terms of refinancing the frozen IMF arrears ($1.2 billion). If this is refinanced on ESAF terms, the debt service will be substantial. If copper prices are up, the burden would be manageable. If copper prices are depressed, the burden would be unmanageable, even assuming massive bilateral donor support, and new disbursements would be needed to reduce net outflows.

33. The latest Bank projection for copper for 1995 is about 80 cents per pound. Every cent adds or subtracts $8 million to Zambia's BOP. There is high uncertainty, with only a 70% probability that the price will lie within a range of 58 cents to $1.01.

34. Given the uncertainties, both on copper price and on whether Zambia will stay on track, it appears premature to raise the issue of the IMF refinancing terms now. It will have to be raised some time in 1994.

(v) locking in some kind of burden sharing

35. The Zambia financing plan would be less uncertain if donors would agree to fixed shares or amounts of the financing needs. However no donor has been willing even to discuss such arrangements.

(vi) protecting IDA by doing less

36. The Zambia program has implied extraordinary levels of IDA support over an extended period. It is occasionally suggested that if the Bank stepped back, others would fill in the gap. As explained above, the history indicates otherwise: unless the Bank is out front, playing a leadership role in the financing plan, there is no way that the financing gaps could have been closed up till now. Even when the IMF hesitates to make a gesture, as happened in 1992 in the middle of the drought, this has a major adverse impact on the bilateral funding actions. It does not appear to be currently practical for the Bank to elicit more financial support from the bilaterals by itself offering to do less. Such a proposal would be incompatible with the leadership role that the Bank has had to play, even to make the progress that has been made.

(vii) solving the problem by IDA doing more

37. We believe that the preferred tactic to solve financing gap problems would be for the Bank and the IMF to propose a fair share of the burden and then seek bilateral participation on a proportionate basis.

38. However, since the IMF is no longer willing to participate "up front" in such arrangements, following their experience in 1992, but rather contributes at the end, in order to close the financing gap, the preferred tactic is no longer achievable. Instead successive donor meetings are needed, in which bilaterals track progress in the IMF posture before being fully forthcoming.

39. We do not see it as feasible for IDA itself to fill the financing gap itself, and the trick is to find ways to ratchet up the contributions of the whole group. Given the general sense of aid fatigue generally, this will not be easy.

VII. THE PARTICULAR PROBLEMS POSED BY GOVERNANCE/DRUGS

40. The financing of the Zambia program has been seriously complicated by the emergence of bilateral concerns on governance and drugs.

41. Donor expectations in respect of the Chiluba government in late 1991 were high, since the new government was elected at a time when bilaterals were searching for a good example of democratic change in Africa, following the Kenya CG. The Chiluba government seemed to be the answer to their prayers. In the first 18 months, donors tended to see the Chiluba

government through rose-colored spectacles and were willing to overlook many blemishes on economic performance, on the composition of the cabinet, and on rumors of possible corruption.

42. Serious donor concern on governance was first sparked by the declaration of a state of emergency in March 1993. The state of emergency was rescinded after several months, but resulted in a complete reversal of donor attitudes. Whereas before the state of emergency, the donors could see no flaws in Zambia, after the state of emergency, it seemed as though the donors could see only flaws.

43. The principal burning issue raised by bilateral donors now is the continuing presence in the cabinet of two ministers who are widely believed to be involved in drug trafficking. The apparent failure of the President to take any action in respect of several widely reported incidents involving these ministers has caused donor complaints on governance to spread to a wider range of issues concerning human rights, democratic process, separation of powers, the involvement of political parties in government, constitutional reform, the freedom of the press, the control of television, and more.

44. Given Zambia's need for extraordinary financial support, in which political decisions are needed at high levels in donor agencies to "go the extra mile", the existence of major concerns on governance, drugs and corruption poses a major threat to the financing of the program. The risks for the program have been explained in person by Bank management to the President and the Finance Minister.

45. At the recent CG meeting in Paris, the Zambian delegation did not try to evade or discount these concerns. In fact, the four Ministers present pledged themselves to dealing with both the personnel and process issues quickly. (Of particular interest was the proposal to change the reporting of the anti-corruption commission from the Presidency to the Parliament.) Assuming this commitment is demonstrated, donors agreed to meet March 22-23 to discuss how to close the remaining financing gap for 1994.

VIII. ACTION PLAN IN THE EVENT OF AN UNRESOLVABLE FINANCING GAP

46. A serious risk exists, however, that despite relatively good economic performance by the Zambia government, the program will face an unresolvable financing gap, due to plunging copper prices, or donor cutbacks due to governance/drugs issues, or some new developments in future years.

47. In such a situation:

- The Bank would continue to make clear to the Zambia government the implications of non-action to resolve the issues being raised by bilateral donors on governance and drugs.

- The Bank would continue to press the donors to reconsider their decision to decide on funding levels that result in collapse of the Zambia adjustment, with all of the difficulties of funding yet another arrears workout.

- As in all previous years, there would be close consultation with top management of the IMF as to whether actions by the Bank or the Fund could resolve the financing gap, i.e. additional IDA contributions and/or deferral of IMF debt service.

- As in 1991, the Bank would work with the Zambia government to keep as much as possible of the adjustment program in place despite funding shortfalls.

- As in 1991, the Bank would work with the Zambia government as to the optimal handling of debt service payments. This would probably imply a similar ordering of payment priorities. First to be deferred would be payment on debt service to Paris Club creditors. Then payments to the IMF would be deferred.

48. We would work with Zambia to continue IBRD and IDA service payments so long as net transfers from the Bank group remain positive. A critical issue would quickly emerge as to whether tranches of adjustment credits could be released in a situation where Zambia was not current with the IMF. This issue would have to be addressed in the context at the time. If circumstances were appropriate, the Bank would, as in 1991, seek IMF acquiescence in release of IDA tranches even though Zambia was not current with the IMF.

49. It is unlikely that Zambia could continue to maintain IDA disbursements for more than six to twelve months, in a situation where there was a major financing gap. At some point, a cash flow problem would result in Zambia missing a debt service payment, causing automatic suspension of further disbursements and probable discontinuation of new bilateral commitments. It is probable that the interest of the private sector in investment in Zambia would disappear in such a situation.

50. Zambia would thus accumulate arrears with the Bank and the Fund, and a new effort to develop a debt workout would begin again.

FC

WORLD BANK NEWS

Zambia to Receive $800 Million

Updated On:Thursday, December 16, 1993

A group representing 13 aid-donor nations and 12 international organizations estimated likely support levels of $800 million for Zambia for 1994. But the group, meeting in Paris on December 9-10, cautioned that the support assumes that required progress is made in implementing new economic policies.

Donors and organizations said if progress is made, they would be prepared to give special consideration to additional financial support.

The group praised Zambia for maintaining its commitment to the country's economic recovery program under difficult conditions, and welcomed its commitment to developing social services.
But it noted formidable challenges ahead, including Zambia's heavy debt, and it expressed concern about the slow pace of privatization. Bilateral donors expressed concern on issues of good governance and welcomed the Zambian government's commitment to action in this area.

Zambia, meanwhile, highlighted the country's dramatic reduction in the inflation rate and further liberalization of the exchange and trade regime. It reaffirmed its commitment to the economic recovery program and appealed for continued support from the donor community to help safeguard the progress and to move forward with economic growth.

cc:FE

A L L - I N - 1 N O T E

DATE: 10-Dec-1993 11:37am

TO: Stephen Denning (STEPHEN DENNING)

FROM: Hans Binswanger, AGRDR (HANS BINSWANGER)

EXT.: 31871

SUBJECT: Zambia: Country strategy paper

This is an interesting paper and the overall approach appears very appropriate.

The paper says surprisingly little on the issues in Agriculture, from where much of the growth will have to come. For example, how will a supply response be achieved in an environment of an appreciating exchange rate and high real interest rates in the domestic economy? Would it make sense to consider cuts in the lending if the repatriation of private capital accelerates, so as to limit the appreciation? How can the problems of lack of supply response whic have plagued so many other adjustment programs be avoided? What is the role of the ASIP program in this?

Since the last adjustment effort got derailed on account of food price and subsidy policy, more attention to food consumption and nutrition in the strategy might be warranted. Are the efforts described sufficient to prevent serious malnutrition, or should additional measures be contemplated? Given that there are sectoral operations planned in both agriculture and health, would it make sense to consider a coordinated approach which would encourage targeted food subsidies through the health posts as food stamps? This should ensure highly cost-effective and precise targeting to the most vulnerable and greatly increase the attractiveness of the primary health care services.

CC: Gershon Feder (GERSHON FEDER)
CC: Michel Petit (MICHEL PETIT)
CC: David Steeds (DAVID STEEDS)
CC: Douglas Forno (DOUGLAS FORNO)
CC: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU)
CC: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)
CC: Ernest Stern (ERNEST STERN)
CC: Sven Sandstrom (SVEN SANDSTROM)
CC: Jane Armitage (JANE ARMITAGE)
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CC:	Chaim Helman	(CHAIM HELMAN)
CC:	Roger Grawe	(ROGER GRAWE)
CC:	David Cook	(DAVID COOK)
CC:	Phyllis Pomerantz	(PHYLLIS POMERANTZ)
CC:	Zambia Country Team	(Paper Mail)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: December 1, 1993 04:30pm

TO: Attila Karaosmanoglu (ATTILA KARAOSMANOGLU

FROM: Mark Baird, DECVP (MARK BAIRD)

EXT.: 31666

SUBJECT: Zambia CSP

Attila:

The CSP does discuss the issues raised at the RVP Meeting. However, in my view, it is still a weak document to justify a large and risky program. In particular, I am uneasy about the vague presentation of the crucial external financing issues, including debt strategy and burden sharing. The Region may argue that they can't be more precise until after the CG. If this is so, we should discuss the CSP after the CG meeting (and not try to rush a meeting next week).

A secondary point. At the LC Meeting on the Economic and Social Adjustment Credit, a number of issues were raised on the outcome for FY93. Judging from the tables attached to the CSP, there has been very little updating of the numbers. The REER, for example, has not been adjusted. On the other hand, import volume growth has been revised from +44% to -12%, without any change in nominal values! These may be minor points, but they don't reassure me that this is a carefully thought out paper.

Mark

OFFICE MEMORANDUM

cc: AF13
FC

→ Zambia CSP file

DATE: November 30, 1993

TO: See Distribution Below

FROM: Praful C. Patel, Acting Director, AF6

EXTENSION: 3-4035

SUBJECT: **ZAMBIA: External Financing Scenarios**

The attached note on Zambia was prepared for internal discussion in the Region. It provides background information on Zambia's financial situation and lays out options for handling the downside scenario in the event that a large financing gap emerges despite good economic management. I hope that you find this additional information useful background in reviewing the Zambia Country Strategy Paper which has been distributed for discussion with the Office of the President.

Distribution:

Messrs./Mmes: Karaosmanoglu, Kalantzopoulos (EXC); Jaycox (AFRVP); Cleaver (AFTDR); Husain (AFRCE); Squire (PPDDR); Ray, Chaudhri (DPG); Linn (FPRVP); Donovan, Larrecq (FRMDR); Wilson (CAFD1); Young (CFSPS); Baird (OEDD2); Nkojo (AF6ZA)

cc: DMT; Zambia Core Country Team

JTodd:lim

TACTICS AND MECHANICS OF THE ZAMBIA CASE

HANDLING THE DOWNSIDE SCENARIO

1. A serious risk exists that despite relatively good economic performance by the Zambia government, the program will face an unresolvable financing gap, due to plunging copper prices, or donor cutbacks due to governance/drugs issues, or (most likely) a combination of both.

SUMMARY

2. This note provides additional information as to how the Region would handle the downside scenario in which a large and apparently unfillable financing gap emerged, despite good economic management. Actions would depend in part on the scale of the problem and the timing, but in broad terms:

(a) the Bank would continue to make clear to the Zambia government at the highest levels the implications of non-action to resolve the issues being raised by bilateral donors on governance and drugs (if these are still issues).

(b) the Bank would continue, to the extent possible, to press the donors to see the Zambia program in a balanced way, and to consider the implications of funding levels that result in collapse of the Zambia adjustment, with all of the difficulties of financing yet another arrears workout. If there was any possibility of re-opening the basic structure of the debt workout arrangements with the G7, that would also be explored.

(c) As in all previous years, there would be close consultation with top management of the IMF as to whether actions by the Bank or the Fund could resolve the financing gap i.e. additional IDA contributions and/or deferral of IMF debt service.

(d) If despite these efforts, there was still a large and unfillable financing gap, the Bank would, as in 1991, work with the Zambia government to keep as much as possible of the adjustment program in place despite funding shortfalls. It is likely however that some de-liberalization of foreign exchange would become at least a de facto reality, at least on the capital controls side and substantial portions of the investment program would have to be deferred.

(e) As in 1991, the Bank would work with the Zambian government as to the optimal handling of debt service payments. This would probably imply a similar ordering of payment priorities. First to be deferred would be payment on debt service to Paris Club creditors. Then payments to the IMF would be deferred;

(f) We would work with Zambia to continue IBRD and IDA service payments, and this would continue to be in Zambia's interest

so long as net transfers from the Bank group remain positive. A critical issue would quickly emerge as to whether tranches of adjustment credits could be released in a situation where Zambia was not current with the IMF. This issue would have to be addressed in the context at the time. If circumstances were appropriate, the Bank would, as in 1991, seek IMF acquiescence in release of IDA tranches even though Zambia was not current with the IMF.

(g) We would expect most bilateral balance-of-payments flows to disappear in such a situation (unless the Zambian government had been able to transform its image in terms of governance/drugs, which is unlikely if the shortfall emerges in the next six to twelve months).

(h) Even with major efforts by the Bank and IMF staff, we consider it unlikely that Zambia could continue to maintain IDA disbursements for more than six to twelve months. At some point, a cash flow problem would result in Zambia missing a debt service payment, causing automatic suspension of further disbursements. It is probable that the interest of the private sector in investment in Zambia would rapidly disappear in such a situation.

(i) Zambia would rapidly accumulate arrears with the Bank and the Fund, and a new effort to develop a debt workout would need to begin again, with concurrent efforts to preserve as much as possible of the adjustment effort.

3. The remainder of this note provides additional information on how the current situation arose and on alternative tactics that have been considered to deal with it.

BACKGROUND

4. The debt workout arrangements in Zambia were the result of discussions held in 1989 and 1990 between senior management of the Bank and Fund and the bilaterals, including contacts with the representatives of the G7 at their various summit meetings. The principal set of problems concerned how to restructure the Zambia debt problem in such a way that it became manageable, since the $1.1 billion arrears to the IMF and the $300 million arrears to the Bank could not under any scenario be handled by Zambia's efforts alone.

5. The set of arrangements that were adopted were the result of successive approximations of workouts. It became apparent during these discussions that the G7 were not prepared to write off the stock of Zambia debt at that time, beyond the most concessional terms available from the Paris Club. Instead, a set of arrangements were worked out, including:

- the Rights Approach with the IMF whereby Zambia's debt with the IMF would be frozen at a certain point, and Zambia would

accumulate rights over a certain period (around three years), assuming good economic management, at which point the arrears would be refinanced under terms to be agreed at some later point. In the Rights accumulation period, the IMF's current debt service would be paid in full, resulting in net outflows to the IMF in the Rights period of some $350 million.

- the Bank arrears of some $300 million and the post-cutoff arrears of the IMF (initially around $100) would be cleared at one moment, by assembling the necessary cash from extraordinary balance of payments support from bilaterals, and the instant disbursement of some $200 million from restructured credits in the Bank's portfolio and a new adjustment operation.

- Zambia would benefit from the most generous terms available from the Paris Club.

- Zambia would benefit from the most generous support available under the Fifth Dimension to alleviate the burden of IBRD interest payments.

- bilaterals would continue to make extraordinary balance of payments support available to Zambia throughout the Rights period to enable it to meet continuing heavy debt service burdens.

- the underlying requirement for all of the above was that Zambia's economic management stayed on an adjustment course that warranted strong balance of payments support.

6. All throughout the clearance of arrears in 1991, the suspension later that year, and the resumption of large scale aid flows in 1992 and 1993, all participants have acted in a manner generally consistent with the broad set of understandings. Things were done which had never been done before, and by and large, the group of donors has collaborated fairly effectively, although some bilateral donors remain somewhat bitter that aid moneys are being used to repay the IMF, and the donor coalition remains extremely fragile.

7. Nevertheless, the above set of arrangements have served to clear the Bank arrears, start the accumulation of rights with the IMF, and provide continuing high level of financing for Zambia's adjustment program. It also left a number of issues unresolved, including:

- the likely net transfers to the IMF after the Rights accumulation arrangement expires, including the both the terms under which the IMF would refinance the arrears and the extent and terms of any new assistance. The general assumption is that these refinancing terms would need to be at least as favorable as ESAF, but even that would still leave Zambia with a heavy net transfers to the IMF for an extended period, unless it was compensated by new inflows on

appropriate terms. These issues will have to be resolved at least by 1995.

- the possibility of a mechanism for writing off the stock of IBRD debt. This issue, which has repeatedly been raised by the Nordics, has led to Bank staff working out a scheme for accomplishing such a write-off, though it depends on additional bilateral support, and is not feasible in an environment in which bilateral support is barely sufficient or even insufficient to cover current needs.

- the precise burden sharing arrangements. The broad set of understandings never committed any particular organization to any specific level of assistance. So any party can at any time say that it can no longer accept the broad understandings. (Indeed all donors did just that in 1991.)

- the mechanism for resolving shortfalls in bilateral financial support. This has been a repeated problem, and has been handled to date in a pragmatic fashion, since despite intensive efforts at aid coordination, no donor is willing to make other than short-term short-term pledges or commitments.

PAST TACTICS IN FILLING THE FINANCING GAPS

8. The Zambia program has, as a result of funding delays, a massive drought and declines in the copper price, involved a continuing problem of external funding shortfalls. This has been handled pragmatically up to now on a case-by-case basis.

A. THE PRE-ARREARS FINANCING GAP IN EARLY 1991

9. In December 1990, prior to the Bank arrears clearance, a financing gap of some $60 million was identified, after all parties including IDA and the IMF, had put on the table their best and final offer. This problem was resolved as a result of a series of conversations between senior Bank and Fund management in which additional IDA credits and IMF service payment deferral were agreed to, to close the gap. Despite a relatively weak adjustment performance by the Kaunda government, and the explicit identification of high risk of failure, the IDA board enthusiastically endorsed the arrangements in March 1991, and the Bank arrears were cleared. The IMF approval of the Rights approach followed shortly afterwards.

B. GOING OFF TRACK IN 1991

10. In mid-1991, the Kaunda government informed the donors that it was deferring implementation of its undertakings on removal of maize subsidies until after the election scheduled for November 1991. The Bank and IMF, after consultation with bilaterals, informed the government that the program

was off track. Bank and IMF staff continued to work with the government to keep the main elements of the program in place to the extent possible. During this period, the government:

- kept in place the OGL, and other aspects of the adjustment program, apart from elimination of maize subsidies;
- deferred payment on debt service to Paris Club creditors;
- deferred payment on service payments to the IMF;
- continued to make strenuous efforts to pay IBRD and IDA service payments.

11. While disbursements under existing IDA credits continued to flow, as did some ongoing bilateral assistance, the government was unable to secure release of the second tranche of the IDA adjustment credit, which was conditioned on implementation of the elimination of maize subsidies.

12. By September 1991, the government was so short of cash that it became 60 days overdue on IDA service payments, and disbursements on all credits were suspended, thus formalizing the status of the program as "off-track".

13. In the ensuing months, Bank and IMF staff continued to work with government staff, to preserve what could be preserved of the OGL and other elements of the adjustment program. However, suspension of IDA disbursements led bilateral donors to stop all new commitments to Zambia, and the slim interest of the private sector in investment in Zambia disappeared totally, as everyone waited for the elections.

C. NEW CLEARANCE OF ARREARS IN JANUARY 1992

14. By January 1992, IBRD/IDA arrears had reached some $60 million, and IMF arrears were at a similar level. Fortunately, by this time a new democratic government was in place, with a strong commitment to the previous government's adjustment program, and strong bilateral support. As a result, with prompt and generous bilateral quick-disbursing assistance, it was possible to clear the Bank/IDA arrears, and the IMF acquiesced in the waiver of its service payments then in arrears (US$88 million, including service charges) .

D. THE DROUGHT SHORTFALL IN 1992

15. Despite very generous bilateral support, the new government was faced in March 1992 with a massive financing gap ($300 million) as a result of the disastrous drought of 1992.

16. IDA took a leadership position in this crisis, by offering to double its upcoming adjustment operation from $100 million to $200 million.

17. The IMF management initially proposed to adopt a similar leadership position by offering to defer $100 million in debt service, but objections from its Board led it to withdraw the offer prior to the March 1992 CG. It subsequently reinstated the offer by mid-year, when it was apparent that additional bilateral support would be forthcoming only if the IMF went through with the waiver.

18. Once IMF participation was assured, the bilaterals came up with the balance of $100 million. At this point, the bilaterals were still enthusiastic -- perhaps over-enthusiastic -- about the democratic credentials of the Chiluba government and were willing to give it the benefit of the doubt on economic management and governance issues.

E. THE 1993 GAP

19. Bilateral contributions in 1993 promised to be generous, but the gap was already US$150 million just prior to the CG in March 1993, and this was further aggravated by a decline, just after the CG, in the copper price below the Bank/IMF projection.

20. IDA again adopted a leadership position by offering to increase its next adjustment credit by some $35 million, but conditioned effectiveness of the credit on closing the financing gap.

21. The IMF, in the light of its unfortunate 1992 experience, declined to make any gesture at the time.

22. The bilaterals also declined to make any additional contributions, either at the CG, or in the subsequent months, as a result of disappointment with Zambia's imposition of the state of emergency, the discouraging inflation performance, and the apparent unresponsiveness of the IMF.

23. At mid-year, the program was therefore facing an unfilled gap for 1993, and a potential crisis. In July 1993, the Bank and IMF managements stepped in, with a further $10 million increment in IDA adjustment assistance, along with a $20 million deferral of IMF debt service from the IMF (together contributing $30 million in total). With further reductions in the Zambian requirements of US$20 million, the program was declared to be fully funded in a technical sense, although shortfalls in balance-of-payments funding had in fact caused serious shortfalls in reserve build-up, debt service on the foreign exchange side, and in countervalue fund availability for the financing of government services, including social services.

F. THE LOOMING 1994 FINANCING GAP

24. Recent success in containing inflation -- till now the main macroeconomic problem -- has been overshadowed by the plunging copper prices, heightened donor concerns on governance, and the prospect of a significant financing gap for 1994. A Bank-IMF mission is now in the field

trying to work out what can be done on the Zambian end to minimize the need, and having preliminary consultations with donors as to the likely response. While it is premature to predict the outcome of the discussions, it is likely that we will, as in previous years, go into the CG -- and come out of it – with a substantial financing gap.

PRINCIPLES USED IN DONOR COORDINATION

25. The Zambia program has required intense donor coordination with very frequent donor meetings aimed at briefing donors on the nature of the problems faced and the options available for their solution. The coordination effort has been successful, despite adverse circumstances, based on the following principles, which will continue to form the basis of the donor coordination effort.

(a) Primacy of Zambia's development: the program has tried to keep at the forefront of the discussion what makes sense for Zambia's medium term development prospects.

(b) Transparency: Full, frank and prompt disclosure of all issues, problems and negotiating positions has been a characteristic of the donor coordination effort.

(c) Collaboration: the Zambia donor group functions as a group, with relatively little competitiveness or distrust among the members of the group. In some years, some donors have been able to do more, while in other years, other donors have picked up the slack. Overall, the group has been very solution-minded, with a willingness not only to make best efforts, but to do whatever is necessary to get the job done.

(d) Pragmatism and flexibility: all donors, including the multilaterals have shown considerable flexibility to adopt approaches that have no precedent in order to get the job done.

(e) Looking after the Bank's financial interests as an institution: Bank management has been conscious of the need to play its role in resolving the arrears problem.

(f) Balance between the various interests: It has been important to keep the various interests in appropriate balance, particularly the primacy of Zambia's development interests, as against the potentially competing interest of the multilateral donors getting repaid. This balance was most clearly demonstrated in the Bank's willingness to declare the program off-track in 1991, even though this had the inevitable impact of the Bank not receiving service payments.

BANK'S LEADERSHIP ROLE

26. The Bank is playing a leadership role in the overall administration of the program. This has included, in addition to formal chairing of the aid coordination effort, the following:

- willingness to make the first move to resolve pending crises, such as the increment in IDA assistance to resolve the drought funding gap in 1992, and the 1993 funding gap.

- willingness to go the extra mile, in order to resolve unresolvable problems, such as the financing gap in December 1990 and in July 1993.

- willingness to inform the Zambia government at the highest levels of the nature of the governance/drug issues that are bothering the bilateral donors and make suggestions as to what actions could lead to resolution of the issues. The meeting of the Country Director with President Chiluba in September 1993 and of the Regional Vice President with Finance Minister Penza in October 1993 are instances.

- willingness to inform the donors that their disenchantment with the governance/drug aspects of the Chiluba government in 1993 is just as unbalanced as their uncritical adoration of the Chiluba government in 1992.

- ability to look ahead and identify opportunities for improving the sustainability of the Zambia program.

OPPORTUNITIES FOR IMPROVING THE SUSTAINABILITY OF THE PROGRAM

27. All participants in the Zambia program are conscious of the fragility of the funding mechanism, and the risk of the overall financing plan unravelling. There are repeated calls from the non-G7 donors, particularly the Nordics, to find a better way to handle Zambia's financing needs, and in particular to find more durable solutions to the debt issue. Among the ideas that have been considered are:

A. Getting a better deal from the Paris Club

28. The Paris Club has not proved itself to be a forum in which new debt initiatives can be launched. Instead, new initiatives have come from outside the Paris Club, particularly the U.K., and these have in some cases been taken up by the G7 at summit meetings. Since Zambia is getting essentially the best deal possible from the Paris Club under its existing approach, it is unrealistic to expect more from the Paris Club itself at this time.

B. Going back to the G7 and reducing the stock of debt

29. It does not appear to be currently feasible to sell new, even more extraordinary, debt relief for Zambia to the G7 or to the IMF when (a) it's not yet clear that the existing plan isn't going to work and (b) Zambia is an unattractive country right now to do a favor for, given the unresolved governance/drug issues. The possibility of making such an approach is kept constantly in mind, though it will need to be made at an appropriate moment and in such a way to make clear the implications of the new debt relief for other countries.

C. Writing off the IBRD debt

30. Initial staff work has been done on a proposal that would in effect refinance the remaining IBRD debt on IDA terms. However, since the scheme would involve substantial bilateral participation in the refinancing, the scheme does not appear to be viable in an environment in which bilateral funding is not covering even current needs.

D. Deferral of debt service by the IMF

31. Each year, over the last three years, the Bank has asked the IMF to defer debt service to resolve particular financing needs. These requests have been met, although late and grudgingly, and with increasing opposition from the IMF Board. The Bank will continue to make such requests in future, as needed, and they have a reasonable chance of being met, provided that the request is ad hoc, that there is no other way to solve the problem, and provided that the IMF action succeeds in solving the problem for the year. Neither IMF management nor the IMF Board has shown any willingness to reconsider the debt service burden overall. The renegotiation of the Rights accumulation arrangement at this time is currently unrealistic.

E. Terms of refinancing IMF arrears

32. Assuming the Zambia program stays on track, one set of issues which will have to be decided in 1995 is the terms of refinancing the frozen IMF arrears ($1.2 billion) and the amounts and terms of any new flows from the IMF. If the full amount of the arrears are refinanced on ESAF terms, without any compensating inflows, the debt service will be substantial. If copper prices are up, the burden would be manageable. If copper prices are depressed, the burden would be unmanageable, even assuming massive bilateral donor support.

33. The latest Bank projection for copper for 1995 is about 80 cents per pound. Every cent adds or subtracts $8 million to Zambia's BOP. There is high uncertainty, with only a 70% probability that the price will lie within a range of 58 cents to $1.01.

34. Given the uncertainties, both on copper price and on whether Zambia will stay on track, it appears premature to raise the issue of the IMF refinancing terms now. It will have to be raised some time in 1994.

F. Locking in some kind of burden sharing

35. The Zambia financing plan would be less uncertain if donors would agree to fixed shares or amounts of the financing needs. However no donor has been willing even to discuss such arrangements.

G. Protecting IDA by doing less

36. The Zambia program has implied extraordinary levels of IDA funding over an extended period. It is occasionally suggested that if the Bank stepped back, others would fill in the gap. As explained above, the history indicates otherwise: unless the Bank is out front, playing a leadership role in the financing plan, there is no way that the financing gaps could have been closed up till now. Even when the IMF hesitates to make a gesture, as happened in 1992 in the middle of the drought, this has a major adverse impact on the bilateral funding actions. It does not appear to be currently practical for the Bank to elicit more financial support from the bilaterals by itself offering to do less. Such a proposal would be incompatible with the leadership role that the Bank has had to play, even to make the progress that has been made.

H. Solving the problem by IDA doing more

37. We believe that the preferred tactic to solve financing gap problems would be for the Bank and the IMF to propose a fair share of the burden and then seek bilateral participation on a proportionate basis.

38. However, since the IMF is no longer willing to participate "up front" in such arrangements, following its experience in 1992, but rather contributes at the end, in order to close the financing gap, the preferred tactic is no longer achievable. Instead successive donor meetings are needed, in which bilaterals track progress in IMF posture before being fully forthcoming.

39. If the 1993 experience is to be repeated, with the IMF requiring a further "sweetener" of some $10 million from IDA before it will make a gesture to close the remaining gap, then consideration will have to be given to pitching IDA's initial offer somewhat short of the maximum we are willing to contribute at any particular period. However it has to be recognized that the more modest the "opening" offer from IDA, the more cautious the bilateral response, and the bigger the initial gap.

40. We do not see it as feasible for IDA to fill the financing gap itself, and the trick is to find ways to ratchet up the contributions of the whole group. Given the general sense of aid fatigue generally, this will not be easy.

THE PARTICULAR PROBLEMS POSED BY GOVERNANCE/DRUGS

41. The financing of the Zambia program has been seriously complicated by the emergence of bilateral concerns on governance and drugs.

42. Donor expectations in respect of the Chiluba government in late 1991 were high, since the new government was elected at a time when bilaterals were searching for a good example of democratic change in Africa, following the Kenya CG. The Chiluba government seemed to be the answer to their prayers. In the first 18 months, donors tended to see the Chiluba government through rose-colored spectacles and were willing to overlook many blemishes on economic performance, on the composition of the cabinet, and rumors of possible corruption.

43. Serious donor concern was sparked by the declaration of a state of emergency in March 1993. The state of emergency was rescinded after several months, but contributed to a complete reversal of donor attitudes. Whereas before the state of emergency, the donors could see no flaws in Zambia, after the state of emergency, it seemed as though the donors could see only flaws.

44. The principal burning issue raised by bilateral donors now is the continuing presence in the cabinet of a minister with a reputation for being involved in drug trafficking. The apparent failure of the President to take any action in respect of several widely reported incidents involving this minister, and his recent public appearance with her, has now caused donor complaints on governance to spread a wider range of issues concerning human rights, democratic process, separation of powers, the involvement of political parties in government, constitutional reform, the freedom of the press, the control of television, and more.

45. The UK has informally suspended its assistance. Other donors are incensed at the lack of action on behalf of President Chiluba who continues to display public support for the minister.

46. At this point, however, removal of the relevant minister would not solve the governance problem, or even the drugs problem, in the donors' eyes. In the same way that the concern about democracy survived the removal of the state of emergency, it seems likely that major process changes over an extended period would be needed to restore donor enthusiasm for financial support of the Chiluba government.

47. Given Zambia's need for extraordinary financial support, in which political decisions are needed at high levels in donor agencies to "go the extra mile", the existence of major concerns on governance, drugs and corruption poses a major threat to the financing of the program. The risks for the program have been explained in person by Bank management to the President and the Finance Minister.

48. It is important to note that the government's commitment to economic reform has remained firm. In the recent by-elections in which eleven seats were contested by both the government and the new National Party led by former Finance Minister Kasonde, who alleged both mismanagement of the economy and corruption, there was a mixed result. The government and the National Party split the seats between them, in a very light turnout. Kasonde himself lost his seat.

ACTION PLAN IN THE EVENT OF AN UNRESOLVABLE FINANCING GAP

49. A serious risk exists that despite relatively good economic performance by the Zambia government, the program will face an unresolvable financing gap, due to plunging copper prices, or donor cutbacks due to governance/drugs issues, or a combination of both.

50. In such a situation:

- the Bank would continue to make clear to the Zambia government the implications of non-action to resolve the issues being raised by bilateral donors on governance and drugs.

- the Bank would continue, and to the extent possible, press the donors to reconsider their decision to decide on funding levels that result in collapse of the Zambia adjustment, with all of the difficulties of funding yet another arrears workout.

- as in all previous years, there would be close consultation with top management of the IMF as to whether actions by the Bank or the Fund could resolve the financing gap i.e. additional IDA contributions and/or deferral of IMF debt service.

- as in 1991, the Bank would work with the Zambia government to keep as much as possible of the adjustment program in place despite funding shortfalls.

- as in 1991, the Bank would work with the Zambia government as to the optimal handling of debt service payments. This would probably imply a similar ordering of payment priorities. First to be deferred would be payment on debt service to Paris Club creditors. Then payments to the IMF would be deferred.

51. We would work with Zambia to continue IBRD and IDA service payments so long as net transfers from the Bank group remain positive. A critical issue would quickly emerge as to whether tranches of adjustment credits could be released in a situation where Zambia was not current with the IMF. This issue would have to be addressed in the context at the time. If circumstances were appropriate, the Bank would, as in 1991, seek IMF

acquiescence in release of IDA tranches even though Zambia was not current with the IMF.

52. It is unlikely that Zambia could continue to maintain IDA disbursements for more than six to twelve months, in a situation where there was a major financing gap. At some point, a cash flow problem would result in Zambia missing a debt service payment, causing automatic suspension of further disbursements and probable discontinuation of new bilateral commitments. It is probable that the interest of the private sector in investment in Zambia would disappear in such a situation.

53. Zambia would thus accumulate arrears with the Bank and the Fund, and a new effort to develop a debt workout would begin again.

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 29, 1993

TO: Mr. Attila Karaosmanoglu, EXC

THROUGH: Edward V.K. Jaycox, AFRVP

FROM: Stephen Denning, AF6DR

EXTENSION: 3-4000

SUBJECT: **ZAMBIA: Country Strategy Paper**

1. Attached is the final Zambia Country Strategy Paper (CSP). We have taken account of the comments made at the Regional Loan Committee meeting in revising the CSP.

2. The meeting with the President could be scheduled for December 6 or 7 or the week of December 13. The earlier dates would have the advantage of being before the Zambia CG but would imply less than standard time for review. Please inform my office when you have scheduled the meeting.

Distribution:

82631

Messrs./Mmes: Stern, Sandstrom, Armitage, Kalantzopoulos (EXC); Wood (SASVP); Kaji (EAPVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Kashiwaga (CFSVP); Bruno (DECVP); Choksi (HROVP); Rischard (FPDVP); Serageldin (ESDVP); Linn (FPRVP); Shihata (LEGVP); Einhorn (TREVP); Eccles (CTRVP); Picciotto (DGO); Alisbah (PAAVP); Thahane (SECGE); Ryrie (CEXVP); Mante (CAFDR); Africa Information Center

cc: Messrs./Mmes: Denning, Tidrick, Edstrom (AF6DR); Patel, Kisa, Todd (AF6CO); Helman, AF6AE); Grawe (AF6PH); Cook (AF6IE); Pomerantz (AF6IN); Zambia Country Team

JKisa:lim

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 24, 1993

TO: See Distribution Below

FROM: Stephen Denning, AF6DR

EXTENSION: 3-4250

SUBJECT: **ZAMBIA: Minutes of RLC Meeting on Zambia CSP (November 12, 1993)**

1. The Regional Loan Committee met to review the Zambia Country Strategy Paper draft on November 12, 1993. Mr Jaycox chaired the meeting.

2. Mr. Denning opened the meeting by reporting on the latest developments in Zambia. All conditions on the ongoing adjustment operations have now been met and agreements have been reached on key issues for the upcoming Economic and Social Adjustment Credit. Mr. Denning recapitulated the central themes of the Department's strategy proposal, pointing out that the wide range of uncertainty over copper prices reinforced the conclusion that Zambia's adjustment program is precarious and that there is no middle ground between exceptional donor support and suspension of lending.

3. Mr. Jaycox questioned whether it is true that no middle ground exists. It is clear what happens if Zambia goes off track on reforms, but what happens if copper prices fall or donors fail to meet the full financing gap? What will happen to debt servicing, which reforms will be maintained and which abandoned, and what will the Bank's response be? After extensive discussion of these issues, Mr. Jaycox requested that the revised CSP should "anticipate a crisis" and explore how Zambia is likely to react and how the Bank should respond if external circumstances cause the existing financing plan to unravel. The CSP should also use Zambia's situation to call for rethinking donor debt strategy.

4. The second main issue discussed was sources of growth. Concerns were expressed about the feasibility of such a high agricultural growth rate and the composition of savings. Mr. Jaycox asked that the Department expand the discussion of sources of growth in the revised CSP, including a discussion of the links between our lending program and the expected supply response.

Distribution:

Mr. Karaosmanoglu (EXC)

Regional Loan Committee: Messrs. Jaycox, Martinez (AFRVP); Hussain (AFRCE); Colaco (AF2DR); Cleaver (AFTDR); Iskander (PSDDR); Ofosu-Amaah (LEGAF)

cc: Messrs./Mmes.: Tidrick, Edstrom (AF6DR); Lafourcade (AF1DR); Aguirre-Sacasa (AF3DR); Lim (AF4DR); Marshall (AF5DR); Squire (PPDDR); Ray, Chaudhri (DPG); Linn (FPRVP); Adams (OPR); Guislain, Nellis (PSDEP); Shen (FSD); Stern (IENDR); Kuczynski (CAFDR); Barger, Rague (CAFCM); Wilson (CAFD1); Young, Behbehani (CFSPS); Joshi-Ghani (CFSPF); Varon (AFRCE); Ohri (AFRVP); Bond, Sorrel (AFTIE); Patel, Todd, Kisa (AF6CO); Cook (AF6IE); Nkojo (AF6ZA); Kane (LEGAF); Nguyen (LOAAF)

Borneman, Johnson, Katz (IMF)

Zambia Country Team, Africa Information Center

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COUNTRY STRATEGY PAPER

ZAMBIA

NOVEMBER 22, 1993

AFRICA REGION
SOUTHERN AFRICA DEPARTMENT

COUNTRY STRATEGY PAPER

ZAMBIA

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EXECUTIVE SUMMARY

Background

1. Since the last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985, Zambia's adjustment program and Bank lending to support it have followed a stop-go pattern. Zambia changed course on economic policy in 1987, and as arrears began to accumulate, the Bank suspended disbursements in May 1987. Policy dialogue resumed in 1989, culminating in an IDA adjustment credit of US$210 million in March 1991. Disbursements were suspended again in September 1991 after a policy impasse over maize subsidies resulted in cessation of donor support and accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed again in February 1992.

2. Zambia has accomplished an extraordinary turnaround in economic policy since then. It has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates have been decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10% of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Stabilization policy has been far less successful than reform, but inflation has declined from an annual rate of 300% in the first half of 1993 to just over 20% in the second half. This is an exceptional record of accomplishments, particularly considering the Government's limited implementation capacity and the distraction of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993. Much remains to be done, but the Government has shown itself to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services.

3. Government's commitment to adjustment is paralleled by dramatic progress in developing new approaches to investment lending. In agriculture, the Agriculture Sector Investment Project (ASIP) represents a new approach to the channelling of development assistance which, if successful, is likely to spread quickly in Africa. In the ASIP approach, the entire sector investment program is "the project"; it is prepared entirely by Zambians and supported by all the donors. Procurement, accounting, auditing, and reporting procedures will be standardized and accepted by all the donors. In health and education, Zambia has made impressive steps to decentralize the management of service delivery and the accountability for public funds. Government officials have transformed the research and extension services for livestock and agriculture from one of the worst to one of the most promising on the continent. Finally, Zambia is making determined efforts to establish and maintain an effective system of client consultation. Under the system, potential beneficiaries from development activities are consulted, their views are taken into account in developing the activity, their participation in its planning and execution are sought, and their evaluation of the results of that activity is used as feed-back into the design of future projects and programs. These initiatives reflect the understanding and commitment of the new

Government to the principles of a liberalized economy to foster private sector growth and a revitalized public sector aimed at providing services and not employment.

4. Despite significant improvements in the policy environment (and demonstration of political will to maintain the reform program), Zambia faces two major difficulties in both the short and medium run. First, in light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, when debt service claimed 60% of exports, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and the recent drop in copper prices (some of which, but not all, was anticipated). Maintaining this level of donor support over the medium run will require the Bank to maintain a very large program of assistance and to play a critical role in donor coordination. The balance of payments position, even under the most optimistic scenarios, is expected to be so tight that even a modest shortfall in foreign assistance would endanger the precarious balance between growth, reform and financial viability. Second, given the tightness of the resource constraints and the need to show concrete results soon, the ability of the Government politically to stick to the reform program might be very difficult. The new Government won nearly 80% of the vote in 1991, largely on the strength of the opposition to the failed policies of, and general lack of confidence in, the Kaunda Government. The next general election is not required until 1996, but in the meantime there will likely be more changing of parties and by-elections. The new Government continues to have considerable support, but there is growing discontent over the continuing economic stagnation, reports of corruption, and the limited improvements in public services.

5. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5% a year through higher productivity and increased investment. The basic prerequisite for reaching this goal is continued **balance of payments support by the international donor community** both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are **macroeconomic stability, political stability, human resources development, public service reform, private sector development, infrastructure development, and sound environmental policies.**

Bank Assistance Strategy

6. The goal of the Bank's assistance strategy for Zambia is to assist the Government in its strategy of achieving sustainable economic growth and reducing poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on continued donor support. The 1990 arrears clearance deal provided for the support in the form of exceptional levels of new balance of payments commitments, leaving Zambia's debt structure largely intact. As long as these arrangements prevail, there is no middle ground in Zambia. Even a modest shortfall in foreign assistance will drive the economy into arrears, lead to a suspension of lending, and leave the reform program with little chance of success even if Government stays the course. Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as the Zambian Government continues its adjustment program. If the Government

cannot sustain its reform program, then we will likely have no lending program at all because the end of balance of payments support will likely mean an end to paying external debt service. More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

Recommendation

7. Approval is sought for the lending program proposed in the CSP for the period FY94-98 of US$816 million for 18 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. In the outer years, the share of each adjustment credit in total lending will decline. The level of lending is 23% above the latest IDA allocation from the region. (For FY95-97, the IDA allocation is $377 million compared to $463 million in this CSP). To keep within the region's allocations would require a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. There remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, and financial sector restructuring which needs to be addressed through adjustment lending. Therefore, Bank adjustment lending should be scaled down gradually.

8. This lending scenario would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. It will also depend on future copper prices and the levels of support given by other donors. Copper prices are projected to continue to fall through 1995 and then to rebound sharply. Although this pattern was projected at the time of the 1990 deal, current projections are 6.7% (1995) to 7.8% (2000) below previous projections. If the price of copper collapses further, or fails to rebound as expected, and the resource gaps cannot be filled by other donors, we would be forced to suspend our operations should the Government be unable to both maintain the adjustment program and service its Bank debt. Given the range of uncertainty around copper price projections and the current aid climate, this is a serious possibility. Bank strategy under such adverse circumstances would require revisiting the underlying arrangement, especially with respect to Zambia's debt structure and the balance between new commitments, forgiveness, and restructuring. On the basis of our current strategy, macroeconomic performance would be measured against the benchmarks agreed with the IMF. The impact of structural reforms would be more difficult to measure, since progress could only become perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements. Any shortfalls in these three would trigger reductions in lending in the area concerned, but it should be remembered that any substantial reduction in balance of payments assistance for any length of time could well result in a complete interruption due to the difficulties in meeting multilateral debt service payments.

ZAMBIA

COUNTRY STRATEGY PAPER

I. Introduction

1. The last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985. It was not fully considered within the Bank as the Government began to abandon in 1986 the structural adjustment program (SAP) agreed with the Bank and IMF. In 1987, the Government broke relations with the Bank and IMF and stopped repayment of debt service to the Bank. As arrears began to accumulate, the Bank suspended disbursements in May 1987. After a two-year hiatus, a policy dialogue resumed in 1989, culminating in resumption of normal relations in March 1991, with the approval by the Bank's Board of Executive Directors of an IDA adjustment credit of US$210 million. The period of normalcy was, however, short-lived, since disbursements had to be suspended again in September 1991 because a policy impasse at mid-year on maize subsidies resulted in accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed again in February 1992.

2. Zambia has accomplished an extraordinary turnaround in economic policy in recent years. For all of the 1970s and most of the 1980s, the Zambian economy was characterized by excessive interference by Government and dominance of parastatal enterprises. Even the precipitous decline in copper revenue in the mid-1970s brought little in the way of structural adjustment. Instead, Government used up its international borrowing capacity in support of unsustainable levels of consumption and unproductive public sector investments. Profits were possible for certain favored producers, but generally there was little incentive for private sector investment, particularly for exports.

3. In just a few years, Zambia has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates have been decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10% of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Progress on inflation has been uneven, but the money supply has been well contained since June, and prices have averaged below 2% per month since July.

4. This is an exceptional record of accomplishments, particularly considering the Government's limited implementation capacity and the disruption of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993. These have not been halfway measures enacted by a reluctant Government to gain donor support. Much remains to be done, but the Government has shown itself time and again to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services. The Bank's role has been one of helping the

Zambians to fashion the sequencing and particulars of these policies, coordinating the international financial support, and providing IDA's share of the necessary resources. In light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, when debt service claimed 60% of exports, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and lower copper prices. The Bank has played an active role in assisting the Government to mobilize the necessary external support. To this end, the Bank has supported Zambia's efforts to obtain concessional assistance and debt relief from its creditors and increased its own annual lending, with policy-based lending accounting for a sizable share of total lending.

5. Despite significant improvements in the policy environment (and frequent demonstrations of political will to maintain the reform program), Zambia faces two major difficulties in both the short and medium run. First, any growth or even the maintenance of economic activity, given Zambia's debt burden, requires very large inflows of foreign aid. The balance of payments position, even under the most optimistic scenarios, is expected to be so tight that under the most generous Paris Club terms currently implemented, Zambia will continue to transfer between 10 and 15% of its domestic production abroad as debt service for the remainder of this decade and beyond. Maintaining a level of donor support over the medium run that will allow this will require the Bank to maintain a very large program of assistance and play a critical role in donor coordination. Second, given the tightness of the resource constraints and the political demands for improvements in living standards, the ability of the Government politically to stick to the reform program might be difficult. The new Government won nearly 80% of the vote in 1991, largely on the strength of the opposition to the failed policies of, and general lack of confidence in, the Kaunda Government. (The average real income in Zambia had dropped by more than a third since the mid-1970s.) Given that majority, MMD contains a wide variety of interests, including businessmen, trade unionists, small and large farmers, students, bureaucrats, and the unemployed. A small but powerful faction has left MMD (including several ex-Ministers) and formed an opposition party that will likely replace UNIP as the major opposition party. Their complaints have been largely about corruption. In the by-elections of November 11, 1993, the new opposition party (National Party) won 4 seats out of a total of 8, MMD won 3 seats, and UNIP 1 seat. The next general election is due in 1996. In the meantime, the Chiluba Government appears to have considerable support, although there is widespread discontent over the continuing economic stagnation and the limited improvements in public services.

6. Thus, the key to success will be delivering economic growth. Domestic policies to reduce inflation and improve public sector implementation capacity remain central to improving the prospects for growth. The most challenging macroeconomic policy issue is to lower sharply the rate of inflation. This will require a concerted and sustained effort. Inflation reached triple digits in each of the last three years and again in the first half of 1993, compared to original program targets of around 40%. Since July, however, inflation on an annualized basis has been brought down sharply to just over 20% in the past quarter and is expected to fall further. The decline in inflation has been brought about by fiscal restraint and monetary targets so stringent that the exchange rate has appreciated. The authorities recognize that this outcome is counterproductive and are now moving, supported by the IMF, to reduce foreign exchange sales to allow the exchange rate to find a more suitable long-term level, while maintaining a tight fiscal stance. If Zambia can make this adjustment and hold to

its current course, it should be able to break inflationary expectations and initiate a virtuous circle of lower interest rates and higher investment and exports, leading to lower inflation and increased growth.

7. Weaknesses in the public sector have persisted, despite initial efforts at civil service reform and privatization of parastatals. These problems -- together with the 1992 drought, inadequate infrastructure, the high inflation, and the current monetary crunch -- have inhibited the stimulation of an adequate supply response to reforms. To help overcome these constraints, the focus of the proposed Bank assistance strategy is on continuing a high level of balance of payments support for the SAP with a view to permitting modest import growth until non-traditional export growth can gradually bring Zambia on a more sustainable path, while providing project support for public sector investments needed to improve infrastructure and social services consistent with Government's strategy of increasing private sector economic growth and raising the living standards of the most disadvantaged.

II. Recent Developments and Policy Performance

8. Prior to the adoption of the current SAP, Zambia's economy was in deep crisis. The economic infrastructure had deteriorated substantially. Basic institutions were unable to function efficiently. The incentive system was seriously distorted. Measures to restore economic growth required not only major policy reform, but substantial physical reconstruction and institutional rehabilitation. This situation was aggravated by heavy dependence on copper whose prices had collapsed, a neglected agricultural sector, uncompetitive and import-dependent manufacturing sector, a dominant and inviable parastatal sector, an overvalued exchange rate, and a cumbersome regulatory framework. The challenge facing the MMD Government was to remove the existing economic distortions and to reverse the decline in income per capita. The collapse of copper prices which started in the 1970s and continued in the 1980s exacerbated the crisis and left the authorities with no option but to take tough measures to reform the economy and to reverse the economic decline of the past.

9. The SAP combined trade policy reforms, deregulation, and exchange rate adjustment aimed at enhancing the competitiveness of the non-copper sectors with stabilization policies designed to restore fiscal and balance of payments equilibrium and price stability. Efforts were made to downsize the public sector and to enhance its efficiency, while stimulating private sector development. The Government eliminated subsidies on maize and fertilizer, decontrolled prices, and revised investment laws, rules and regulations. Zambia has completely decontrolled the exchange rate with the establishment of bureaux de change, freed interest rates, reduced the budget deficit from about 7% of GDP in 1991 to 3% in 1992, embarked on privatization of parastatals, and retrenched 12,000 redundant public employees. These achievements were made despite the devastating drought which hit the country in 1992.

10. Zambia has maintained good policy performance in 1993, despite some lapses in implementation. The major accomplishment has been that inflation on an annualized basis has declined from 300% in the first half of the year to just over 20% in the second half. Interest rates have fallen from over 300% to about 90% and are still falling. After the devastating drought of 1992, agricultural production is expected to nearly double in 1993 compared to a negative 40% in 1992. Despite these positive developments, the country will still face major challenges in 1994. Controlling inflation will be difficult because reversing the recent appreciation of the exchange rate will add to price pressures, while measures to undertake spending deferred in 1993 will add to budgetary pressures. On the external side, the lower

copper price and donor concerns over governance issues will make it difficult to fill the balance of payments gap.

11. The over-arching challenge facing Zambian authorities now is to reduce poverty through the resumption of sustainable and equitable economic growth and improvements in the composition and efficiency of public services. In particular, Zambia needs to:

- balance the budget and control the high rate of inflation;
- mobilize sufficient external support;
- implement the public service reform program;
- implement the privatization of parastatals program;
- stimulate private sector investment, especially in mining;
- expand non-traditional exports; and
- improve the delivery of social services.

III. Policy Agenda for Stability and Growth

12. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5% a year through higher productivity and increased investment. The basic prerequisite for reaching this goal is continued **balance of payments support by the international donor community** both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are **macroeconomic stability, sufficient external assistance to permit modest growth in imports, political stability, human resources development, public service reform, private sector development, infrastructure rehabilitation and development, and sound environmental policies.** In addition, trends in demographics will play an increasingly significant role.

Macroeconomic Stability

13. Controlling inflation will be critical to the resumption of economic growth. A high rate of inflation will inhibit the supply response to the policy reforms currently underway. It creates uncertainty and speculation among potential investors, and thus hinders private investment. Controlling inflation is accorded high priority in the Government's policy agenda. On the fiscal front, the Government has announced its intention to expand the scope of the ongoing tax reform to encompass introduction of a value-added tax. Improved tax administration and broadening of the tax base will also enhance revenue collection. This, combined with expenditure restraint, will help eliminate budget deficits and prevent inflation from rising again. Past efforts at stabilization have been frustrated by lapses in spending restraint and disappointing revenues, sometimes due to shortages of political will but

increasingly the result of shortcomings in implementation. The record of recent months has demonstrated firm political commitment; implementation capacity will need to be similarly strengthened.

Human Resources Development

14. Past economic decline contributed to the neglect of human resources development. Budgetary allocations were drastically cut, and the quality of services deteriorated considerably. The Government is now taking bold steps to reverse the negative trends in social indicators and to restructure the delivery of social services. The thrust of the restructuring is decentralization of service delivery with recovery in budgetary allocations, delegation of authority, as well as in policy development. Initiatives include district management in health and education, devolution of safety-net measures to local groups (including NGOs), and restructuring of the water supply and sanitation sector. This approach complements the reforms designed to move Zambia toward a free market economy.

15. In breaking with the previous centralized and planner-knows-best practices, the proposed social sector reforms recognize that the provision of welfare takes place at the household level. Thus, public services must support households in this effort. This shift in philosophy will help ensure better decision-making in the social sectors and improve their efficiency and effectiveness. The goal is to provide a quality-assured package of basic services as close as possible to the household.

16. The Government has already decided to shift the responsibility for delivering health services to autonomous District Health Management Boards. Provincial authorities will change from institutions that control financing and implementation to institutions that support these Boards and provide technical and financial audits. The central Ministry will no longer implement vertical programs; it will downsize to focus on mobilizing resources, setting policy, developing human resources, and providing technical support to districts. District staff have been trained in bottom-up planning techniques, accounting, and budgeting. A pilot program is currently underway using donor funds allocated to all districts based on simple health plans. Although managerial capacity of the Education Ministry is certainly more limited than in Health, a draft policy document to decentralize the management of education services to districts and school management boards has been completed. In the meantime, the devolution to Provincial level is being deepened with increased budgetary authority for Provincial Education Officers, who represent, relatively, the best administrative talent in the Ministry.

17. In the area of protecting vulnerable groups, Zambia had an excellent experience with the response to last season's drought through the Program to Prevent Malnutrition (PPM). That Program worked through committees at local levels consisting of NGOs, public servants and other civic leaders. Other positive experiences in reaching vulnerable groups have been accomplished by the Program for Urban Self Help and small development projects funded by the Microprojects Unit (MPU). Based on the PPM experience, fifty NGOs and the Government have come together to form a coordinating NGO, the Program Against Malnutrition (PAM), that will finance and monitor activities in rural areas across the country. The Ministry of Community Development and Social Services is improving its Public Welfare Assistance Scheme (PWAS) to serve the indigent poor that also relies on local committees for its implementation. The program needs to overcome severe logistical and targeting problems. The implementation of the next medium-term plan for AIDS alleviation will include both

public and private (for profit and non-profit) agencies. Current AIDS alleviation activities, while limited in scope, are being carried out in a decentralized manner, so there is some experience in Zambia already.

18. The restructuring of the budget to improve the efficiency and effectiveness of public sector programs will have an important impact on improving social service delivery and social safety nets. Government policy is directed toward: (a) ensuring a sufficient share of total spending in social sectors (as a measure of Government commitment to social development); (b) within recurrent expenditures, ensuring increases in funding for primary services within non-salary recurrent expenditures, including drugs and district health services under health, provincial allocations to primary education, and activities to protect vulnerable groups; and (c) focusing on rehabilitation programs within the capital budget, especially for education and water supply.

19. Even when money is allocated to the social sectors, service delivery is hampered by an unreliable flow of resources from the Budget Office to service delivery points. As a result, although they have the greatest contact with service recipients, decentralized social-service institutions have little say on the resources budgeted for them and on how those resources are used. The removal of all these financial bottlenecks will require that the District Health Management Boards would become fully independent budgetary entities; in education Provincial Education Officers would be subwarranted with the allocation for primary services; and districts would receive funding for the rehabilitation of water supplies in peri-urban areas. The Government is also taking steps to ensure that the social sectors become self-financing to a greater degree.

20. To support the reforms outlined above, there is a need for revising policies and improving coordination of all sectors, especially as the systems become gradually more and more decentralized. In health, the basic thrust of the reform program must be followed up by revision of sub-sectoral policies relating to human resources, drugs and supplies management and logistics, delivery norms and practices, and private sector participation to reflect the new service delivery system. In education the Government will continue to remove key bottlenecks to improved access and quality of primary education while formulating longer-term policies. Teacher training is being improved and school managers are being trained along with education inspectors. The Ministry also continues to improve the examinations system to remove delays in processing the results of secondary school entrance examinations. The Government has confirmed its commitment to primary education as the basis for a well-functioning educational system. Vocational and technical training is being restructured to enable students with less than grade 7 education to participate and to refocus the curriculum on skills development relevant to the private sector. In water and sanitation, the Government has established a Program Coordinating Unit. The major principles of future sector policies are generally agreed. They include: (a) separation of water resource management and water supply and sanitation functions; (b) separation of regulatory/supervisory and executive functions; (c) devolution of responsibility for service delivery to local authorities, including establishment of autonomous public-owned enterprises; (d) user and community participation, including hygiene education; (e) full cost-recovery in the long-term; concessionary tariffs for the poor; (f) training and incentive measures for human resource development; and (g) increased use of appropriate technology. Nutrition activities also have suffered from a serious lack of policy guidance and coordination. An analogous approach to water and sanitation will be required to get things moving.

21. Zambia's population of 8.3 million is growing at an annual rate of 3.2%. At this rate, the population will double in the next twenty years. If measures are not taken now to control population growth and, through removing distortions in the business environment and attendant rationalization of incentives, promote efficient migratory and population distribution patterns, it will become increasingly difficult for Zambia to provide adequate essential services, employment, and incomes for the growing numbers. The Government has adopted a population policy whose implementation is yet to get underway in earnest. Intensified efforts need to be made in this area.

Public Service Reform

22. Improvement of the management of public resources is critical to accelerating economic growth. An efficient public service is essential for raising public savings, implementing investment projects, supporting the private sector, and reorienting public expenditure toward poverty alleviation. Limited capacity within the public service for identifying, appraising and implementing investment projects has been a constraint on accelerating economic growth. It is necessary to build up at central Government level the requisite capacity by introducing incentives for attracting and retaining skilled personnel into the public service and changing the management culture with emphasis on delegation of authority and evaluation of results. There is also a need to devolve responsibility for project design, selection and maintenance from central to local authorities provided adequate implementation capacity exists or can be created. Municipal and district councils and local community organizations know local needs and priorities better than agencies at central Government level. They are more likely to respond to local constituencies if given adequate responsibilities and resources.

23. Bank assistance toward public service reform is being provided in collaboration with bilateral donors and multilateral agencies. With support from the United Nations Development Program (UNDP), the Government has developed a framework for capacity building. In the context of that framework, an assessment has been made of existing development management capacity in the public service. On the basis of this assessment, weaknesses have been identified, and a strategy developed for enhancing the capacity for policy formulation and project implementation. With support from IDA, the Government is developing an outplacement and business development program for retrenched employees. In addition, a Financial and Legal Management Upgrading Project was approved by the Bank's Board of Executive Directors in July 1993. A project to address issues of urban development and local Government is included in the lending program. Capacity building is also a key objective of investments in such sectors as agriculture, education, energy, and transport.

Private Sector Development

24. Zambia's economic reform program has substantially improved the environment for private sector development. A greater role for the private sector in the economy is part of the Government's development strategy. The private sector is seen as playing a key role in increasing the growth of non-traditional exports. Controlling inflation would provide a strong impetus for private saving and investment as would improving infrastructure and human resource development. The Bank has provided support for privatization of parastatals through the first Privatization and Industrial Reform Credit (PIRC) of US$200 million, a technical assistance credit of US$10 million, and the second PIRC of US$110 million. In addition, a Mining and Financial Adjustment operation is provided in the lending program for FY95.

Assistance in the financial sector will follow a study of the sector which has already been completed and whose results are under review. In agriculture, the Agricultural Marketing and Processing Infrastructure Project is providing support for liberalization of agricultural pricing and marketing, development of infrastructure, and farm credit.

25. Improving the efficiency of international trade and promoting non-traditional exports are policy priorities for restoring economic growth in Zambia. The current US dollar value of copper exports is below that of 1970, and copper still accounts for 85% of total exports. From the beginning of the 1990s, the Government has initiated a number of trade-supportive reforms. They include a more appropriate macroeconomic policy framework, particularly with regard to the exchange rate and the foreign exchange allocation system, and also trade-specific measures, mainly the expansion of the export retention scheme for exporters of non-traditional goods; the simplification, reduction and narrowing of external tariffs; and lowering of company income tax and harmonizing indirect taxes.

26. However, in spite of these achievements, some policy constraints faced by Zambian exporters have not been corrected. First, the remaining protection still makes it more attractive to produce for the domestic market than for export. The Government intends to continue the process of reducing the level and dispersion of tariff protection consistent with the policy of fiscal restraint. Second, import duties and sales tax paid on inputs increase the cost for domestic producers and exporters compared with producers in other countries which have access to inputs at world prices. The Government intends to extend the coverage of the duty drawback system to include all imported raw material and intermediate inputs for exporters. Procedures for claiming the drawback will be simplified and the computation changed to an exemption system based on physical input/output coefficients rather than a refund system. Finally, an exporter has to go through cumbersome procedures without export financing mechanisms. The European Community is helping the Government to create an export revolving fund.

27. The adoption of a value-added system is also urgently needed to (a) increase the tax-base in Zambia (producers have to be registered to get tax deduction), (b) avoid double-taxation on productive activities, and (c) shift the tax burden from producers to consumers. An implementation plan for a value-added tax system is being prepared with a view to introducing the tax in 1995.

28. Minimizing the use of discretionary practices in the granting of exemptions on imported capital goods is also necessary to consolidate the reforms and to protect the revenue base. The granting of Ministerial exemptions to industrial and commercial organizations was discontinued in 1990. However, a significant number of exemptions are still granted as a result of the 1991 Investment Act. The new Investment Act, enacted in August 1993, also entitles a wide range of activities to exemption from customs duties and sales taxes on machinery and equipment. Exemptions are necessary to promote investment in Zambia, but the authorities must ensure that Ministerial exemptions remain limited to charitable organizations, and that industrial and commercial exemptions are dealt with only in the context of the Investment Act. The broader issue of limiting further exemptions granted to new businesses is being addressed in the context of the Regional Integration Initiative. Strict criteria and procedures will be defined so that exemptions granted under the Investment Act are as automatic and transparent as possible.

Infrastructure Development

29. The rehabilitation of existing infrastructure is essential for private sector development. Current policy emphasizes rehabilitation and maintenance of existing infrastructure. While this is sound policy in the short- to medium-term, given the deteriorated and run-down state of roads and railways, public investment in new infrastructure in relatively underdeveloped but potentially high-growth areas will become increasingly important. Because of limited public resources, it is necessary to encourage the private sector to play a greater role in infrastructure development and maintenance than has hitherto been the case. Such opportunities range from sub-contracting most road maintenance to the private sector with maximum involvement of local consultants and contractors to opening railway infrastructure maintenance, workshops and support services to private sector participation.

30. To effect this change, the Government has embarked on a program of institutional and regulatory reform, which includes devolution of responsibility, enhanced revenue generation, greater cost recovery from the users of infrastructure services, and better accountability in the use of funds. This program is compatible with and builds on the larger program of public sector reform. In this regard, a Transport Engineering and Technical Assistance Project, approved by the Board in June 1993, will assist with the implementation of these reforms in the road sector to be followed in FY96 by a Roads Rehabilitation Project, which would coordinate and support a comprehensive, multi-year program to rehabilitate Zambia's roads. In addition, a proposed Urban Water and Sanitation project in FY95 would address the more urgent requirements in the short-term and establish the agenda for reform in the medium-term. A subsequent Urban and Local Government project, planned for FY97, would facilitate such reforms in the provision of urban infrastructure overall.

Environmentally Sustainable Growth Strategy

31. Zambia's major environmental issues are land degradation, deforestation, wildlife depletion, impact of mining activities on the health of the people, water contamination and inadequate sanitation. The impact of these issues manifest themselves in declining quality of water in the country's rivers and streams, deteriorating air quality in areas of heavy industrial emissions, and poor quality of urban life due to inadequate sanitation and disposal of waste material. These problems are exacerbated by inefficient, unsafe and unsustainable use of available natural resources. Government intervention will not only improve the environment but also help alleviate poverty. It can also shift some of the associated investment and conservation costs to private beneficiaries. For instance, Government policies should aim to induce mining and logging companies to bear some of the environmental costs of their operations to the country. Provision of clean water and improved sanitation, and control of toxic chemicals used in mining can reduce health risks considerably. Current Government policy aims to ensure that environmentally sustainable development is pursued vigorously. A National Environment Action Plan (NEAP) is currently under preparation with Bank support. To help implement the NEAP, the Bank has proposed an Environment sector operation in FY97. The Government has demonstrated its commitment to dealing with environmental issues by establishing a Ministry of Environment and Natural Resources and a National Environment Council.

Poverty Reduction

32. Especially given the substantial deterioration in the living standards of the average Zambian over the past 18 years, the Government has recognized that it cannot continue to undertake the stringent measures necessary to stabilize the economy and restore growth without ensuring that the bulk of the population begin to experience an improvement in welfare levels. Following the increasingly precipitous welfare decline of recent years and the expectations associated with political liberalization, the future of the whole reform program hangs in the balance. While the measures taken to promote agriculture, exports, and the private sector generally should lead to sustainable and indeed rapid growth in key sub-sectors of the economy, this impact will neither be widely spread nor dramatically apparent in the short term. In contrast a welfare safety net that builds on the successful approach to alleviating the impact of the 1992/93 drought , combined with a reorientation of social services to meet widespread basic needs (defined as responsive services at the delivery point - the health center, the primary school, the community water system) will offer tangible evidence that less Government can also mean better Government in precisely those areas that are critical to the welfare and economic prospects of the poor in Zambia. Budget restructuring and a reorientation of Government delivery capacity to getting results in the field through decentralization and a partnership with successful NGOs and the private sector will improve the distribution of social welfare significantly and quickly and will lay the basis for the longer-term economic participation of the poor in Zambia's recovery and growth.

IV. Medium-Term Prospects and External Financing Requirements

Growth

33. The Zambian economy has the potential to generate a positive rate of growth in 1994 of at least 4% if stabilization measures succeed. Growth prospects after 1994 will depend on full implementation of the agenda outlined above. Efficient public service management, including effective project implementation, would help accelerate economic growth in later years by substantially raising public investment in infrastructure and human resources development. A level of 5% is possible provided constraints to bringing more land under cultivation are reduced, the balance of payments needs are met, and the policy environment continues to improve. In the short-term, improvements in allocative efficiency and increased land utilization will be major contributions to this growth. In the longer-term, continuing this force of growth will rest on increased investment and human resource development.

34. This may seem an optimistic growth rate given Zambia's record of economic stagnation, policy distortions, and deteriorating infrastructure, but Zambia has some clear advantages as well. First, there is adequate land (over 1 million hectares of unused high-potential land in commercial agriculture alone) and rainfall to support a considerable increase in agriculture. Even with poor policies, the trend rate of agricultural growth in the 1980s was nearly 4% per year. With recent policy changes there are already shifts away from inefficient monocropping of maize. Second, economic efficiency was so bad in the 1970s and 1980s that there is considerable scope for economic growth through increased efficiency with existing capital. Privatization of inefficient state enterprises could, with only marginal investment, result in much higher output. Third, the Zambian Government has a genuine commitment to a policy of private sector-led growth which is already translating into an improved business

climate for domestic and foreign investors. This will open up opportunities not only in manufacturing and mining, but in agriculture, transport, tourism, and other services. Fourth, Zambia has considerable potential for expanding non-traditional exports, including agricultural products (cotton, cut flowers, horticultural products, tobacco, maize, coffee); manufacturing (engineering products, textiles and garments); and gemstones. Non-traditional exports have been conservatively projected to grow at about 10% per year, albeit from a low base, in view of their demonstrated responsiveness to changes in the real effective exchange rate.

35. Most of the growth in the early years will come from increased production in agriculture and services, especially transport and financial services. As the privatization program gets underway, manufacturing should follow in the later years. Accelerated agricultural growth will require removal of existing constraints to increasing productivity, viz., inadequate technical support services, neglected rural infrastructure, and poor access to inputs, especially for women. Making available additional land will be essential for the high rate of economic growth assumed in our projections. Government strategy in agriculture emphasizes promotion of increased productivity and diversification, particularly in the smallholder sub-sector, by redirecting research and extension services to drought-resistant crops, increasing access to financial services, improving rural infrastructure (especially feeder roads), strengthening agricultural information services, and rehabilitating and expanding veterinary services. Some parts of the manufacturing sector may not be profitable with the new price structure, but some existing and new manufacturing sector capacity can be expected to contribute to economic growth, provided sufficient credit is available to the private sector and constraints to exports are addressed. In order to facilitate private sector industrial growth the Bank will support, through upcoming adjustment operations, a proactive stance on investment and industrial promotion, including a more rapid dismantling of parastatal monopolies, release of land for commercial exploitation, lower real interest rates and export promotion measures modeled on the successful Asian experience. Mining output from existing mines, especially of copper, is expected to grow modestly in the early years as efficiency increases. However, dramatic increases in output will be contingent upon substantial investments in opening up new mines.

36. Overall, total investment is projected to rise from 13% of GDP in 1991 to 26% and domestic saving from 11% of GDP to 18% by the end of the decade. These are ambitious targets. While the overall investment level is similar to levels reached in Zambia's past, the increase in private investment would be unprecedented. However, the targets are consistent with the higher efficiency, profitability, and retained earnings expected in the private sector (including newly-privatized parastatals), and with continued progress in fiscal performance. Assuming that the annual rate of population growth declines from the current 3.2 % to 3.0% during this period, average GDP per capita consumption could increase by at least 1.0% per annum, even with the projected increase in savings and investment. While this in itself would not result in dramatic improvements in living standards, it would reverse decades of economic decline and started a process of long-term sustainable economic growth.

External Financing

37. External assistance will need to stay at or near the currently very high levels. Over the next five years, foreign aid will finance much of the needed public investment. In later years, however, a larger share of the investment will have to be financed out of domestic saving. This should be possible because there is scope for increasing public sector saving by increasing revenue and restraining expenditure on consumption and because non-traditional

export growth should eventually permit a better balance between exports and imports. Policies to stimulate private saving will take time to have an impact. However, as private sector income grows, an increasing share of domestic saving should come from this sector.

38. External assistance needs are particularly difficult to predict in Zambia's case because of the high dependence on copper, whose price has fluctuated considerably in recent years, and because of the large debt service burden and the desire of major creditors to deal with this problem only for the short term. Donors (in their various positions as direct donors, Paris Club members, or directors of the multilateral organizations) are unwilling to make long-term concessions in part because of concerns over burden-sharing (across donors and across institutions) and in part because of the uncertainties over Zambia's future policy performance.

39. When this arrangement was made in 1990, copper prices were projected to fall until 1995 and then to rebound sharply. So far, prices have fallen more or less in line with projections, but the present price is below previous projections and the price is now projected to remain 6 - 8% below previous projections for the remainder of the decade. Moreover, the eventual workout depends critically on a price rebound in 1995, and turning points are notoriously difficult to project. Even though non-copper exports were projected to grow at nearly 10% in value terms, copper still accounts for over 75% of merchandise exports. Overall external financing needs will remain critically dependent on the price of copper for the next several years.

40. When Zambia approached the international community in 1989, it was clear that exceptional measures would be needed if Zambia were to meet its international obligations and still have sufficient imports to achieve sustainable growth. Arguments were made at the time that unprecedented concessions should be made on the stock of both bilateral and multilateral debt, but it was decided that it would be better to solve the immediate problem with exceptional levels of balance-of-payments assistance and a rights arrangement which would take most of the IMF arrears off the table until 1995. The Paris Club added generous rescheduling. As a result, Bank arrears were paid in full and most Fund arrears ($1.2 billion) were handled by the rights arrangement. This allowed the program to resume without a major (and potentially time-consuming) alteration in international debt policies.

41. It was recognized that the debt issue would most likely have to be addressed again later in the decade when Paris Club debt repayments are scheduled to increase and when the IMF rights disbursement will need to be repaid, but it was felt to be better to wait on these issues as Zambia's performance and copper prices were too difficult to predict that far in advance. Options for this next round of debt policy will need to be assessed over the coming year and a dialogue with the donors and the Fund resumed on these topics.

42. The arrangement made in 1990 is still functioning, but it has been strained by the 1992 drought, the 1993 fall in the copper price, and the growing donor difficulty of justifying increased aid budgets to their legislatures exacerbated by the end of the political honeymoon with the new Government. (These political concerns began with the state of emergency -- in place from March to May of this year -- and have continued largely over allegations of corruption and drug trafficking against high officials in the Government.) Keeping this external financing strategy in place will be one of the biggest challenges to the success of the program. On the one hand, Zambia needs all of this assistance just to keep going. Any substantial shortfall would likely result in debt service arrears, further reductions in aid, and

eventual suspension. On the other hand, the exceptional levels of support being asked of IDA and the donors will require an equivalently exceptional level of performance by Zambia, including both policy and implementation.

V. Bank Assistance Strategy

43. The goal of the Bank's assistance strategy for Zambia is to assist the Government in its strategy of achieving sustainable economic growth and reducing poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on continued donor support. Any growth or even the maintenance of economic activity requires very large gross inflows of foreign aid. Under the current arrangement there is no middle ground. Even a modest shortfall in foreign assistance will drive the economy into arrears through the linkages of Paris Club, IMF and World Bank financing, lead to a suspension of lending, and place the reform program in mortal danger. Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as the Zambian Government continues its adjustment program. If the Government cannot sustain its reform program, then we will have no lending program. More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

44. Bank strategy in Zambia as currently constrained by the 1990 arrangements could be characterized as muddling through along a knife edge. Serious uncertainties in Zambia's external financing program lurk well beyond the control of both Zambia and the Bank (copper prices, lack of donor staying power or other forms of disenchantment, and combinations of the two). Other countries also face uncertain export prices and donor support. What makes Zambia's position more precarious is that it is on the outer boundary of what donors, including IDA, are willing to give. Any shortfall jeopardizes the entire program because no donor can take up the slack.

45. Zambia has limited capacity to adjust to a shortfall in external financing. The first recourse, as with the drought in 1992, is to request an increase in donor financing. If that is not possible, or if the shortfall is a direct result of decreased donor funding, Zambia has limited room for maneuver. Liquid reserves are only about one month's worth of imports. Reducing the level of imports is not easy because a large fraction is needed for the minimum requirements of the copper mines. Imports not needed for copper production and not funded by donor project funds are only about US$700 million. Thus, a shortfall of US$100 million in external financing -- with no change in debt service -- would force a 15% decrease in available imports, which would put the economy in a tailspin. The Government recognizes that reimposing exchange controls would not avoid that; it would only make the impact even less efficient. Therefore, any substantial and prolonged shortfall in external financing will inevitably result in debt service arrears which will, in turn, lead to an unraveling of the remaining external support.

46. Under such circumstances, can the path for muddling through be broadened, so that Zambia's commitment to stay the reform course would have a greater chance of success? Clearly the only viable option under such circumstances would involve renegotiating the 1990 arrangement. Without fundamental debt restructuring or an increase in reserves which the donors are unlikely to fund, Zambia's adjustment path will continue to be the knife edge we face today. Restructuring would have to involve major debt forgiveness on official bilateral debt well beyond extended Toronto terms and a renegotiation of the current arrangements for the Bank and Fund. Path broadening for Zambia would in effect be path breaking for the rest of the world. To date donors and IMF shareholders have (understandably perhaps) been unwilling to take on this challenge in the context of a small African economy; but such restructuring is, in fact, the only way to create a middle ground for Bank strategy in Zambia.

47. Adjustment operations have in the past focused on macroeconomic stabilization and privatization of parastatals. The adjustment operation currently in preparation increases the emphasis on improving the delivery of services to the poor which will be critical to the overall sustainability of the adjustment program. Future adjustment operations will continue macroeconomic reforms as well as sector-specific issues in mining, finance, industry, and parastatal reform, thus building on the results of the first round of adjustment. Adjustment operations will be complemented by follow-up investment operations in individual sectors and by economic and sector work (ESW). The format for these sector investments will shift from isolated projects in a single area to broader support for a sector investment operation in which the Government will combine donor support with its own resources into a single, integrated investment program. ESW will be undertaken in agriculture, finance, small-scale enterprise development, employment services, telecommunications, education and health (especially the impact of AIDS). Investment projects are planned in infrastructure (railways, roads and urban services), and a sector program will be supported in agriculture. Capacity in the public sector is being strengthened through a Financial and Legal Management Upgrading Project approved by the Board in July 1993. A Poverty Assessment is underway. The policy reform in social sectors initiated by the Economic and Social Adjustment Credit (ESAC) will be followed up by sector investment operations in health, public sector management, water supply and sanitation and education over the next three years.

48. The overall lending of Bank assistance over the next five years will remain high. BOP assistance from the Bank was particularly high in 1991 partly because it was necessary for Zambia to clear about $350 million in accumulated debt-service arrears to the Bank. In 1992, IDA support through PIRC I was increased from $100 million to $200 million in response to drought needs. And in 1993, a sector adjustment operation (PIRC II) of $110 million was added to the portfolio to increase the 1993 disbursements by $40 million to help fill the extraordinary financing gap brought about by the carry-over impact of the drought, debt-service arrears from 1992, lower price of copper, and increased debt-service obligations. This high level of BOP assistance will continue to be a major element of the Bank's assistance to Zambia for the rest of this decade, as a consequence of Zambia's heavy debt service burden (even after rescheduling) and the dwindling prospects for copper exports which can not be offset in the short-term even with strong growth in non-traditional exports and continued economy in the use of foreign exchange. The Bank will continue to play a leadership role in securing sufficient assistance so that adequate imports are available to allow resumption of economic growth. Of course, the future level of financial support will also be related to Zambia's performance under the economic reform program. Table 1 shows the projected level of lending for the period FY94-98.

Bank Operations

49. Since the resumption of Bank operations in March 1991, the Bank has been the largest source of external assistance for Zambia's economic recovery program. During this period, the Bank has provided US$577.2 million in adjustment credits and US$142.5 million in investment credits. Through these operations, the Bank has played a key role in macroeconomic and sectoral policy formulation. Investment operations have also served as vehicles for bringing about sectoral policy and structural reform (agriculture, education, transport, social services, energy, and transport). The Bank's ESW program will need to focus increasing attention on the identification of sub-sector constraints to a stronger private sector supply response, especially in the areas of infrastructure, credit, and deregulation. Zambia will continue to need substantial assistance from the Bank over the next five years. Its debt service payments are high and macroeconomic stability is yet to be achieved. If the adjustment program is to remain on track, the Bank must continue to meet its share of the external financing requirements. Bilateral donors have made extraordinary efforts to maximize their commitment of resources to Zambia. The Bank's role as a direct source of assistance and as chairman of the CG process will be critical to maintaining that support.

50. Both the levels of IDA assistance and the share of adjustment lending will continue to be high by comparison to comparable countries if IDA is to meet its leadership share in the total financing needs discussed above. Two issues concerning this assistance will need to be carefully monitored. First, what are the prospects that this assistance can eventually be phased out so that Zambia can be launched on a genuinely self-sustaining economic growth path? Second, what is IDA's appropriate share of the total financing needs, and is this level of support justifiable in terms of improvements on the ground in Zambia?

51. As discussed above, the primary unknowns in estimating Zambia's needs for continuing donor assistance are the price of copper and the debt reduction strategies that will be adopted by the Paris Club (and IMF) to deal with the projected increases in debt service payments in the later part of the 1990s. If the copper price returns to $1.00 a pound (in 1993 dollars), projections suggest that balance of payments assistance can be gradually phased out if actual debt service payments are contained at present levels. If debt service payments rise (or if copper prices fail to return to the $1.00 area), the donor community as a whole including the Bank and the Fund, would have a choice between increasing assistance or risking debt service arrears. Thus, there will be considerable pressure to contain debt service payments so that a gradual phase-out of balance of payments assistance can be consistent with Zambia meeting its international obligations. The difficult part will be reaching a mutually agreeable sharing of the debt reduction burden across all of the creditor groups.

52. It is likely that IDA's share of that assistance will continue in the 35-45% range (25-30% if rescheduling is counted as assistance). It will be important to make it clear to the donors that we are willing to meet our share and to take a leadership position, but we are not willing to fill in for every shortfall in donor assistance to keep the program financed. Unexpected developments (such as the drought) will have to be offset by increased assistance from all parties. Donor concerns over political corruption issues pose a particular dilemma in this regard. Our mandates preclude taking account of such issues unless they directly affect broader economic targets, but several bilateral donors could decide to reduce support over specific alleged instances of corruption or criminal activity. One donor is already withholding support on those grounds. We have been urging the Government to take these concerns seriously, and while we have no interest as such in the specific instances, we have been

encouraging the Government to adopt more open and transparent procedures (such as financial disclosure, codes of conduct, and publication of anti-corruption commission findings) to address these concerns. To the donors, we have urged greater emphasis on these broader process issues that can more properly be made the concern of the donor community as a group.

53. In all of these discussions, all parties are mindful of Zambia's special characteristics. The need for assistance is very large, and any substantial shortfall would likely result in a complete unraveling of debt service and external assistance. The position of the community as a whole continues to be that the Zambia program merits this substantial support and that the debt service issues can be dealt with in time to permit a gradual but eventual transition to self-sustaining development. We will continue to monitor this situation closely to ensure that these issues are addressed in a timely manner and that IDA's level of assistance represents an appropriate share of the total.

54. The implementation of the Zambia program will be carried out with maximum Government and beneficiary involvement and "ownership" to ensure the sustainability of the intended development impact. The first Country Portfolio Performance Review (CPPR) has been carried out and the recommendations are being implemented: A seminar for project staff on procurement and disbursements has been held and regular follow-ups are taking place, Bank guidelines have been distributed and discussed with project implementers, Resident Mission higher level staff have been increased to five (with more specific responsibility for facilitating implementation), and finally more Government leadership in design of programs and projects is being supported. A concern for the proliferation and uncoordinated nature of the many donor programs in several sectors has prompted the development of integrated sectoral approaches first in agriculture and health and later in education. These integrated programs are based on a strategic investment plan prepared by Government, which all donors (including the Bank) will buy into. This has required substantial facilitation and capacity building up front, but the expected benefits in terms of impact of a jointly agreed sector program are large. The first two experiences will be closely monitored and evaluated to ensure sufficient feed-back to the rest of the portfolio.

55. The Zambia program is consistently applying beneficiary assessments to ensure the relevance of planned and ongoing project interventions to the poor. So far three assessments have been carried out. They have had immediate impacts on the design of an ongoing projects (Social Recovery and Education Rehabilitation) and has helped shape the design of future operations as well as provide a base-line for impact monitoring (Health Sector, Second Social Recovery, Education Sector and Economic and Social Adjustment).

Future Bank Support

56. During this CSP period, the main elements of Bank support will be:

(a) maintaining the momentum of economic reforms, with increasing attention to delivery of social services;

(b) supporting capacity building activities at various levels -- policy-making, economic management, expenditure control, and project implementation;

(c) accelerating the privatization program and promoting private sector development and export growth;

(d) reducing poverty through faster economic growth and re-orientation of public expenditure toward activities benefiting the poor; and

(e) strengthening environmental management while developing the country's natural resources.

57. The CSP proposes a lending program for the period FY94-98 of US$816 million for 18 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. The FY94 adjustment credit will focus on policy reforms for improving the delivery of social services along with continued progress on stabilization and reform. In the outer years, the share of each adjustment credit in total lending will decline. The level of lending is 23% above the latest IDA allocation from the region. (For FY95-97, the IDA allocation is $377 million compared to $463 million in this CSP). To keep within the region's allocations would require a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. There remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, and financial sector restructuring which needs to be addressed through adjustment lending. Therefore, Bank adjustment lending should be scaled down gradually. It is the intention to use sector investment credits in agriculture, education and health with emphasis on sectoral policies, donor coordination, and acceleration of disbursements. Once sector objectives and investment programs are agreed, all donors will be encouraged to provide assistance within the agreed sector investment program framework. The focus of ESW will be on better understanding of and creative solutions to major issues affecting the long-term performance of the economy. The proposed lending program is shown in the table below.

PROPOSED LENDING PROGRAM FY94-98

(US$ MILLION)

FISCAL YEAR	OPERATION	COMMITMENT (US$ Million)	SUB-TOTAL
FY94	Economic and Social Adjustment Credit (ESAC)	150.0	
	Petroleum Rehabilitation	30.0	
	Financial and Legal Management Upgrading	18.0	198.0
FY95	Mining and Financial Sector Adjustment Credit	100.0	
	Health Sector	30.0	
	Agriculture Sector (ASIP)	40.0	
	Water Supply and Sanitation	20.0	190.0
FY96	Adjustment	90.0	
	Power Rehabilitation	10.0	
	Education Sector	30.0	130.0
FY97	Adjustment	80.0	
	Roads Rehabilitation	40.0	
	Environment Sector	18.0	
	Social Recovery II	25.0	163.0
FY98	Adjustment	70.0	
	Agriculture Sector (ASIP II)	30.0	
	Health Sector II	20.0	
	Urban and Local Government	15.0	135.0
	GRAND TOTAL FY94-98		**816.0**

58. The lending scenario shown above would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. Macroeconomic policy performance would be measured against the benchmarks agreed with the IMF. The impact of structural reforms would be more difficult to measure, since progress could only become perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements. Any shortfalls in these three would trigger reductions in lending in the area concerned, but it should be remembered that any substantial reduction in balance of payments assistance for any length of time could well result in a complete interruption due to the difficulties in meeting multilateral debt service payments.

Donor Coordination

59. The Bank has played a key role in coordination of donor assistance since 1991. This effort has been pursued in the context of consultative group meetings, the SPA meetings, and regular contacts with individual donors. The CG will provide a forum for reviewing program performance and financing requirements. As noted earlier, sector lending will provide a vehicle for coordinating donor assistance in agriculture, education, and health. A major share of the resources allocated for preparing and implementing the integrated sector programs are being applied to assisting Government in donor coordination.

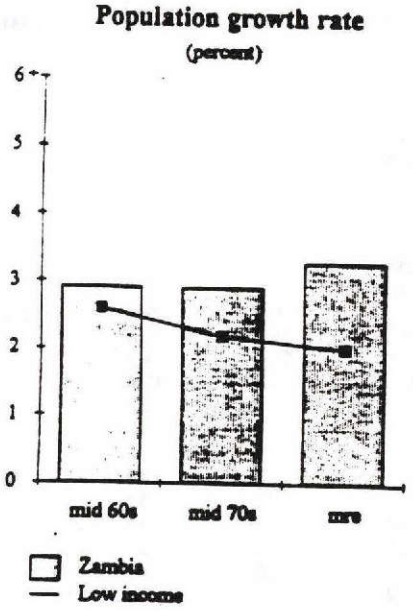
Risks and Overall Assessment

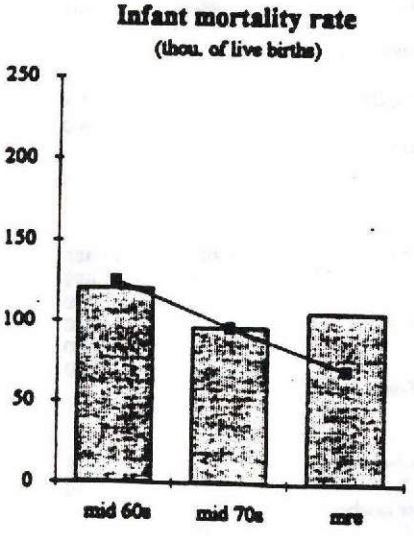
60. There are considerable risks in the Zambia program. The high level of reliance on balance of payments assistance and the high debt service burden mean that any significant policy shortcoming could result in an interruption in assistance causing an interruption in debt service and a complete unraveling of international support. The long and steep decline in living standards means that the population will not long be patient if the present Government does not deliver some immediate tangible benefits, and this could result either in Government's relaxing the fiscal restraint or reducing civil liberties, either of which could be disastrous for continued donor support. Zambia also remains vulnerable to external developments such as a decline in copper prices or an interruption in the southern transport corridor. With the help of the international community, Zambia is taking strong measures to address these sources of risk, and performance to date has merited the exceptional levels of support it has received, but the Zambia program will continue to need very close monitoring. On the brighter side, Zambia has accomplished an unprecedented peaceful political transition, managed to deal with the worst drought of the century, and dramatically transformed the economy from state domination to private markets in less than two years. The opportunity is now at hand to begin to see some positive results from these efforts, and the Bank can play a critical role in this transition. Success in Zambia would send a very positive signal to the many countries in need of a similar reforms.

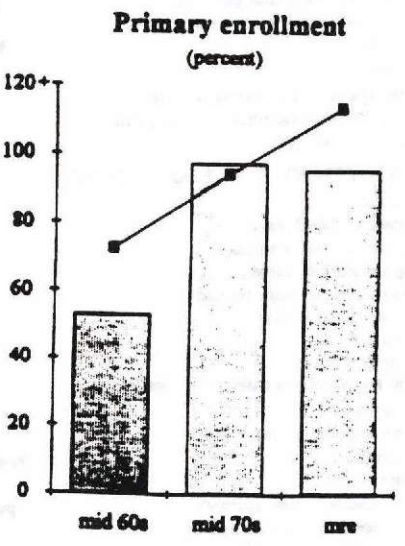
ZAMBIA: Social Indicators of Development

Priority Poverty Indicators

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
POVERTY							
Upper poverty line	local curr.	..	..	1,380	..	..	..
Headcount index	% of pop.	..	..	64	..	..	..
Lower poverty line	local curr.	..	..	962	..	..	..
Headcount index	% of pop.	..	..	54	..	..	..
GNP per capita	US$	260	550	460	350	350	1,610
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	5	9	1,438	..	..	..
Lower income	"	..	..	..	..	..	..
Food	"	..	..	769	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	3	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	53	97	95	70	113	100
Male	"	59	105	99	76	122	106
Female	"	46	88	91	60	106	98
Mortality							
Infant mortality	thou. live births	121	96	106	104	70	40
Under 5 mortality	"	..	..	176	177	98	53
Immunization							
Measles	% age group	..	..	80	40	73	70
DPT	"	..	..	66	35	81	74
Child malnutrition (under-5)	"	..	24	23	..	..	..
Life expectancy							
Total	years	44	49	49	51	63	67
Females/males	ratio	1.07	1.07	1.07	1.06	0.95	1.08
Total fertility rate	births per woman	6.6	6.7	6.5	6.4	3.7	3.5
Maternal mortality rate	100,000 live births	..	..	..	..	..	..







ZAMBIA: Social Indicators of Development

Resources And Expenditures

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
HUMAN RESOURCES							
Population (mre=1991)	thousands	3,614	4,841	8,319	488,932	3,127,265	773,803
Age dependency ratio	ratio	0.92	0.97	1.07	0.97	0.66	0.71
Urban	% of pop.	23.3	34.8	51.0	28.7	40.1	53.9
Population growth rate	annual %	2.9	2.9	3.3	3.0	1.9	1.7
Urban	"	8.3	5.6	5.5	5.0	5.2	3.1
Labor force (15-64)	thousands	1,287	1,665	2,744	203,947	1,448,104	302,448
Agriculture	% of labor force	79	75	..	..	..	..
Industry	"	8	9	..	..	..	..
Female	"	28	28	29	37	33	32
Female per 100 males							
Urban	number	..	87	..	..	..	..
Rural	"	..	123	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	753	753	753	23,066	38,828	23,990
Density	pop. per sq. km	5.0	6.0	10.0	20.0	77.0	31.0
Agricultural land	% of land area	46.9	47.1	47.4	51.0	47.4	41.8
Change in agricultural land	annual %	0.1	0.0	0.1	0.0	0.0	0.0
Agricultural land under irrigation	%	0.0	0.1	0.1	5.5	13.7	12.6
Forests and woodland	thou. sq. km	306	299	289	6,651	9,197	5,396
Deforestation (net)	annual %	-0.2	-0.2	-0.2	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	..	63	..	..	..	..
Share of bottom 40% of households	"	..	11	..	..	..	..
Share of bottom 20% of households	"	..	4	..	..	..	..
EXPENDITURE							
Food	% of GDP	..	22.7	25.8	..	..	..
Staples	"	..	5.9	5.5	..	..	..
Meat, fish, milk, cheese, eggs	"	..	10.0	12.8	..	..	..
Cereal imports	thou. metric tonnes	45	164	100	7,838	36,008	44,418
Food aid in cereals	"	..	5	3	2,677	6,669	4,047
Food production per capita	1979-81=100	100	138	83	94	122	101
Fertilizer consumption	kg/ha	2.0	11.0	18.0	14.5	47.5	94.2
Share of agriculture in GDP	% of GDP	14.3	13.1	15.7	29.2	28.7	..
Housing	% of GDP	..	5.8	7.6	..	..	..
Average household size	persons per household	..	4	..	..	..	..
Urban	"	..	..	..	..	..	..
Fixed investment: housing	% of GDP	..	4.8	0.3	..	..	..
Fuel and power	% of GDP	..	1.9	3.1	..	..	..
Energy consumption per capita	kg of oil equiv.	464	533	379	100	350	1,249
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	3.9	3.8	..	..	..
Fixed investment: transport equipment	"	..	6.0	1.7	..	..	..
Total road length	km	..	..	37,359	..	..	..
INVESTMENT IN HUMAN CAPITAL							
Health							
Access to health care	% of pop.	..	..	..	..	..	..
Population per physician	persons	11,401	13,486	11,290	..	..	..
Population per nurse	"	5,829	1,698	603	..	..	..
Population per hospital bed	"	..	300	..	1,328	1,048	509
Access to safe water	% of pop.	..	42.0	58.0	36.7	70.6	..
Urban	"	..	86.0	76.0	74.3	79.3	..
Rural	"	..	16.0	41.0	24.2	62.8	..
Oral rehydration therapy (under-5)	% of cases	..	..	87	35	32	..
Education							
Gross enrollment ratio							
Secondary	% of school-age pop.	7	15	20	18	44	56
Female	"	3	10	14	14	37	..
Pupil-teacher ratio: primary	pupils per teacher	51	48	44	39	39	25
Pupil-teacher ratio: secondary	"	19	23	28	..	20	..
Pupils reaching grade 4	% of cohort	..	96	..	69	..	..
Repeater rate: primary	% of total enroll	..	2	2	..	..	..
Illiteracy	% of pop. (age 15+)	..	..	27	51	39	..
Female	% of fem. (age 15+)	..	..	35	62	52	..
Newspaper circulation	per thou. pop.	7	22	17	5	..	..

Source: World Bank International Economics Department, April 1993

ZAMBIA--KEY INDICATORS

Base Case Projection

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Real Growth Rates:										
Gross Domestic Product (GDP)	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.1%	12.4%	5.9%	4.5%	5.6%
Gross Domestic Income (GDY)	-2.8%	11.4%	-14.0%	5.9%	2.3%	-16.6%	27.4%	6.0%	5.2%	5.9%
Real Per Capita Growth Rates:										
Gross Domestic Product (GDP)	-0.3	2.5%	-4.7%	-4.1%	-5.0%	-13.3%	9.2%	2.7%	1.3%	2.6%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	-14.0%	28.9%	-1.3%	0.5%	-0.6%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	-18.6%	37.2%	-1.8%	0.3%	-2.1%
Debt & D. Services (LT+ST+IMF): 1/										
Total DOD (US$M) 2/	3261.1	6839.0	6716.0	7260.0	7423.0	7614.8	7801.3	8135.8	8321.0	8307.8
DOD / GDP	84.0%	188.3%	154.6%	196.0%	193.8%	189.1%	277.6%	270.2%	237.6%	170.4%
Debt Service (US$M)	..	751.9	711.3	801.0	783.0	743.0	652.0	582.0	415.0	687.0
Debt Service / Exports	..	61.9%	47.6%	59.7%	67.2%	62.8%	62.9%	53.8%	33.1%	38.8%
Debt Service / GDP	..	20.7%	16.4%	21.6%	20.4%	18.5%	23.2%	19.3%	11.9%	14.1%
Interest Burden (LT+ST+IMF):										
Interest Paid (US$M)	..	411.0	407.0	332.0	371.0	320.0	280.0	250.0	212.0	211.0
Interest / Exports	..	33.9%	27.3%	24.7%	31.8%	27.0%	27.0%	23.1%	16.9%	11.9%
Interest / GDP	..	11.3%	9.4%	9.0%	9.7%	7.9%	10.0%	8.3%	6.1%	4.3%
Gross Investment / GDP	23.3%	11.4%	9.9%	15.5%	13.0%	15.6%	17.5%	21.3%	22.9%	25.5%
ICORs (5-yr ending year shown) 3/	77.00	5.90	6.40	8.00	12.40	-8.70	-3.30	14.30	5.00	4.60
Domestic Savings / GDP	19.3%	16.4%	14.8%	14.8%	10.7%	6.4%	4.9%	9.0%	11.6%	18.1%
BOP Resource Balance / GDP 4/	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-9.2%	-12.6%	-12.3%	-11.3%	-7.4%
BOP Current Account Balance / GDP 5/	-13.8%	-7.3%	-5.1%	-10.9%	-13.4%	-18.3%	-24.5%	-22.4%	-17.7%	-11.7%
Marginal Domestic Savings Rate	0.78	0.54	0.86	1.84	2.20	0.43	-0.08	0.70	0.37	0.64
Government Investment / GDP	..	4.7%	4.7%	5.5%	4.7%	5.9%	5.2%	6.7%	7.5%	8.4%
Government Savings / GDP	-9.8%	-8.0%	-4.1%	-1.0%	0.5%	5.8%	13.5%	15.7%	20.5%	18.8%
Private Investment / GDP	..	6.7%	5.3%	10.0%	8.3%	9.7%	12.3%	14.6%	15.4%	17.1%
Government Revenues / GDP	24.0%	18.8%	19.2%	21.9%	23.5%	32.6%	32.8%	30.9%	30.5%	29.3%
Government Expenditures / GDP	44.3%	27.3%	28.8%	29.3%	30.6%	32.7%	25.8%	22.8%	19.5%	19.2%
Budg. Def. (-) or Surplus / GDP	-20.3%	-8.5%	-9.6%	-7.4%	-7.1%	-0.1%	7.0%	8.1%	11.0%	10.1%
Primary Deficit (-) or Surplus / GDP	19.3%	-7.1%	-6.2%	-0.5%	0.1%	8.3%	14.2%	10.0%	9.6%	6.9%
Consumer Price Index (% growth)	11.7%	55.6%	96.3%	109.6%	93.4%	209.3%	112.0%	57.0%	17.0%	5.0%
GDP Deflator (% growth rate)	11.8%	42.8%	102.0%	113.7%	97.5%	209.3%	112.0%	57.0%	17.0%	5.0%
Real Exchange Rate (1987=100)	232.3	155.7	205.8	173.4	153.6	162.0	176.5	176.5	176.5	176.5
Terms of Trade Index (1987=100)	..	97.6	107.3	91.8	75.4	63.1	85.4	82.5	85.9	96.6
Export (GNFS)/Volume Growth Rate 6/	-3.1%	-5.9%	-1.4%	15.9%	-16.6%	9.1%	-3.7%	2.0%	2.7%	16.1%
Exports (GNFS) / GDP	41.4%	34.2%	32.0%	34.7%	30.4%	29.4%	37.0%	36.0%	36.0%	36.0%
Imports (GNFS) Volume Growth Rate 7/	..	..	..	..	..	18.4%	-11.7%	3.2%	4.3%	4.9%
Imports (GNFS) / GDP	45.4%	26.9%	27.6%	35.4%	32.3%	38.6%	48.5%	48.0%	47.0%	44.0%
BOP Current Balance (US$M)	-537.0	-263.9	-222.4	-401.9	-512.5	-737.0	-687.9	-674.8	-620.6	-570.5
Net Reserves (US$M)	78.0	134.0	116.0	193.0	185.0	280.0	298.0	338.0	378.0	458.0
Gross Reserves(US$M)	..	..	..	..	..	..	..	..	..	..
Net Reserves (months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.1	2.4	2.5	2.4

Note: All ratios are calculated from data in current prices and exchange rates. ICOR and growth rates are based on constant price data.

1. "LT" denotes long-term debt; "ST" denotes short-term debt.
2. Debt outstanding and debt disbursed.
3. Incremental capital output ratios with a 5-year period.
4. "BOP" denotes "Balance of Payments.
. Current account balance is before official transfers.
6. Goods and nonfactor services.
7. The growth rates in imports are based on dollar values deflated by MUV.

ZAMBIA--NATIONAL ACCOUNTS

Base Case Projection
1991 Per Capita GNP (US$) 429.4
Mid-1991 Population (Mil) 8.3

PART A: CURRENT PRICE DATA

(Millions of LCUs

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	3063.6	30020.8	60024.5	127649.7	247623.2	688699.0	1641295.0	2728002.0	4632282.0	7469868.0
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	66191.0	167387.0	302016.0	518121.0	840125.0
GDP at Factor Cost	2842.6	28710.1	57323.5	119515.9	232006.9	622508.0	1473908.0	2425986.0	4114161.0	6629743.0
Imports (GNFS)	1391.2	8065.6	16537.6	45148.6	75370.4	265836.6	812285.6	1315916.0	2181334.0	3265337.0
Exports (GNFS)	1268.0	10266.2	19226.2	44258.0	71901.2	202361.4	605316.0	980388.6	1657325.0	2713944.0
Resource Balance	-123.2	2200.6	2688.6	-890.6	-3469.2	-63475.2	-206969.6	-335527.4	-524009.0	-551393.0
Total Expenditure	3186.8	27820.2	57335.4	128540.3	251092.3	752174.7	1848264.0	3063530.0	5156291.0	8021261.0
Total Consumption	2473.5	24407.2	51371.7	108957.1	217708.2	644665.7	1561576.0	2481949.0	4096808.0	6118644.0
Government	781.6	4582.4	8460.8	14453.3	25220.9	103535.7	167722.0	277037.0	461014.0	798010.0
Private	1691.9	19824.8	42910.9	94503.8	192487.3	541130.0	1393854.0	2204912.0	3635794.0	5320634.0
Gross Domestic Investment	713.3	3413.0	5963.7	19583.2	33384.1	107509.0	286688.0	581581.0	1059483.0	1902617.0
Government	..	1411.0	2821.2	7058.8	11757.5	40800.0	84944.0	183542.0	345227.0	626290.0
Private	..	2002.0	3142.5	12524.4	21626.6	66709.0	201744.0	398039.0	714256.0	1276327.0
Memorandum Items:										
Domestic Savings	590.1	5613.6	8652.8	18692.6	29915.0	44033.3	79719.0	246053.0	535474.0	1351224.0
Net Factor Income	-168.6	-3924.9	-5176.0	-10950.0	-24400.0	-56976.1	-175149.2	-244747.3	-247693.9	-276902.7
Net Current Transfers	-138.5	-289.3	-386.8	-1302.4	-2592.1	-5625.9	-19856.0	-31710.2	-49336.2	-44116.7
National Savings	283.0	1399.4	3090.0	6440.2	2922.9	-18568.7	-115286.2	-30404.5	238443.9	1030204.6
Optional details for RMSM-X:										
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	66191.0	167387.0	302016.0	518121.0	840125.0
Indirect Taxes	417.8	2706.7	4203.8	12048.9	21379.3	73691.0	174962.0	309628.9	525764.4	847829.7
Subsidies	196.8	1396.0	1502.8	3915.1	5763.0	7500.0	7575.0	7612.9	7643.4	7704.7

PART B: CONSTANT PRICE DATA

(Millions of LCUs, 1977=100)

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	1995.8	2247.1	2224.2	2213.6	2174.4	1954.8	2197.2	2326.8	2557.9	3123.9
Imports (GNFS)	710.4	540.4	452.7	423.7	385.9	407.9	587.8	606.6	651.0	737.5
Exports (GNFS)	632.7	476.3	469.6	544.5	454.3	495.6	477.3	486.8	501.0	573.4
Resource Balance	-77.7	-64.1	16.9	120.8	68.4	87.7	-110.5	-119.7	-150.1	-164.1
Total Expenditure	2074.4	2237.2	2172.4	1994.1	2209.4	2113.6	2730.4	2912.7	3231.6	3913.6
Total Consumption	1635.3	1992.2	1944.2	1654.6	1909.4	1703.2	2249.4	2291.2	2498.6	2917.4
Government	531.3	331.3	438.7	427.8	427.8	528.7	466.9	494.3	543.5	735.7
Private	1104.0	1660.9	1505.5	1226.8	1481.6	1174.5	1782.5	1796.9	1955.1	2181.7
Total Investment Expenditure	439.1	245.0	228.2	339.5	300.0	410.4	481.0	621.4	733.0	996.2
Government	..	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..	..
Terms of Trade (TT) Effect	14.8	211.5	-110.8	24.6	115.3	-44.5	236.3	253.4	324.2	465.8
Gross Domestic Income	2010.6	2458.6	2113.4	2238.2	2289.7	1910.3	2433.5	2580.2	2882.1	3589.7
Domestic Savings (TT Adjusted)	375.3	466.4	169.2	583.6	380.3	207.1	184.1	289.0	383.5	672.3

PART C: VALUED ADDED BY SECTOR

sectoral shares in percent of GDP at market price

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Agriculture	14.2%	16.8%	17.6%	18.2%	15.7%	9.4%	17.8%	18.1%	18.7%	19.2%
Industry, of which:	41.3%	45.3%	51.5%	45.3%	47.2%	65.1%	57.5%	57.3%	57.3%	57.9%
Manufacturing	18.5%	31.6%	36.5%	31.9%	36.3%	34.2%	30.7%	31.6%	31.8%	31.7%
Mining	16.4%	10.5%	12.9%	9.0%	7.3%	18.3%	12.8%	10.4%	8.9%	8.7%
rvices	44.5%	37.9%	30.9%	36.5%	37.1%	25.5%	24.7%	24.6%	24.1%	22.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

PART D: LONG-TERM GROWTH RATES

(average annual growth rates calculated from constant price data)

	Actual			Projected	
	1965-73	1973-80	1980-90	1991-95	1995-2000
Gross Domestic Product (m.p.)	1.9%	0.8%	1.1%	3.0%	5.0%
Agriculture	1.7%	1.4%	2.4%	7.8%	6.0%
Industry of which	2.5%	0.4%	2.5%	2.1%	5.1%
Manufacturing	10.3%	1.0%	4.3%	1.0%	5.2%
Mining	-4.4%	-1.6%	-2.3%	2.4%	1.7%
Services	1.5%	1.0%	0.4%	2.7%	3.9%
Imports of GNFS	3.7%	-5.3%	-5.0%	12.7%	3.4%
Exports of GNFS	0.5%	-0.3%	-1.5%	1.8%	3.3%
Total Expenditures	3.2%	-1.3%	-0.4%	8.1%	4.8%
Total Consumption	1.6%	2.8%	0.1%	6.1%	3.9%
Government	9.2%	0.4%	-2.1%	5.0%	7.2%
Private	-1.4%	4.2%	1.1%	6.1%	3.4%
Gross Domestic Investment	5.8%	-10.2%	-2.5%	21.8%	8.5%
Government	..	..	..	13.4%	8.1%
Private	..	..	..	27.5%	8.8%
Memorandum Items:					
Capacity to Import	4.2%	-11.6%	-1.3%	7.1%	5.4%
Gross National Income	3.3%	-4.4%	1.9%	5.5%	6.1%
Gross National Product	1.4%	1.5%	0.8%	3.9%	5.6%
Gross Domestic Income	3.5%	-4.5%	1.1%	4.6%	5.5%
Gross Domestic Savings	5.6%	-17.4%	-0.2%	-6.4%	18.8%
Gross National Savings	5.4%	-26.8%	-0.2%	-14.4%	62.9%
Population	3.0%	3.1%	3.7%	3.2%	3.2%
Labor Force	2.6%	2.7%	3.3%	..	..
GDP per capita	-1.1%	-2.3%	-2.6%	-0.2%	1.8%

PART E: ANNUAL GROWTH RATES

(anual growth rates are calculated from constant price data)

	Actual					Prel.	Proje cted		
	1980	1988	1989	1990	1991	1992	1993	1994	1996
Gross Domestic Product (m.p.):	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.1%	12.4%	5.9%	4.5%
Agriculture	-1.9%	19.3%	-2.7%	-8.9%	5.2%	-39.3%	100.0%	5.0%	6.0%
Industry	2.3%	6.7%	-0.7%	4.6%	-6.4%	-1.8%	-1.4%	5.9%	4.3%
Services	5.4%	1.0%	-0.5%	-1.1%	-0.4%	2.7%	2.2%	2.9%	3.7%
Gross Domestic Income	-2.8%	11.4%	-14.0%	5.9%	2.3%	-16.6%	27.4%	6.0%	5.2%
Total Investment	64.6%	4.7%	-6.9%	48.8%	-11.6%	36.8%	17.2%	29.2%	10.9%
Total Consumption	-0.8%	6.2%	-2.4%	-14.9%	15.4%	-10.8%	32.1%	1.9%	3.6%
Population	3.3%	3.8%	3.7%	3.6%	3.2%	3.2%	3.2%	3.2%	3.1%
Per Capita Growth Rates:									
Gross Domestic Product m.p.	-0.3%	2.5%	-4.7%	-4.1%	-5.0%	-13.3%	9.2%	2.7%	1.4%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	-14.0%	28.9%	-1.4%	0.5%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	-18.6%	37.2%	-1.8%	0.3%

PART F: PRICE INDICES
(national accounts deflators; 1977=100)

	Actual					Prel.	Projected		
	1980	1988	1989	1990	1991	1992	1993	1994	1996
GDP Deflator	153.5	1336.0	2698.7	5766.6	11388.1	35231.4	74700.1	117242.0	181094.2
Import (GNFS)	195.8	1492.5	3653.1	10655.8	19531.1	65172.6	138195.9	216937.5	335058.9
Export (GNFS)	200.4	2155.4	4094.2	8128.2	15826.8	40828.2	126820.2	201374.4	330836.4
Total Expenditures	153.6	1243.5	2639.3	6446.0	11364.7	35587.6	67692.4	105179.4	159557.0
Consumption	151.3	1225.1	2642.3	6585.1	11401.9	37850.6	69422.0	108323.6	163964.1
Investment	162.4	1393.0	2613.4	5768.2	11128.0	26196.2	59603.9	93586.4	144534.7
Agriculture	143.2	1159.0	2488.1	6008.5	9577.1	26197.2	59174.2	95169.9	148093.9
Industry, of which	167.1	1618.0	3714.1	6639.8	14336.0	48310.9	99298.2	152532.0	237355.0
Mining	244.5	1967.1	4396.2	2976.5	10882.2	69228.2	114856.5	155596.1	227475.3
Manufacturing	1476.1	1735.9	4031.1	6931.0	17165.7	46955.1	106062.1	170579.6	265438.9
Services	145.8	1171.8	1916.4	4873.4	9637.5	26362.4	59547.4	95770.1	149027.9

PART G: Other Economic Indicators

	1973-80	1980-90	1991-95	1995-2000	1973	1980	1990
Import Elasticity based on:							
Imports (GNFS)	-6.6	-4.5	4.2	0.7	-18.0	4.2	13.4
Marginal Savings Rate:							
Gross Domestic Saving	115.7	-0.4	0.4	0.3	1.5	0.8	1.8
Gross National Saving	131.0	0.3	0.2	0.4	1.6	4.0	0.3
ICOR (period averages)	-0.6	-3.3	-0.4	4.5	-54.00	4.50	-20.80
Labor Force(%): 1/							
Agriculture	74.3%	15.6%	..	..	75.5%	73.1%	15.2%
Industry	9.4%	32.1%	..	..	9.0%	9.8%	29.9%
Services	16.3%	52.3%	..	..	15.5%	17.1%	54.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/ For 1990 and 1980-90 is only formal sector.

ZAMBIA -- EXTERNAL TRADE

Base Case Projection

PART A: VOLUME, VALUE AND PRICES

	Actual				Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Volume Indices 1987=100										
Merchandise Exports:										
X.COPPER	143.3	83.7	90.7	92.7	79.1	86.3	82.9	84.4	86.5	98.1
X.ZINC	161.4	97.5	66.0	48.2	32.0	32.0	26.0	20.0	6.0	0.0
X.COBALT	48.8	120.9	97.6	113.9	116.2	77.6	77.5	122.7	123.9	123.9
Manufactures	..	..	..	..	..	..	..	..	..	..
Other Exports	..	..	..	..	..	..	..	..	..	..
Total Merchandise Exports (FOB)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Exports										
X.COPPER	1106.0	1009.0	1184.0	979.0	869.0	876.0	726.0	694.0	788.0	1166.0
X.ZINC	25.0	20.0	22.0	13.0	6.0	0.0	0.0	0.0	0.0	0.0
X.COBALT	111.0	72.0	80.0	74.0	98.0	137.0	79.0	129.0	136.0	136.0
Manufactures	13.0	13.0	5.0	13.0	25.0	..	..	..	..	..
Other Exports	202.0	41.0	119.0	184.0	87.0	98.0	144.0	150.0	194.0	263.0
Total Merchandise Exports (FOB)	1457.0	1155.0	1410.0	1263.0	1085.0	1111.0	949.0	973.0	1118.0	1565.0
Volume Indices 1987=100										
Merchandise Imports:										
Food	339.5	102.0	111.8	74.8	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..
POL and Other Energy	164.2	118.9	188.3	133.8	168.7	..	..	..	..	..
Intermediate Goods	244.7	112.5	82.4	105.5	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	139.7	108.9	92.5	161.5	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Imports										
Food	55.0	14.0	14.0	9.0	16.0	262.8	50.3	0.0	0.0	0.0
Other Consumer Goods	..	..	..	..	158.3	263.8	253.2	332.9	307.5	388.3
POL and Other Energy	248.0	80.0	152.0	141.0	83.0	53.0	63.0	65.1	74.0	97.3
Intermediate Goods	611.0	372.0	271.0	367.0	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	283.0	292.0	246.0	455.0	171.0	157.2	122.7	174.5	247.6	293.4
Total Merchandise Imports (CIF)	1324.0	888.0	1020.0	1084.0	952.0	1270.2	1075.0	1151.3	1318.6	1779.0
US$ Prices Indices 1987=100										
Terms of Trade:										
Merchandise Export Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Import Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Terms of Trade	..	97.6	107.3	91.8	75.4	63.1	85.4	82.5	85.9	96.6

PART B: SHARES OF TOTAL AND GROWTH RATES

	Share of Merchandise Exports and Imports (in current prices)					Export and Import Volume Growth Rates (from constant price data)		
	Actual		Projected			Actual	Projected	
	1980	1990	1994	1996	2000	1986-90	1991-96	1996-2000
Merchandise Exports (%, %p.a.)								
X.COPPER	75.9%	77.5%	71.3%	70.4%	74.5%	-5.9%	1.8%	3.2%
X.ZINC	1.7%	1.0%	0.0%	0.0%	0.0%	-10.3%	-28.5%	0.0%
X.COBALT	7.6%	5.9%	13.3%	12.2%	8.7%	11.5%	1.3%	0.0%
Manufactures	0.9%	1.0%	..	..	..	..	..	..
Other Exports	13.9%	14.6%	15.4%	17.4%	16.8%	..	..	..
Total Merch. Exports FOB	100.0%	100.0%	100.0%	100.0%	100.0%	..	..	..
Merchandise Imports (%, %p.a.)								
Food	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..
POL and Other Energy	..	..	..	..	..	..	..	..
Intermediate Goods n.e.i.	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..

PART C: TRENDS IN NON-FACTOR SERVICES

	Actual				Projected			
	1988	1989	1990	1991	1992	1993	1996	2000
Volume Indices 1987=100								
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..
US$ Price Indices 1987=100	..	..	..	..	..	..	..	..
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..

ZAMBIA BALANCE OF PAYMENTS
(US$ millions in current prices)

Base Case Projection

	Actual				Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
A. Exports of GNFS 1/	1609.0	1214.0	1493.0	1342.0	1168.4	1183.4	1036.5	1082.1	1253.0	1771.7
1. Merchandise (FOB)	1457.0	1155.0	1410.0	1263.0	1085.0	1111.0	949.0	973.0	1118.0	1565.0
2. Non-Factor Services	152.0	59.0	83.0	79.0	83.4	72.4	87.5	109.1	135.0	206.7
B. Imports of GNFS 2/	1765.0	1031.9	1280.4	1368.9	1257.7	1554.6	1390.9	1452.0	1649.0	2132.0
1. Merchandise	1114.0	788.0	900.0	889.0	952.4	1270.2	1075.0	1151.3	1318.6	1779.0
2. Non-Factor Services	651.0	243.9	380.4	479.9	305.3	284.4	315.9	300.7	330.4	353.0
C. Resource Balance	-156.0	182.1	212.6	-26.9	-89.3	-371.2	-354.4	-369.9	-396.0	-360.3
D. Net Factor Income	-205.0	-411.0	-407.0	-332.0	-383.1	-332.9	-299.5	-269.9	-187.3	-181.4
1. Factor Receips	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Factor Payments	205.0	411.0	407.0	332.0	383.1	332.9	299.5	269.9	187.3	181.4
a. Total Interest Paid (DRS) 3/	..	75.0	72.0	70.0	371.1	319.9	279.5	249.9	212.3	211.4
b. Interest due but not paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. Other Factor Payments and discrepa	..	336.0	335.0	262.0	12.0	13.0	20.0	20.0	-25.0	-30.0
E. Net Current Transfers	-176.0	-35.0	-28.0	-43.0	-40.1	-32.9	-34.0	-35.0	-37.3	-28.8
1. Current Receipts	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Workers remittances	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other current Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Current Payments	210.9	35.0	28.0	43.0	40.1	32.9	34.0	35.0	37.3	28.8
Current Account Balance										
1. Before official capital grants	-537.0	-263.9	-222.4	-401.9	-512.5	-737.0	-687.9	-674.8	-620.6	-570.5
2. Official capital grants	33.0	99.9	71.8	295.5	521.0	640.0	513.0	374.0	477.0	558.0
3. After official capital grants	-504.0	-164.0	-150.6	-106.4	8.5	-97.0	-174.9	-300.8	-143.6	-12.5
G. Long Term Capital Inflows	467.0	21.9	-477.0	-714.4	-178.0	-191.0	-64.0	-123.0	47.0	-187.0
1. Direct Investment	62.0	0.0	0.0	0.0	0.0	0.0	7.0	15.0	131.0	148.0
2. Net LT Borrowing (DRS)	424.0	136.0	105.9	63.7	-178.0	-191.0	-71.0	-138.0	-84.0	-335.0
a. Disbursements	693.3	242.0	208.9	159.7	234.0	232.0	301.0	194.0	119.0	140.0
b. Repayments	269.3	106.0	103.0	96.0	412.0	423.0	372.0	332.0	203.0	475.0
3. Other LT Inflows (net)	-19.0	-114.1	-582.9	-778.1	0.0	0.0	0.0	0.0	0.0	0.0
H. Total Other Items (net)	-122.0	-220.1	371.7	390.8	73.6	0.0	0.0	0.0	0.0	0.0
1. Net Short-Term Capital	-147.0	-163.0	502.0	529.0	73.6	0.0	0.0	0.0	0.0	0.0
a. Interest Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other net ST capital	-147.0	-163.0	502.0	529.0	73.6	0.0	0.0	0.0	0.0	0.0
2. Capital Flows n.e.i. 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Errors and omissions	25.0	-57.1	-130.3	-138.2	0.0	0.0	0.0	0.0	0.0	0.0
I. Change in Net Reserves	159.0	362.2	255.9	430.0	95.9	288.0	238.9	423.8	96.6	199.5
1. Net Credit from the IMF	8.0	75.6	77.3	89.4	-37.7	-39.4	-72.8	-20.0	0.0	-175.2
2. Reserves Changes n.e.i.	151.0	286.6	178.6	340.6	133.6	327.4	311.7	443.8	96.6	374.7
3. Escrow account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1. Goods and nonfactor services.
2. Figures on imports up to 1991 are F.O.B., and afterwards are C.I.F.
3. "DRS" denotes Debt Reporting Service.
4. "n.e.i." denotes not elsewhere included.

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
J. As Shares of GDP (current US$):										
1. Resources Balance	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-9.2%	-12.6%	-12.3%	-11.3%	-7.4%
2. Interest Payments (LT+IMF+ST)	..	11.3%	9.4%	9.0%	9.7%	7.9%	9.9%	8.3%	6.1%	4.3%
3. Current Account Balance	-13.8%	-7.3%	-5.1%	-10.9%	-13.4%	-18.3%	-24.5%	-22.4%	-17.7%	-11.7%
4. LT capital Inflow (F.2+G)	12.0%	0.6%	-11.0%	-19.3%	-4.6%	-4.7%	-2.3%	-4.1%	1.3%	-3.8%
5. Net Credit from the IMF	0.2%	2.1%	1.8%	2.4%	-1.0%	-1.0%	-2.6%	-0.7%	0.0%	-3.6%
K. Foreign Exchange Reserves:										
1. Gross Reserves (excluding gold)	78.0	134.0	116.0	193.0	185.0	280.0	298.0	338.0	378.0	458.0
2. Gold (end-year London price)	..	..	..	..	..	..	..	..	..	..
3. Gross Reserves (including gold)	..	..	..	..	..	..	..	..	..	..
4. Net Reserves (in months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.1	2.4	2.5	2.4
L. Exchange Rates										
1. In Nominal Terms (LCU/US$) 5/										
a. Primary (Official) Rate										
Annual Average	0.789	8.266	13.814	30.289	64.640	171.000	584.000	906.006	1322.690	1531.830
End-of-Year	0.803	10.000	21.640	42.700	84.000	377.500	745.003	1036.360	1377.690	1545.190
b. GNP Conversion Factor	0.789	8.266	13.814	30.289	64.640	171.000	584.000	906.006	1322.690	1531.830
2. In Real Terms (base 1987=100)										
a. MUV (PAC estimates)(% change) 6/	9.7%	7.3%	-0.7%	5.7%	2.1%	4.4%	1.3%	1.2%	3.2%	3.4%
b. Index Real Exchange Rate (US$/LCU)	232.3	155.7	205.8	173.4	153.6	162.0	176.5	176.5	176.5	176.5
M. Memorandum Item										
GDP (current US$M)	3884.0	3632.0	4345.0	3704.0	3830.8	4027.0	2810.0	3011.0	3502.0	4876.0
N. Optional Details for RMSM-X										
1. Total Factor Payments	..	..	..	..	..	..	..	..	..	..
a. Government Interest	..	..	..	..	..	..	..	..	..	..
b. Private Sector Interest	..	..	..	..	..	..	..	..	..	..
c. Profit on Direct Foreign Investment	..	..	..	..	..	..	..	..	..	..
2. Official Capital Grants	..	..	..	..	..	..	..	..	..	..
a. For Budgetary Financing	..	..	..	..	..	..	..	..	..	..
b. To Extra-Budgetary Entities (OPS)	..	..	..	..	..	..	..	..	..	..
3. Government Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..
4. Private Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..

5. "LCU" denotes local currency units.
6. "MUV" denotes the unit value index of manufactured exports from selected industrialized countries (France, Germany, Japan, U.K., and U.S.) to developing country expressed in US$.

ZAMBIA: External Debt

(US $ Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt Service Before Rescheduling													
Bilateral	261.2	315.8	442.7	393.5	335.0	319.2	214.4	160.9	161.5	210.1	256.0	243.1	232.9
Paris Club	179.0	270.7	408.0	336.0	291.0	292.1	201.9	148.2	148.8	197.0	245.6	237.9	228.8
Other Bilateral	82.2	45.1	34.7	57.5	44.0	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	135.1	141.4	59.3	45.0	46.6	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
Suppliers Credit	93.9	108.2	39.6	27.4	23.4	29.4	35.3	41.6	48.3	55.3	62.8	70.6	78.8
Commercial Bank	10.2	9.6	5.9	6.1	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	31.0	23.6	13.8	11.5	14.8	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Multilateral	391.1	326.0	241.0	213.0	199.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
Bank	72.5	84.6	79.0	82.0	71.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	239.8	171.5	95.0	68.0	66.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	78.8	69.9	67.0	63.0	62.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	0.0	0.0	0.0	0.6	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	787.4	783.2	743.0	652.0	582.0	524.8	414.9	358.6	428.0	526.7	686.3	778.1	720.5
Rescheduling													
Bilateral	179.0	268.4	553.0	351.0	231.7	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club	179.0	262.5	503.0	263.0	200.0	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Bilateral	0.0	5.9	50.0	88.0	31.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private	0.0	0.0	0.0	12.0	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	179.0	268.4	553.0	363.0	240.0	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service After Rescheduling													
Bilateral	82.2	47.4	-110.3	42.5	103.3	206.4	214.4	160.9	161.5	210.1	256.0	243.1	232.9
Paris Club	-0.0	8.2	-95.0	73.0	91.0	179.2	201.9	148.2	148.8	197.0	245.6	237.9	228.8
Other Bilateral	82.2	39.2	-15.3	-30.5	12.3	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	135.1	141.4	59.3	33.0	38.2	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
tilateral	391.1	326.0	241.0	213.0	199.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
ank	72.5	84.6	79.0	82.0	71.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	239.8	171.5	95.0	68.0	66.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	78.8	69.9	67.0	63.0	62.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	0.0	0.0	0.0	0.6	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	608.4	514.9	190.0	289.0	341.9	412.0	414.9	358.6	428.0	526.7	686.3	778.1	720.5
Total Debt Service Bef. Resc./Exports	58.6	67.2	62.1	62.4	53.9	45.6	33.2	26.9	30.0	35.1	38.8	39.5	33.5
Total Debt Service Aft. Resc./Exports	45.3	44.2	15.9	27.7	31.7	35.8	33.2	26.9	30.0	35.1	38.8	39.5	33.5
Total Debt Service Bef. Resc./GDP	18.7	20.4	18.5	23.2	19.3	16.2	11.8	9.4	10.4	11.8	14.1	14.6	12.4
Total Debt Service Aft. Resc./GDP	14.4	13.4	4.7	10.3	11.4	12.7	11.8	9.4	10.4	11.8	14.1	14.6	12.4

1/ Includes interest on gap and Konkola financing.

ZAMBIA--GOVERNMENT BUDGET
(millions of LCUs at current prices)

Base Case Projection

	Actual					Prel.	Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Direct Taxes	313	1988	4073	8805	14335	36417	55124	175884	298277	480656
Indirect Taxes	396	2337	6029	9776	11445	73691	174962	309628	525764	847830
Non-Tax Receipts	58	494	431	424	860	4821	9489	19096	32426	7470
Total Current Revenues	711	4819	10533	19005	26640	114928	239575	504608	856467	1335956
Interest on External Debt	431	1132	2058	7275	14063	47534	112372	145022	152726	190603
Interest on Domestic Debt	..	598	1006	1584	3662	10310	4737	-95394	-221893	-431320
Other Current Transfers 1\	..	615	1088	2909	6162	-93806	-274692	-256915	-492429	-631401
Subsidies	..	1396	1879	4060	8744	7500	7575	7613	7643	7705
Consumption	623	3827	6649	13414	24256	103536	167722	277037	461014	798010
Total Current Expenditures	1054	7568	12680	29243	56887	75073	17715	77363	-92939	-66404
Budgetary Savings	-343	-2749	-2147	-10237	-30247	39855	221861	427245	949405	1402360
Capital Revenues	0	0	0	0	0	0	0	0	0	0
Capital Transfers	226	349	1805	1100	1012	0	21000	21000	21000	21000
Budgetary Investment	120	1178	2801	7059	11758	40800	84944	183542	345227	626290
Total Capital Expenditures	346	628	4606	8159	12769	40800	105944	204542	366227	647290
Total Deficit Financing	622	-2552	-5725	-9623	-17581	-945	115916	222704	583179	755070
External Capital Grants 2/	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	27	1220	621	1617	4812	9783	41995	70668	131144	208957
Monetary System Credit (net)	..	1509	2530	2675	12384	-8838	-157912	-293373	-714323	-964027
Other Domestic Borrowing (net)	..	48	1294	405	1205	0	0	0	0	0
/ebt (at the end of the year)										
External Debt										
(in millions of LCUs)	1689	36632	58455	147159	320240	681666	2370024	3747474	5717189	7378260
(in millions of US$)	2141	4432	4232	4859	4954	3986	4058	4136	4322	4817
Domestic Debt	..	5076	8897	5256	12887	4049	-153863	-447236	-2000000	-5000000
To Monetary System	..	5076	8897	5256	12887	4049	-153863	-447236	-2000000	-5000000
Other Domestic Debt	..	0	0	0	0	0	0	0	0	0
Memorandum Item:										
Primary Deficit	591	-2141	-3716	-764	-17237	56899	233025	272332	444699	514353
External Grants	26	825	992	8950	31551	109508	299475	338755	631397	855497

ZAMBIA MONEY AND CREDIT
(millions of LCUs at current prices)

Base Case Projection

	1980	Actual 1988	1989	1990	1991	Prel. 1992	Projected 1993	1994	1996	2000
A. Annual Flows:										
Net International Reserves	..	908.6	1342.7	-287.7	-1971.5	16245.0	10512.0	36240.2	26453.7	30636.6
Net Domestic Credit	..	3384.0	5680.0	4445.0	35446.0	201603.0	-142274.0	-19819.0	33729.4	195887.0
To Government Budget	..	1300.6	3392.9	2675.1	12384.0	-8838.3	-157912.0	-293373.0	-714323.0	-964027.0
To Other Official Entities	..	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0
To Private Sector	..	2083.4	2287.1	1769.9	23062.0	210441.0	15637.5	273554.0	748052.0	1159915.0
Total Assets and Liabilities	..	4292.6	7022.7	4157.3	33474.5	217848.0	-131762.0	16421.7	60183.1	226524.0
Money and Quasimoney	..	3861.0	6602.0	7662.0	24061.0	125908.0	139780.0	226285.0	220384.0	249584.0
Net Other Liabilities	..	-1010.9	-1896.2	-1158.4	-3120.8	-130101.0	-175736.0	-271833.0	-124645.0	-3480.9
B. End of Year Stocks:										
Net International Reserves	-828.0	1107.1	1605.6	5849.7	11934.5	28179.5	38691.5	74931.7	124720.0	243861.0
Net Domestic Credit	1863.0	5314.7	11356.0	19455.0	37178.0	238781.0	96506.8	76688.2	372783.0	1269046.0
To Government Budget	1354.0	857.7	2307.0	5256.0	12887.0	4048.7	-153863.0	-447236.0	-2000000.0	-5000000.0
To Other Official Entities	-1354.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To Private Sector	..	4457.0	9049.0	14199.0	24291.0	234732.0	250370.0	523924.0	2095906.0	6546144.0
Total Assets and Liabilities	1035.0	6421.8	12961.6	25304.7	49112.5	266960.0	135198.0	151620.0	497503.0	1512907.0
Money and Quasimoney	907.0	10126.0	16728.0	24390.0	48451.0	174359.0	314139.0	540425.0	1312064.0	2548871.0
Net Other Liabilities	128.0	-3704.2	-3766.4	914.7	661.5	92601.1	-178941.0	-388805.0	-814562.0	-1000000.0
C. Offsets to Expansion of MQM:										
Increase in Money and Quasimoney	..	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Foreign Assets	..	23.5%	20.3%	-3.8%	-8.2%	12.9%	7.5%	16.0%	12.0%	12.3%
Net Domestic Credit	..	87.6%	86.0%	58.0%	147.3%	160.1%	-101.8%	-8.8%	15.3%	78.5%
To Government Budget	..	33.7%	51.4%	34.9%	51.5%	-7.0%	-113.0%	-129.6%	-324.1%	-386.3%
To Other Official Entities	..	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
To Private Sector	..	54.0%	34.6%	23.1%	95.8%	167.1%	11.2%	120.9%	339.4%	464.7%
Net Other Liabilities	..	-26.2%	-28.7%	-15.1%	-13.0%	-103.3%	-125.7%	-120.1%	-56.6%	-1.4%
D. Memorandum Items:										
Net International Reserves (in millions of US$)										
Change during the year	..	109.9	97.2	-9.5	-30.5	95.0	18.0	40.0	20.0	20.0
Stock at the end-of-year	78.0	134.0	116.0	193.0	185.0	280.0	298.0	338.0	378.0	458.0

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 24, 1993

TO: See Distribution Below

FROM: Stephen Denning, AF6DR

EXTENSION: 3-4250

SUBJECT: ZAMBIA: Minutes of RLC Meeting on Zambia CSP (November 12, 1993)

1. The Regional Loan Committee met to review the Zambia Country Strategy Paper draft on November 12, 1993. Mr Jaycox chaired the meeting.

2. Mr. Denning opened the meeting by reporting on the latest developments in Zambia. All conditions on the ongoing adjustment operations have now been met and agreements have been reached on key issues for the upcoming Economic and Social Adjustment Credit. Mr. Denning recapitulated the central themes of the Department's strategy proposal, pointing out that the wide range of uncertainty over copper prices reinforced the conclusion that Zambia's adjustment program is precarious and that there is no middle ground between exceptional donor support and suspension of lending.

3. Mr. Jaycox questioned whether it is true that no middle ground exists. It is clear what happens if Zambia goes off track on reforms, but what happens if copper prices fall or donors fail to meet the full financing gap? What will happen to debt servicing, which reforms will be maintained and which abandoned, and what will the Bank's response be? After extensive discussion of these issues, Mr. Jaycox requested that the revised CSP should "anticipate a crisis" and explore how Zambia is likely to react and how the Bank should respond if external circumstances cause the existing financing plan to unravel. The CSP should also use Zambia's situation to call for rethinking donor debt strategy.

4. The second main issue discussed was sources of growth. Concerns were expressed about the feasibility of such a high agricultural growth rate and the composition of savings. Mr. Jaycox asked that the Department expand the discussion of sources of growth in the revised CSP, including a discussion of the links between our lending program and the expected supply response.

Distribution:

Mr. Karaosmanoglu (EXC)

Regional Loan Committee: Messrs. Jaycox, Martinez (AFRVP); Hussain (AFRCE); Colaco (AF2DR); Cleaver (AFTDR); Iskander (PSDDR); Ofosu-Amaah (LEGAF)

cc: Messrs./Mmes.: Tidrick, Edstrom (AF6DR); Lafourcade (AF1DR); Aguirre-Sacasa (AF3DR); Lim (AF4DR); Marshall (AF5DR); Squire (PPDDR); Ray, Chaudhri (DPG); Linn (FPRVP); Adams (OPR); Guislain, Nellis (PSDEP); Shen (FSD); Stern (IENDR); Kuczynski (CAFDR); Barger, Rague (CAFCM); Wilson (CAFD1); Young, Behbehani (CFSPS); Joshi-Ghani (CFSPF); Varon (AFRCE); Ohri (AFRVP); Bond, Sorrel (AFTIE); Patel, Todd, Kisa (AF6CO); Cook (AF6IE); Nkojo (AF6ZA); Kane (LEGAF); Nguyen (LOAAF)

Borneman, Johnson, Katz (IMF)

Zambia Country Team, Africa Information Center

GT
GTidrick:lim

week Paper for
Sh & Supplementary Does not satisfactorily address

CSP file

Dwg Mr Reginald Lucas Cuttin meeting,
Mr Jay Cox

① Ascertained whether it is true that there is no middle ground between exceptional drawn suppressed suspension of Bankg?

The revised CSP does not really discuss what the Bank should do if external circumstances cause the existing fixed parity plan to unravel!

(X) ⊙ Raimond also does not really struggle over for a rethinking of dated Bretton Woods

⊙ does not explain the high success of India in Ghana (6% p.a. in 1965-2000) beyond saying that 1 million Europeans exist for political reasons + grounds (does not say why was it not exploited — the cost — if planners attempts failed, what strategies would be adopted,

⊙ does not clearly annunciate the foreign trade gaps that led to the building of Private Savings / GDP (6% of GDP, 1965 to 18% in 2000)

⊙ para 13 - says that imposed tax administration based on tax base until achieves revenue collection but in Ghana indicates tax ↓ 33% of GDP to 29%.

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 12, 1993 04:04pm

TO: Ishrat Husain (ISHRAT HUSAIN)

FROM: Mark Baird, DPG (MARK BAIRD)

EXT.: 31666

SUBJECT: **Zambia CSP**

Ishrat:

Just to reinforce a point made at the meeting: the CSP needs to do a better job of explaining the debt problem facing Zambia (level and structure) and options for resolving it (or muddling through). A simple table showing debt owed to major creditors in 1994, and the effect of rescheduling and disbursements on net transfers, might help to bring the issue into focus.

Mark

CC: Gene Tidrick (GENE TIDRICK)
CC: Fateh Chaudhri (FATEH CHAUDHRI)

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 12, 1993 11:28am

TO: Fateh Chaudhri (FATEH CHAUDHRI)

FROM: Mark Baird, DPG (MARK BAIRD)

EXT.: 31666

SUBJECT: **See Attached**

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 12, 1993 11:20am EST

TO: Stephen Denning (STEPHEN DENNING)

FROM: Deepak Bhattasali, AFRCE (DEEPAK BHATTASALI)

EXT.: 34031

SUBJECT: **Zambia CSP: Agenda For RLC Meeting**

1. I have just received a telephone call from Ms. Larrecq, conveying her views and those of Ms. Donovan on behalf of FRM (who are on retreat today and will be unable to attend the RLC meeting).

2. They would like to associate themselves strongly with the comments in paras. 5 and 6 of the proposed agenda (my em of November 10). They believe that, from the point of view of FRM, para. 5 focuses on the central issue in our Zambia country strategy--risks and Bank strategy. The propose that the CD provide a number of options to deal with different risk scenarios, including debt restructuring and burden sharing alternatives. In addition, they propose that the CSP contain a clearer discussion of growth and poverty linkages and issues.

3. FRM may prepare a note on Monday reiterating and amplifying on this.

CC: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)
CC: Ishrat Husain (ISHRAT HUSAIN)
CC: Mark Baird (MARK BAIRD)
CC: Praful Patel (PRAFUL PATEL)
CC: Kathryn Larrecq (KATHRYN LARRECQ)
CC: Paula Donovan (PAULA DONOVAN)
CC: Gene Tidrick (GENE TIDRICK)
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ZAMBIA: CSP

On the basis of a quick glance through the CSP, my hurried reaction is the following:

(a) It is more of an advocacy document that pleads for massive external aid than a regular CSP presenting a basis for Bank assistance and alternative strategies.

(b) At several places the CSP clearly recognizes that Zambia is a high risk country; yet it presents only one (Base Case) growth scenario. Neither the text nor any projection scenarios deal with the downside risks that are usually an essential feature for Bank assistance strategies.

(c) Even the Base Case scenario itself which the Region might say is the most realistic one, is hardly credible. For example, if the agricultural output has grown only about 2% per annum over the last 25 years, how could the rate now jump to 7-9% a year in the 1990s; if export diversification is one of the key elements of the strategy, then why are non-mineral exports (manufactured and others) projected to remain below the 1980 level even in nominal terms; why is the real effective exchange rate expected to remain unchanged through the rest of the decade? While it is stated that increase in the savings performance will take time, yet the private savings/GDP ratio is projected to accelerate from less than 1% in 1991 to 13% in 1993. It is also not credible that the investment/GDP ratio will double from 13% (actual in 1991) to 26% at the end of the decade.

(d) The draft CSP provides no discussion of the central development issues in the economy and their interrelationship. The only key constraint to sustained development that stands out is just one--foreign aid flows.

Fateh M. Chaudhri

Nov. 12, 1993

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: November 10, 1993 05:47pm EST

TO: See Distribution Below

FROM: Deepak Bhattasali, AFRCE (DEEPAK BHATTASALI)

EXT.: 34031

SUBJECT: **ZAMBIA: Agenda For RLC Meeting on Country Strategy Paper (CSP)**

1. As announced earlier, a meeting of the RLC will be held on Friday, 12th November, at 2.30 p.m. in Room J5-044. Mr. Jaycox will chair the meeting.

Background

2. A draft CSP was prepared in 1985. The Bank suspended disbursements in May 1987 as Zambia accumulated arrears. The policy dialogue was resumed in 1989, but in September 1991 disbursements were suspended again because of arrears. The new Government, which came to power through elections in November 1991, cleared these arrears in January 1992 and agreed on a Policy Framework Paper for the period 1992-94. Subsequently the Bank has approved $357 million in adjustment credits and $102 million in investment credits. The third tranche of the FY92 adjustment credit (PIRC I, $200 million) is yet to be released, and PIRC II (FY93, $110 million) is yet to be declared effective.

3. The dominant features of the Zambian situation are: (a) its exceptional debt servicing burden (63 percent of exports); (b) the need to provide very high levels of external assistance (gross amounts of roughly $98 per capita, but net transfers of just $10 per capita) to support orderly debt servicing and a modest level of imports; and (c) the high risk of serious disruption, even reversal, of the reform program if external funding falls below programmed levels. The Zambian reform program is clearly balanced on a knife-edge. In addition to external funding, sustainability of the program will depend upon rapid growth in agricultural production and non-traditional exports, Zambia's ability to attract foreign direct investment and new technologies, improved and expanded delivery of social services, and continued efforts to downsize the public sector and raise its efficiency.

4. The macroeconomic framework is weak. Despite fairly radical reform efforts to formally liberalize key economic prices and to reduce or eliminate most distortionary and costly controls, current macroeconomic uncertainties and imbalances may thwart investment and production by the private sector. Fiscal control eroded signifcantly during 1992, causing a 300 percent rate of inflation during the first half of 1993. There has been a rapid decline in this rate in recent months, resulting in an appreciation

of the real exchange rate and high real interest rates. Private savings have collapsed; real money balances have fallen sharply, reflecting partly the effects of demonetization and disintermediation. A comprehensive assessment of the macroeconomic framework, and an identification of targets and policies for the near- and medium-term, is currently underway.

Issues For Discussion

5. Risks And Bank Strategy: The draft CSP highlights the "knife-edge" problem in several places, as well as the high risks associated with the Zambian economic program. However, it needs to distinguish more clearly between disruptions that could stem from flagging government commitment to reforms, and those caused by factors outside their control. Regarding the former, the CSP signals that Bank lending would be discontinued. What would be the strategy in the latter case? The draft CSP proposes a lending program for 1995-97 that is 23 percent higher than the latest IDA allocation from the region, constraining our ability to move to even higher levels. What is the reform strategy if terms of trade decline further (beyond attempting to fill financing gaps on an equitable basis with other donors) or if there are shortfalls in support from other donors? Are there additional options on debt restructuring which need to be considered in the design of contingency plans for Zambia? On donor support, given recent experience and donor expressions of concern about corruption, what are the prospects of a shortfall?

6. Sources Of Growth: The draft CSP's extensive discussion of Zambia's external financing needs, although important, has crowded out an appreciation of the nascent supply response in the economy and, more important, a clearer identification of future sources of growth. Given recent disruptions in production, how is an average output growth rate of 6 percent per year to be generated and sustained with import growth of 4-5 percent and export growth of 2-5 percent per year? Related to this, (a) how will a 7-10 percent annual growth in farm output be generated, given constraints on the availability of inputs and the absence of a drought-proofing or water management strategy? (b) can private sector industrial output be expected to respond to recent reforms without a more rapid dismantling of parastatal monopolies and release of land for commercial exploitation, reduction in anti-export bias, introduction of foreign direct investment, lower real interest rates, initiatives to provide access to foreign markets, direct firm-level assistance to Zambian manufacturers who have never exported and, in general, a more pro-active stance on investment and industrial promotion?

7. Project Implementation: Significant improvements have been made recently in the Zambia portfolio. However, disbursement performance lags that of the other AF6 countries, and delays in the implementation of recent adjustment operations are a cause for concern. The CSP does not distinguish adequately between problems caused by weaknesses in implementation capacity and those that are policy-related. Regarding the former, a large number of initiatives are proposed to decentralize and otherwise restructure government

operations, especially in the social sectors. How would this affect implementation in the short-run? Several actions have been taken to conduct participatory assessments of Bank projects and local design of sectoral strategies and investment programs. How, specifically, will the results of these exercises be fed into the design of future operations?

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: November 8, 1993

TO: Distribution

FROM: Stephen Denning, Director, AF6

EXTENSION: 34035

SUBJECT: Draft Zambia CSP for RLC Meeting

1. The attached draft CSP for Zambia is submitted for review by the Regional Loan Committee.

2. A meeting to review the draft CSP will be held on Friday, 12th November at 2.30 p.m. in room J5-044. Mr. Jaycox, RVP, Africa Region will chair the meeting.

3. Any comments or questions before the meeting can be addressed to Mr. Praful Patel, x34250.

Attachment

Distribution:

Messrs/Mmes: Jaycox (AFRVP); Kaji (EAPVP); Wood (SASVP); Thalwitz (ECAVP); Koch-Weser (MNAVP); Husain (LACVP); Kashiwaya (CFSVP); Rao (DECVP); Choksi (HROVP); Rischard (FPDVP); Serageldin (ESDVP); Linn (FPRVP); Shihata (LEGVP); Einhorn (TREVP); Eccles (CTRVP); Picciotto (DGO); Messenger (PAAVP); Thahane (SECGE); Iida (MIGEX); Kuczynski (CAF); Johnson (IMF); Martinez (AFRVP); Lafourcade (AF1DR); Colaco (AF2DR); Aguirre-Sacasa (AF3DR); Lim (AF4DR); Marshall (AF5DR); Denning, Tidrick (AF6DR); Cleaver (AFTDR); Muhsin (AFRCA); Husain, Bhatasali (AFRCE); Patel, Aksoy, Kisa, Todd, Merid, Jensen (AF6CO); Nkojo (AF6ZA); Helman, Okidegbe (AF6AE); Cook, Mbanefo (AF6IE); Pomerantz (AF6IN); Grawe, Jorgensen (AF6PH)

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COUNTRY STRATEGY PAPER

ZAMBIA

NOVEMBER 3, 1993

① Little document ? Central country in the economic and Aid relationship

② Key Constraints to sustained adjustment — foreign aid — fiscal

AFRICA REGION
SOUTHERN AFRICA DEPARTMENT

COUNTRY STRATEGY PAPER

ZAMBIA

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EXECUTIVE SUMMARY

Background

1. Since the last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985, Zambia's adjustment, and Bank lending followed a stop-go pattern. As arrears began to accumulate, the Bank suspended disbursements in May 1987. Policy dialogue resumed in 1989, culminating in an IDA adjustment credit of US$210 million in March 1991. Disbursements were suspended again in September 1991 on account of accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed again in February 1992.

2. Zambia has accomplished an extraordinary turnaround in economic policy since then. It has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates are decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10 percent of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Stabilization policy has been far less successful than reform, but inflation has declined from annual rate of 300% in the first half of 1993 to just over 20% in the second half. This is an exceptional record of accomplishment, particularly considering government's limited implementation capacity and the disruption of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993. Much remains to be done, but the government has shown itself to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services.

3. Despite significant improvements in the policy environment (and demonstration of political will to maintain the reform program), Zambia faces two major difficulties in both the short and medium run. First, in light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, when exports in current U.S. Dollars were only 83% of the 1980 level and debt service claimed 60% of exports, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and 28% lower copper prices (some of which, but not all, was anticipated). Maintaining this level of donor support over the medium run will require the Bank to maintain a very large program of assistance and play a critical role in donor coordination. The balance of payments position, even under the most optimistic scenarios, is expected to be so tight that any shortfall in foreign assistance will reverse the reform program. Second, given the tightness of the resource constraints and uncertainties on its availability, the ability of the Government politically to stick to the reform program might be very difficult. The new government won nearly 80 percent of the vote in 1991, largely on the strength of the opposition to the failed policies of, and general lack of confidence in the Kaunda government. The next general election is not scheduled until 1996. The new government continues to have considerable support, although there is growing

discontent over the continuing economic stagnation, reports of corruption, and the limited improvements in public services.

4. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5 percent a year through higher productivity and increased investment. The basic prerequisite for reaching this goal is continued **balance of payments support by the international donor community** both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are **macroeconomic stability, political stability, human resources development, public service reform, private sector development, infrastructure development, and sound environmental policies.**

Bank Assistance Strategy

5. The goal of the Bank's assistance strategy for Zambia is to assist the government in its strategy of achieving sustainable economic growth and reducing poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on continued donor support. There is no middle ground in Zambia. Any shortfall in foreign assistance will drive the economy into arrears, reverse the reform program, and lead to the suspension of lending. Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as the Zambian government continues its adjustment program. If the Government cannot sustain its reform program, then we will have no lending program. More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

Recommendation

6. Approval is sought for the lending program proposed in the CSP for the period FY94-98 of US$771 million for 17 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. In the outer years, the share of each adjustment credit in total lending will decline. The level of lending is 23 percent above the latest IDA allocation from the region. (For FY95-97, the IDA allocation is $377 million compared to $463 million in this CSP). To keep within the region's allocations would require a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. There remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, and financial sector restructuring which needs to be

addressed through adjustment lending. Therefore, Bank adjustment lending should be scaled down gradually.

7. This lending scenario would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. It will also depend on future copper prices and the levels of support given by other donors. Copper prices are projected to continue to fall through 1995 and then to rebound sharply. Although this pattern was projected at the time of the 1990 deal, current projections are 6.7% (1995) to 7.8% (2000) below previous projections. If the price of copper collapses further, or fails to rebound as expected, and the resource gaps cannot be filled by other donors, we might be forced to suspend our operations because our resources would not be sufficient to maintain the adjustment program, even if the Government maintains it present course. Macroeconomic policy performance would be measured against the benchmarks agreed with the IMF. Implementation of structural reforms would be more difficult to measure, since progress could only become perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements. Any shortfalls in these three would trigger reductions in lending in the area concerned, but it should be remembered that any substantial reduction in balance of payments assistance for any length of time could well result in a complete interruption due to the difficulties in meeting multilateral debt service payments.

ZAMBIA

COUNTRY STRATEGY PAPER

I. Introduction

1. The last Country Strategy Paper (CSP) for Zambia was prepared in draft in 1985. It was not fully considered within the Bank as the Government abandoned in 1986 the structural adjustment program (SAP) agreed with the Bank and IMF. In 1987, the Government broke relations with the Bank and IMF and stopped repayment of debt service to the Bank. As arrears began to accumulate, the Bank suspended disbursements in May 1987. After a two-year hiatus, a policy dialogue resumed in 1989, culminating in resumption of normal relations in March 1991, with the approval by the Bank's Board of Executive Directors of an IDA adjustment credit of US$210 million. The period of normalcy was, however, short-lived, since disbursements had to be suspended again in September 1991 on account of accumulated arrears to the Bank. With the coming to power of the Movement for Multi-party Democracy (MMD) in November 1991, the new Zambian Government re-affirmed its commitment to policy reform, cleared arrears to the Bank in January 1992, and agreed a new PFP with the Bank and IMF for the period 1992-94. Consequently, normal operations resumed again in February 1992.

2. Zambia has accomplished an extraordinary turnaround in economic policy in recent years. For all of the 1970s and most of the 1980s, the Zambian economy was characterized by excessive interference by government and dominance of parastatal enterprises. Even the precipitous decline in copper revenue in the mid-1970s brought little in the way of structural adjustment. Instead, government used up its international borrowing capacity in support of unsustainable levels of consumption and unproductive public sector investments. Profits were possible for certain favored producers, but generally there was little incentive for private sector investment, particularly for exports.

3. In just a few years, Zambia has dismantled nearly all controls and moved to market-based pricing throughout the economy. Price controls are gone. The exchange rate is based on supply and demand. Import and export licensing have been eliminated. Interest rates are decontrolled. All food prices, including maize, are set entirely by market forces. An ambitious program of privatization has been launched that has already brought 10 percent of the commercially oriented parastatals to sale or final negotiations. Tariff rates have been lowered and compressed. Service delivery ministries are being decentralized, and the size of the civil service is being reduced. Progress on inflation has been uneven, but the money supply has been well contained since June. Stabilization policy has been far less successful than reform, but inflation has been lowered dramatically in the second half of 1993.

4. This is an exceptional record of accomplishment, particularly considering government's limited implementation capacity and the disruption of a political transition in 1991, a severe drought in 1992, and falling copper prices in 1993. These have not been halfway measures enacted by a reluctant government to gain donor support. Much remains to be done, but the government has shown itself time and again to be genuinely committed to a strategy of economic growth and poverty reduction based on a dynamic private sector as a source of output and employment growth and a restructured public sector as a source of supporting infrastructure and social services. The Bank's role has been one of helping the Zambians to fashion the sequencing and particulars of these policies, coordinating the

international financial support, and providing IDA's share of the necessary resources. In light of Zambia's exceptional debt service burden and limited prospects for copper exports, providing even modest import growth will require exceptional levels of balance of payments assistance. This was clear when the arrears clearance deal was first struck in 1990, when exports in current U.S. Dollars were only 83% of the 1980 level and debt service claimed 60% of exports, but the levels of required support have been even larger than expected in recent years because of the 1992 drought and lower copper prices. The Bank has played an active role in assisting the Government to mobilize the necessary external support. To this end, the Bank has supported Zambia's efforts to obtain concessional assistance and debt relief from its creditors and increased its own annual lending, with policy-based lending accounting for a sizable share of total lending.

5. Despite significant improvements in the policy environment (and demonstration of political will to maintain the reform program), Zambia faces two major difficulties in both the short and medium run. First is that any growth or even the maintenance of economic activity requires very large inflows of foreign aid. Maintaining this level of donor support over the medium run will require the Bank to maintain a very large program of assistance and play a critical role in donor coordination. The balance of payments position, even under the most optimistic scenarios, is expected to be so tight that any shortfall in foreign assistance will reverse the reform program. Second, given the tightness of the resource constraints and uncertainties on its availability, the ability of the Government politically to stick to the reform program might be very difficult. The new government won nearly 80 percent of the vote in 1991, largely on the strength of the opposition to the failed policies of, and general lack of confidence in the Kaunda government. (The average real income in Zambia had dropped by more than a third since the mid-1970s.) Given that majority, MMD contains a wide variety of interests, including businessmen, trade unionists, small and large farmers, students, bureaucrats, and the unemployed. A small but powerful faction has left MMD (including several ex-Ministers) to form an opposition party that will likely replace UNIP as the major opposition party. Their complaints have been largely about corruption. By-elections over their seats will be held in November. The next general election is not scheduled until 1996. In the meantime, the Chiluba government appears to have considerable support, although there is widespread discontent over the continuing economic stagnation and the limited improvements in public services.

6. In addition, domestic policies reducing inflation and improving public sector implementation capacity remain central to improving the prospects for growth. The most challenging macroeconomic policy issue is to lower sharply the rate of inflation. This will require a concerted and sustained effort. Inflation reached triple digits in each of the last three years and again in the first half of 1993, compared to original program targets of around 40 percent. Since July, however, inflation on an annualized basis has been brought down sharply to just over 20 percent in the past quarter and is expected to fall further. The decline in inflation has been brought about by fiscal restraint and monetary targets so stringent that the exchange rate has appreciated. The authorities recognize that this outcome is counterproductive and are now moving, supported by the IMF, to reduce foreign exchange sales to allow the exchange rate to find a more suitable long-term level, while maintaining a tight fiscal stance. If Zambia can make this adjustment and hold to its current course, it should be able to break inflationary expectations and initiate a virtuous circle of lower interest rates and higher investment and exports, leading to lower inflation and increased growth.

7. Weaknesses in the public sector have persisted, despite initial efforts at civil service reform and privatization of parastatals. These problems -- together with the 1992 drought, inadequate infrastructure, the high inflation, and the current monetary crunch -- have inhibited the stimulation of an adequate supply response to reforms. To help overcome these constraints, the focus of the proposed Bank assistance strategy is on continuing a high level of balance of payments support for the SAP with a view to permitting modest import growth until non-traditional export growth can gradually bring Zambia on a more sustainable path, while providing project support for public sector investments needed to improve infrastructure and social services consistent with government's strategy of increasing private sector economic growth and raising the living standards of the most disadvantaged.

II. Recent Developments and Policy Performance

8. Prior to the adoption of the current SAP, Zambia's economy was in deep crisis. The economic infrastructure had deteriorated substantially. Basic institutions were unable to function efficiently. The incentive system was seriously distorted. Measures to restore economic growth required not only major policy reform, but substantial physical reconstruction and institutional rehabilitation. This situation was aggravated by heavy dependence on copper whose prices had collapsed, a neglected agricultural sector, uncompetitive and import-dependent manufacturing sector, a dominant and inviable parastatal sector, an overvalued exchange rate, and a cumbersome regulatory framework. The challenge facing the MMD Government was to remove the existing economic distortions and to reverse the decline in income per capita. The collapse of copper prices which started in the 1970s and continued in the 1980s exacerbated the crisis and left the authorities with no option but to take tough measures to reform the economy and to reverse the economic decline of the past.

9. The SAP combined trade policy reforms, deregulation, and exchange rate adjustment aimed at enhancing the competitiveness of the non-copper sectors with stabilization policies designed to restore fiscal and balance of payments equilibrium and price stability. Efforts were made to downsize the public sector and to enhance its efficiency, while stimulating private sector development. The Government eliminated subsidies on maize and fertilizer, decontrolled prices, and revised investment laws, rules and regulations. Zambia has completely decontrolled the exchange rate with the establishment of bureaux de change, freed interest rates, reduced the budget deficit from about 7 percent of GDP in 1991 to 3 percent in 1992, embarked on privatization of parastatals, and retrenched 12,000 redundant public employees. These achievements were made despite the devastating drought which hit the country in 1992.

10. Zambia has maintained good policy performance in 1993, despite some lapses in implementation. The major accomplishment has been that inflation on an annualized basis has declined from 300 percent in the first half of the year to just over 20 percent in the second half. Interest rates have fallen from over 300 percent to about 100 percent and are still falling. After the devastating drought of 1992, agricultural production is expected to nearly double in 1993 compared to a negative 40 percent in 1992. For the first time in several years, GDP is expected to grow by 3 percent in 1993. Despite these positive developments, the country will still face major challenges in 1994. A fall in the price of copper, combined with an appreciation of the Kwacha, will result in a sharp decline in export earnings and Government revenue. Debt-service payments will remain high, as will external financing requirements.

11. The over-arching challenge facing Zambian authorities now is resumption of sustainable and equitable economic growth and improving the composition and efficiency of public services as the best way to reduce poverty. In particular, Zambia needs to:

- balance the budget and control the high rate of inflation;
- mobilize sufficient external support;
- implement the public service reform program;
- implement the privatization of parastatals program;
- stimulate private sector investment;
- expand non-traditional exports; and
- improve the delivery of social services.

III. Policy Agenda for Stability and Growth

12. Accelerating economic growth is a precondition for achieving the rest of Zambia's development objectives. Given its natural resource endowment, the country is capable of achieving a rate of GDP growth of at least 5 percent a year through higher productivity and increased investment. The basic prerequisite for reaching this goal is continued **balance of payments support by the international donor community** both by maintaining their large aid inflows and by showing flexibility to adjust their assistance to meet the unexpected needs caused by external shocks beyond Zambia's control. The domestic prerequisites for reaching this goal are **macroeconomic stability, sufficient external assistance to permit modest growth in imports, political stability, human resources development, public service reform, private sector development, infrastructure rehabilitation and development, and sound environmental policies**. In addition, trends in demographics will play an increasingly significant role.

Macroeconomic Stability

13. Controlling inflation will be critical to the resumption of economic growth. A high rate of inflation will inhibit supply response to the policy reforms currently underway. It creates uncertainty and speculation among potential investors, and thus hinders private investment. Controlling inflation is accorded high priority in the Government's policy agenda. On the fiscal front, the Government has announced its intention to expand the scope of the ongoing tax reform to encompass introduction of a value-added tax. Improved tax administration and broadening of the tax base will also enhance revenue collection. This, combined with expenditure restraint, will help eliminate budget deficits and prevent inflation from rising again. Past efforts at stabilization have been frustrated by lapses in spending restraint and disappointing revenues, sometimes due to shortages of political will but increasingly the result of shortcomings in implementation. The record of recent months has demonstrated firm political commitment; implementation capacity will need to be similarly strengthened.

Human Resources Development

14. Past economic decline contributed to the neglect of human resources development. Budgetary allocations were drastically cut, and the quality of services deteriorated considerably. The Government is now taking bold steps to reverse the negative trends in social indicators and to restructure the delivery of social services. The thrust of the restructuring is decentralization of service delivery with recovery in budgetary allocations, delegation of authority, as well as in policy development. Initiatives include district management in health and education, devolution of safety-net measures to local groups (including NGOs), and restructuring of the water supply and sanitation sector. This approach complements the reforms designed to move Zambia toward a free market economy.

15. In breaking with the past centralized and planner-knows-best practices, the proposed social sector reforms recognize that the provision of welfare takes place at the household level. Thus, public services must support households in this effort. This shift in philosophy will help ensure better decision-making in the social sectors and improve their efficiency and effectiveness. The goal is to provide a quality-assured package of basic services as close as possible to the household.

16. The Government has already decided to shift the responsibility for delivering health services to autonomous District Health Management Boards. Provincial authorities will change from institutions that control financing and implementation to institutions that support these Boards and provide technical and financial audits. The central Ministry will no longer implement vertical programs; it will downsize to focus on mobilizing resources, setting policy, developing human resources, and providing technical support to districts. District staff have been trained in bottom-up planning techniques, accounting, and budgeting. A pilot program is currently underway using donor funds allocated to all districts based on simple health plans. Although managerial capacity of the Education Ministry is certainly more limited than in Health, a draft policy document to decentralize the management of education services to districts and school management boards has been completed. In the meantime, the devolution to Provincial level is being deepened with increased budgetary authority for Provincial Education Officers, who represent, relatively, the best administrative talent in the Ministry.

17. In the area of protecting vulnerable groups, Zambia had an excellent experience with the response to last season's drought through the Program to Prevent Malnutrition (PPM). That Program worked through committees at local levels consisting of NGOs, public servants and other civic leaders. Other positive experiences in reaching vulnerable groups have been accomplished by the Program for Urban Self Help and small development projects funded by the Microprojects Unit (MPU). Based on the PPM experience, fifty NGOs and the Government have come together to form a coordinating NGO, the Program Against Malnutrition (PAM), that will finance and monitor activities in rural areas across the country. The Ministry of Community Development and Social Services is improving its Public Welfare Assistance Scheme (PWAS) to serve the indigent poor that also relies on local committees for its implementation. The program needs to overcome severe logistical and targeting problems. The implementation of the next medium-term plan for AIDS alleviation will include both public and private (for profit and non-profit) agencies. Current AIDS alleviation activities, while limited in scope, are being carried out in a decentralized manner, so there is some experience in Zambia already.

18. The restructuring of the budget to improve the efficiency and effectiveness of public sector programs will have an important impact on improving social service delivery and social safety nets. Government policy is directed toward: (a) ensuring a sufficient share of total spending in social sectors (as a measure of Government commitment to social development); (b) within recurrent expenditures, ensuring increases in funding for primary services within non-salary recurrent expenditures, including drugs and district health services under health, provincial allocations to primary education, and activities to protect vulnerable groups; and (c) focusing on rehabilitation programs within the capital budget, especially for education and water supply.

19. Even when money is allocated to the social sectors, service delivery is hampered by an unreliable flow of resources from the Budget Office to service delivery points. As a result, although they have the greatest contact with service recipients, decentralized social-service institutions have little say on the resources budgeted for them and on how those resources are used. The removal of all these financial bottlenecks will require that the District Health Management Boards would become fully independent budgetary entities; in education Provincial Education Officers would be subwarranted with the allocation for primary services; and districts would receive funding for the rehabilitation of water supplies in peri-urban areas. The Government is also taking steps to ensure that the social sectors become self-financing to a greater degree.

20. To support the reforms outlined above, there is a need for revising policies and improving coordination of all sectors, especially as the systems become gradually more and more decentralized. In health, the basic thrust of the reform program must be followed up by revision of sub-sectoral policies relating to human resources, drugs and supplies management and logistics, delivery norms and practices, and private sector participation to reflect the new service delivery system. In education the Government will continue to remove key bottlenecks to improved access and quality of primary education while formulating longer-term policies. Teacher training is being improved and school managers are being trained along with education inspectors. The Ministry also continues to improve the examinations system to remove delays in processing the results of secondary school entrance examinations. The Government has confirmed its commitment to primary education as the basis for a well-functioning educational system. Vocational and technical training is being restructured to enable students with less than grade 7 education to participate and to refocus the curriculum on skills development relevant to the private sector. In water and sanitation, the Government has established a Program Coordinating Unit. The major principles of future sector policies are generally agreed. They include: (a) separation of water resource management and water supply and sanitation functions; (b) separation of regulatory/supervisory and executive functions; (c) devolution of responsibility for service delivery to local authorities, including establishment of autonomous public-owned enterprises; (d) user and community participation, including hygiene education; (e) full cost-recovery in the long-term; concessionary tariffs for the poor; (f) training and incentive measures for human resource development; and (g) increased use of appropriate technology. Nutrition activities also have suffered from a serious lack of policy guidance and coordination. An analogous approach to water and sanitation will be required to get things moving.

21. Zambia's population of 8.3 million is growing at an annual rate of 3.2 percent. At this rate, the population will double in the next twenty years. If measures are not taken now to control population growth and, through removing distortions in the business environment and attendant rationalization of incentives, promote efficient migratory and population

distribution patterns, it will become increasingly difficult for Zambia to provide adequate essential services, employment, and incomes for the growing numbers. The Government has adopted a population policy whose implementation is yet to get underway in earnest. Intensified efforts need to be made in this area.

Public Service Reform

22. Improvement of the management of public resources is critical to accelerating economic growth. An efficient public service is essential for raising public savings, implementing investment projects, supporting the private sector, and reorienting public expenditure toward poverty alleviation. Limited capacity within the public service for identifying, appraising and implementing investment projects has been a constraint on accelerating economic growth. It is necessary to build up at central government level the requisite capacity by introducing incentives for attracting and retaining skilled personnel into the public service and changing the management culture with emphasis on delegation of authority and evaluation of results. There is also a need to devolve responsibility for project design, selection and maintenance from central to local authorities provided adequate implementation capacity exists or can be created. Municipal and district councils and local community organizations know local needs and priorities better than agencies at central government level. They are more likely to respond to local constituencies if given adequate responsibilities and resources.

23. Bank assistance toward public service reform is being provided in collaboration with bilateral donors and multilateral agencies. With support from the United Nations Development Program (UNDP), the Government has developed a framework for capacity building. In the context of that framework, an assessment has been made of existing development management capacity in the public service. On the basis of this assessment, weaknesses have been identified, and a strategy developed for enhancing the capacity for policy formulation and project implementation. With support from IDA, the Government is developing an outplacement and business development program for retrenched employees. In addition, a Financial and Legal Management Upgrading Project was approved by the Bank's Board of Executive Directors in July 1993. A project to address issues of urban development and local government is included in the lending program. Capacity building is also a key objective of investments in such sectors as agriculture, education, energy, and transport.

Private Sector Development

24. Zambia's economic reform program has substantially improved the environment for private sector development. A greater role for the private sector in the economy is part of the Government's development strategy. The private sector is seen as playing a key role in increasing the growth of non-traditional exports. Controlling inflation would provide a strong impetus for private saving and investment as would improving infrastructure and human resource development. The Bank has provided support for privatization of parastatals through the first Privatization and Industrial Reform Credit (PIRC) of US$200 million, a technical assistance credit of US$10 million, and the second PIRC of US$110 million. In addition, an Industrial and Financial Adjustment operation is provided in the lending program for FY95. Assistance in the financial sector will follow a study of the sector which has already been completed and whose results are under review. In agriculture, the Agricultural Marketing and Processing Infrastructure Project is providing support for liberalization of agricultural pricing and marketing, development of infrastructure, and farm credit.

25. Improving the efficiency of international trade and promoting non-traditional exports are policy priorities for restoring economic growth in Zambia. The current US dollar value of copper exports is below that of 1970, and copper still accounts for 85 percent of total exports. From the beginning of the 1990s, the Government has initiated a number of trade-supportive reforms. They include a more appropriate macroeconomic policy framework, particularly with regard to the exchange rate and the foreign exchange allocation system, and also trade-specific measures, mainly the expansion of the export retention scheme for exporters of non-traditional goods; the simplification, reduction and narrowing of external tariffs; and lowering of company income tax and harmonizing indirect taxes of the tax structure.

26. However, in spite of these achievements, some policy constraints faced by Zambian exporters have not been corrected. First, the remaining protection still makes it more attractive to produce for the domestic market than for export, although the adjustment of the exchange rate has brought a better balance in this regard. The government intends to continue the process of reducing the level and dispersion of tariff protection consistent with the policy of fiscal restraint. Second, import duties and sales tax paid on inputs increase the cost for domestic producers and exporters compared with producers in other countries which have access to inputs at world prices. The Government intends to extend the coverage of the duty drawback system to include all imported raw material and intermediate inputs for exporters. Procedures for claiming the drawback will be simplified and the computation changed to an exemption system based on physical input/output coefficients rather than a refund system. Finally, an exporter has to go through cumbersome procedures without export financing mechanisms. The European Community is helping the government to create an export revolving fund.

27. The adoption of a value-added system is also urgently needed to (a) increase the tax-base in Zambia (producers have to be registered to get tax deduction), (b) avoid double-taxation on productive activities, and (c) shift the tax burden from producers to consumers. An implementation plan for a value-added tax system is being prepared with a view to introducing the tax in 1995.

28. Minimizing the use of discretionary practices in the granting of exemptions on imported capital goods is also necessary to consolidate the reforms and to protect the revenue base. The granting of Ministerial exemptions to industrial and commercial organizations was discontinued in 1990. However, a significant number of exemptions are still granted as a result of the 1991 Investment Act. The new Investment Act, enacted in August 1993, also entitles a wide range of activities to exemption from customs duties and sales taxes on machinery and equipment. Exemptions are necessary to promote investment in Zambia, but the authorities must ensure that Ministerial exemptions remain limited to charitable organizations, and that industrial and commercial exemptions are dealt with only in the context of the Investment Act. The broader issue of limiting further exemptions granted to new businesses is being addressed in the context of the Regional Integration Initiative. Strict criteria and procedures will be defined so that exemptions granted under the Investment Act are as automatic and transparent as possible.

Infrastructure Development

29. The rehabilitation of existing infrastructure is essential for private sector development. Current policy emphasizes rehabilitation and maintenance of existing infrastructure. While

this is sound policy in the short- to medium-term, given the deteriorated and run-down state of roads and railways, public investment in new infrastructure in relatively underdeveloped but potentially high-growth areas will become increasingly important. Because of limited public resources, it is necessary to encourage the private sector to play a greater role in infrastructure development and maintenance than has hitherto been the case. Such opportunities range from sub-contracting most road maintenance to the private sector with maximum involvement of local consultants and contractors to opening railway infrastructure maintenance, workshops and support services to private sector participation.

30. To effect this change, the Government has embarked on a program of institutional and regulatory reform, which includes devolution of responsibility, enhanced revenue generation, greater cost recovery from the users of infrastructure services, and better accountability in the use of funds. This program is compatible with and builds on the larger program of public sector reform. In this regard, a Transport Engineering and Technical Assistance Project, approved by the Board in June 1993, will assist with the implementation of these reforms in the road sector to be followed in FY96 by a Roads Rehabilitation Project, which would coordinate and support a comprehensive, multi-year program to rehabilitate Zambia's roads. In addition, a proposed Urban Water and Sanitation project in FY95 would address the more urgent requirements in the short-term and establish the agenda for reform in the medium-term. A subsequent Urban and Local Government project, planned for FY97, would facilitate such reforms in the provision of urban infrastructure overall. Similarly, an Urban and Local Government project planned for FY97 will facilitate such reforms in the provision of urban infrastructure.

Environmentally Sustainable Growth Strategy

31. Zambia's major environmental issues are land degradation, deforestation, wildlife depletion, impact of mining activities on the health of the people, water contamination and inadequate sanitation. The impact of these issues manifest themselves in declining quality of water in the country's rivers and streams, deteriorating air quality in areas of heavy industrial emissions, and poor quality of urban life due to inadequate sanitation and disposal of waste material. These problems are exacerbated by inefficient, unsafe and unsustainable use of available natural resources. Government intervention will not only improve the environment but also help alleviate poverty. It can also shift some of the associated investment and conservation costs to private beneficiaries. For instance, Government policies should aim to induce mining and logging companies to bear some of the environmental costs of their operations to the country. Provision of clean water and improved sanitation, and control of toxic chemicals used in mining can reduce health risks considerably. Current Government policy aims to ensure that environmentally sustainable development is pursued vigorously. A National Environment Action Plan (NEAP) is currently under preparation with Bank support. To help implement the NEAP, the Bank has proposed an Environment sector operation in FY97. The Government has demonstrated its commitment to dealing with environmental issues by establishing a Ministry of Environment and Natural Resources and a National Environment Council.

Poverty Reduction

32. Especially given the substantial deterioration in the living standards of the average Zambian over the past 18 years, the government has recognized that it cannot continue to undertake the stringent measures necessary to stabilize the economy and restore growth

without ensuring that the bulk of the population begin to experience an improvement in welfare levels. Following the increasingly precipitous welfare decline of recent years and the expectations associated with political liberalization, the future of the whole reform program hangs in the balance. While the measures taken to promote agriculture, exports, and the private sector generally should lead to sustainable and indeed rapid growth in key sub-sectors of the economy, this impact will neither be widely spread nor dramatically apparent in the short term. In contrast a welfare safety net that builds on the successful approach to alleviating the impact of the 1992/93 drought , combined with a reorientation of social services to meet widespread basic needs (defined as responsive services at the delivery point - the health center, the primary school, the community water system) will offer tangible evidence that less government can also mean better government in precisely those areas that are critical to the welfare and economic prospects of the poor in Zambia. Budget restructuring and a reorientation of government delivery capacity to getting results in the field through decentralization and a partnership with successful NGOs and the private sector will improve the distribution of social welfare significantly and quickly and will lay the basis for the longer term economic participation of the poor in Zambia's recovery and growth.

IV. Medium-Term Prospects and External Financing Requirements

Growth

33. The Zambian economy has the potential to generate a positive rate of growth in 1994 of at least 4 percent if stabilization measures succeed. Growth prospects after 1994 will depend on full implementation of the agenda outlined above. Efficient public service management, including effective project implementation, would help accelerate economic growth in later years by substantially raising public investment in infrastructure and human resources development. A level of five percent a year is possible provided constraints to bringing more land under cultivation are reduced, the balance of payments needs are met, and the policy environment continues to improve. In the short-term improvements in allocative efficiency and increased land utilization will be major contributions to this growth. In the longer-term, continuing this force of growth will rest on increased investment and human resource development.

34. This may seem an optimistic growth rate given Zambia's record of economic stagnation, policy distortions, and deteriorating infrastructure, but Zambia has some clear advantages as well. First, there is adequate land and rainfall to support a considerable increase in agriculture. Even the partial reforms of the mid-1980s brought an average growth rate in agriculture of 8 percent per year from 1985-1988 (although helped in large part by good rains). Second, economic efficiency has been so bad in the 1970s and 1980s that there is considerable scope for economic growth through increased efficiency with existing capital. Third, Zambia's government has a genuine commitment to a policy of private sector-led growth which is already translating into an improved business climate for domestic and foreign investors.

35. Most of the growth in the early years will come from increased production in agriculture and services, especially transport and financial services. As the privatization program gets underway, manufacturing should follow in the later years. Accelerated agricultural growth will require removal of existing constraints to increasing productivity, viz., inadequate technical support services, neglected rural infrastructure, and poor access to

inputs especially for women. Making available additional land will be essential for the high rate of economic growth assumed in our projections. Government strategy in agriculture emphasizes promotion of increased productivity and diversification, particularly in the smallholder sub-sector by redirecting research and extension services to drought-resistant crops, increasing access to financial services, improving rural infrastructure (especially feeder roads), strengthening of agricultural information services, and rehabilitating and expanding veterinary services. Some parts of the manufacturing sector may not be profitable with the new price structure, but some existing and new manufacturing sector capacity can be expected to contribute to economic growth, provided sufficient credit is available to the private sector and constraints to exports are addressed. Mining output from existing mines, especially of copper, is expected to grow modestly in the early years as efficiency increases. However, dramatic increases in output will be contingent upon substantial investments in opening up new mines.

36. Overall, total investment is projected to rise from 14 percent of GDP in 1991 to 26 percent and domestic saving from 7 percent of GDP in 1992 to 17 percent by the end of the decade. There are ambitious targets. While the overall investment level is similar to levels reached in Zambia's past, the increase in private investment would be unprecedented. (Lower levels of investment would result in somewhat lower levels of output growth in the later years.) Assuming that the annual rate of population growth declines from the current 3.2 percent to 3.0 percent during this period, average GDP per capita could increase by at least 2.0 percent per annum. While this in itself would not result in dramatic improvements in living standards, it would have reversed decades of economic decline and started a process of long-term sustainable economic growth.

External Financing

37. External assistance will need to stay at or near the currently very high levels. Over the next five years, foreign aid will finance much of the needed public investment. In later years, however, a larger share of the investment will have to be financed out of domestic saving. This should be possible because there is scope for increasing public sector saving by increasing revenue and restraining expenditure on consumption and because non-traditional export growth should eventually permit a better balance between exports and imports. Policies to stimulate private saving will take time to have an impact. However, as private sector income grows, an increasing share of domestic saving should come from this sector.

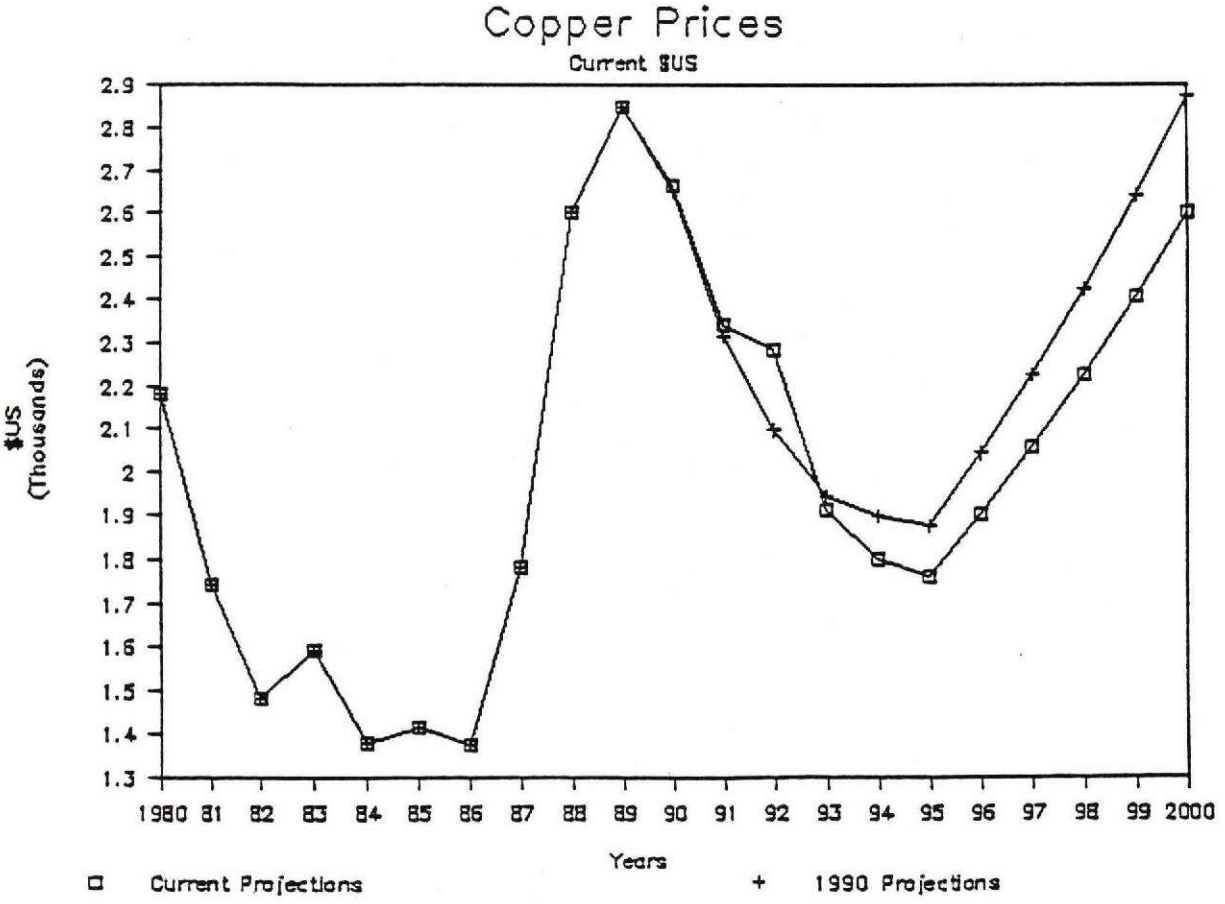
38. External assistance needs are particularly difficult to predict in Zambia's case because of the high dependence on copper, whose price has fluctuated considerably in recent years, and because of the large debt service burden and the desire of major creditors to deal with this problem only for the short term. Donors (in their various positions as direct donors, Paris Club members, or directors of the multilateral organizations) are unwilling to make long-term concessions in part because of concerns over burden sharing (across donors and across institutions) and in part because of the uncertainties over Zambia's future policy performance.

39. When the arrangement was made in 1990, copper prices were projected to fall until 1995 then to rebound sharply. So far, prices have fallen more or less in line with projections, but the present price is below previous projections and the price is now projected to remain 6 - 8% below previous projections for the remainder of the decade. Moreover, the eventual workout depends critically on a price rebound in 1995, and turning points are notoriously

difficult to project. Even through the exports we projected to grow at nearly 9.9 percent in value terms, with copper accounting for over 75% of merchandise exports, overall external financing needs will remain critically dependent on the price of copper for the next several years.

40. When Zambia approached the international community in 1989, it was clear that exceptional measures would be needed if Zambia were to meet its international obligations and still have sufficient imports to achieve sustainable growth. Arguments were made at the time that unprecedented concessions should be made on the stock of both bilateral and multilateral debt, but it was decided that it would be better to solve the immediate problem with exceptional levels of balance-of-payments assistance and a rights arrangement which would take most of the IMF arrears off the table until 1995. The Paris Club added generous rescheduling. As a result, Bank arrears were paid in full and most Fund arrears ($1.2 billion) were handled by the rights arrangement. This allowed the program to resume without a major (and potentially time consuming) alteration in international debt policies.

41. It was recognized that the debt issue would most likely have to be addressed again later in the decade when Paris Club debt repayments are scheduled to increase and when the IMF rights disbursement will need to be repaid, but it was felt to be better to wait on these issues as Zambia's performance and copper prices were too difficult to predict that far in advance. Options for this next round of debt policy assessments will need to be assessed over the coming year and a dialogue with the donors and the Fund resumed on these topics.



42. The arrangement made in 1990 is still functioning, but it has been strained by the 1992 drought, the 1993 fall in the copper price, and the growing donor fatigue exacerbated by the end of the political honeymoon with the new government. (These political concerns began with the state of emergency -- in place from March to June of this year -- and have continued largely over allegations of corruption and drug trafficking against high officials in the government.) Keeping this external financing strategy in place will be one of the biggest challenges to the success of the program. On the one hand, Zambia needs all of this assistance just to keep going. Any substantial shortfall would likely result in debt service arrears, further reductions in aid, and eventual suspension. On the other hand, the exceptional levels of support being asked of IDA and the donors will require an equivalently exceptional level of performance by Zambia, including both policy and implementation.

V. Bank Assistance Strategy

43. The goal of the Bank's assistance strategy for Zambia is to assist the government in its strategy of achieving sustainable economic growth and reducing poverty. Because of the exceptional debt burden, and until copper prices improve or alternative export earnings are developed, Zambia's adjustment program will remain precarious and highly dependent on continued donor support. Any growth or even the maintenance of economic activity requires very large gross inflows of foreign aid. There is no middle ground in Zambia. Any shortfall in foreign assistance will drive the economy into arrears, reverse the reform program, and lead to the suspension of lending. Our strategy in Zambia is therefore to continue to provide high levels of balance of payments support, and to mobilize the support of others, so long as the Zambian government continues its adjustment program. If the Government cannot sustain its reform program, then we will have no lending program. More specifically, this translates into a three-pronged strategy: (a) supporting policy reform and providing balance of payments support through adjustment operations; (b) improving the enabling environment for private sector growth through project investments in infrastructure and human resources; and (c) targeting the poor and vulnerable groups with specific programs in agriculture and social services. These interventions are mutually supportive and reinforcing.

44. Adjustment operations have in the past focused on macroeconomic stabilization and privatization of parastatals. The adjustment operation currently in preparation increases the emphasis on improving the delivery of services to the poor which will be critical to the overall sustainability of the adjustment program. Future adjustment operations will continue macroeconomic reforms as well as sector-specific issues in finance, industry, and parastatal reform, thus building on the results of the first round of adjustment. Adjustment operations will be complemented by follow-up investment operations in individual sectors and by economic and sector work (ESW). The format for these sector investments will shift from isolated projects in a single area to broader support for a sector investment operation in which the government will combine donor support with its own resources into a single, integrated investment program. ESW will be undertaken in agriculture, finance, small-scale enterprise development, employment services, telecommunications, education and health (especially the impact of AIDS). Investment projects are planned in infrastructure (railways, roads and urban services), and a sector program will be supported in agriculture. Capacity in the public sector is being strengthened through a Financial and Legal Management Upgrading Project recently approved by the Board in July 1993. A Poverty Assessment is underway. The policy reform in social sectors initiated by the Economic and Social Adjustment Credit

(ESAC) will be followed up by sector investment operations in health, public sector management, water supply and sanitation and education over the next three years.

45. The overall lending of Bank assistance over the next five years will remain high. BOP assistance from the Bank was particularly high in 1991 partly because it was necessary for Zambia to clear about $350 million in accumulated debt-service arrears to the Bank. In 1992, IDA support through PIRC I was increased from $100 million to $200 million in response to drought needs. And in 1993, a sector adjustment operation (PIRC II) of $110 million was added to the portfolio to increase the 1993 disbursements by $40 million to help fill the extraordinary financing gap brought about by the carry-over impact of the drought, debt-service arrears from 1992, lower price of copper, and increased debt-service obligations. This high level of BOP assistance will continue to be a major element of the Bank's assistance to Zambia for the rest of this decade, as a consequence of Zambia's heavy debt service burden (even after rescheduling) and the dwindling prospects for copper exports which can not be offset in the short-term even with strong growth in non-traditional exports and continued economy in the use of foreign exchange. The Bank will continue to play a leadership role in securing sufficient assistance so that adequate imports are available to allow resumption of economic growth. Of course, the future level of financial support will also be related to Zambia's performance under the economic reform program. Table 1 shows the actual and projected level of lending for the period FY91-98.

Bank Operations

46. Since the resumption of Bank operations in March 1991, the Bank has been the largest source of external assistance for Zambia's economic recovery program. During this period, the Bank has provided US$577.2 million in adjustment credits and US$142.5 million in investment credits. Through these operations, the Bank has played a key role in macroeconomic and sectoral policy formulation. Investment operations have also served as vehicles for bringing about sectoral policy and structural reform (agriculture, education, transport, social services, energy, and transport). The Bank's ESW program will need to focus increasing attention on the identification of sub-sector constraints to a stronger private sector supply response, especially in the areas of infrastructure, credit, and deregulation. Zambia will continue to need substantial assistance from the Bank over the next five years. Its debt service payments are high and macroeconomic stability is yet to be achieved. If the adjustment program is to remain on track, the Bank must continue to meet its share of the external financing requirements. Bilateral donors have made extraordinary efforts to maximize their commitment of resources to Zambia. The Bank's role as a direct source of assistance and as chairman of the CG process will be critical to maintaining that support.

47. Both the levels of IDA assistance and the share of adjustment lending will continue to be high by comparison to comparable countries if IDA is to meet its leadership share in the total financing needs discussed above. Two issues concerning this assistance will need to be carefully monitored. First, what are the prospects that this assistance can eventually be phased out so that Zambia can be launched on a genuinely self-sustaining economic growth path? Second, what is IDA's appropriate share of the total financing needs, and is this level of support justifiable in terms of improvements on the ground in Zambia?

48. As discussed above, the primary unknowns in estimating Zambia's needs for continuing donor assistance are the price of copper and the debt reduction strategies that will be adopted by the Paris Club (and IMF) to deal with the projected increases in debt service

payments in the later part of the 1990s. If the copper price returns to $1.00 a pound (in 1993 dollars), projections suggest that balance of payments assistance can be gradually phased out if actual debt service payments are contained at present levels. If debt service payments rise (or if copper prices fail to return to the $1.00 area), the donor community as a whole including the Bank and the Fund, would have a choice between increasing assistance or risking debt service arrears. Thus, there will be considerable pressure to contain debt service payments so that a gradual phase out of balance of payments assistance can be consistent with Zambia meeting its international obligations. The difficult part will be reaching a mutually agreeable sharing of the debt reduction burden across all of the creditor groups.

49. It is likely that IDA's share of that assistance will continue in the 35-45 percent range (25-30 percent if rescheduling is counted as assistance). It will be important to make it clear to the donors that we are willing to meet our share and to take a leadership position, but we are not willing to fill in for every shortfall in donor assistance to keep the program financed. Unexpected developments (such as the drought) will have to be offset by increased assistance from all parties. Donor concerns over political corruption issues pose a dilemma in this regard. Our mandates preclude taking account of such issues unless they directly affect broader economic targets, but several bilateral donors could decide to reduce support over specific alleged instances of corruption or criminal activity. One donor is already withholding support on those grounds. We have been urging the government to take these concerns seriously, and while we have no interest as such in the specific instances, we have been encouraging the government to adopt more open and transparent procedures (such as financial disclosure, codes of conduct, and publication of anti-corruption commission findings) to address these concerns. To the donors, we have urged greater emphasis on these broader process issues that can more properly be made the concern of the donor community as a group.

50. In all of these discussions, all parties are mindful of Zambia's special characteristics. The need for assistance is very large, and any substantial shortfall would likely result in a complete unraveling of debt service and external assistance. The position of the community as a whole continues to be that the Zambia program merits this substantial support and that the debt service issues can be dealt with in time to permit a gradual but eventual transition to self-sustaining development. We will continue to monitor this situation closely to ensure that these issues are addressed in a timely manner and that IDA's level of assistance represents an appropriate share of the total.

51. In February 1993, the first Country Portfolio Performance Review (CPPR) was held in Lusaka to discuss implementation problems facing Bank-supported projects and to seek solutions. The review resulted in action plans for accelerating project implementation and disbursement of funds. A follow-up CPPR is planned for early 1994. One of the findings of the 1993 CPPR was that local project staff were often unfamiliar with Bank procurement and disbursement procedures. This was frequently cited as the cause of delays in project implementation. In October 1992, the Bank organized a Disbursement and Procurement seminar for key staff from implementing agencies. Standard procurement documents and Bank guidelines on procurement and disbursement have been distributed to project staff to ensure that they are conversant with Bank policies and procedures. Procurement contract bidding, evaluation of bids, and award of contracts tend to be slow and protracted. Bank advice on these issues will intensify. To ensure that such advice is provided promptly, greater emphasis will be placed on supervision. In addition, the number of higher-level staff at the Resident Mission has been increased to five. This staff will devote more time to

portfolio management and advice to project staff. With Bank support, the Government has commissioned a study of procurement procedures with a view to streamlining them. The Department is emphasizing portfolio performance and supervision in its operations and allocation of resources. Implementation constraints are being factored into project design. In addition, country ownership of projects is being promoted through greater participation of Zambians in project identification, design, and preparation. This will ensure that implementation bottlenecks are anticipated and a strategy designed to remove them. Technical assistance is being screened more rigorously with a view to emphasizing capacity building and institutional development goals. To help improve efficiency and effectiveness in the public service, a Public Service Management Project is included in the lending program in FY95. As the volume of lending increases, the pressure on the Government to allocate a larger share of counterpart funds in its budget for donor-supported projects will become greater.

Future Bank Support

52. During this CSP period, the main elements of Bank support will be:

(a) maintaining the momentum of economic reforms, with increasing attention to delivery of social services;

(b) supporting capacity building activities at various levels -- policy-making, economic management, expenditure control, and project implementation;

(c) accelerating the privatization program and promoting private sector development and export growth;

(d) reducing poverty through faster economic growth and re-orientation of public expenditure toward activities benefiting the poor; and

(e) strengthening environmental management while developing the country's natural resources.

53. The CSP proposes a lending program for the period FY94-98 of US$771 million for 17 operations. On a per capita basis, Zambia's IDA level was only $12 for the period 1988-92 because of the suspension in the early years, but it was $26 for the period 1991-93 because of the arrears clearance and the drought. This was well above countries of comparable size and level of program development. This is projected to fall to $18 for FY95-97 which is comparable to the lending programs of Ghana, Gambia, Mozambique, and Uganda on a per capita basis. It is proposed to provide one adjustment operation in each year. The FY94 adjustment credit will focus on policy reforms for improving the delivery of social services along with continued progress on stabilization and reform. In the outer years, the share of each adjustment credit in total lending will decline. The level of lending is 23 percent above the latest IDA allocation from the region. (For FY95-97, the IDA allocation is $377 million compared to $463 million in this CSP). To keep within the region's allocations would require a sharper drop in balance of payments lending which could reduce donor contributions and lead to an unsustainable external balance and a resumption of debt service arrears. There remains a substantive policy reform agenda on macroeconomic stability, public service reform, privatization of parastatals, public expenditure management, and financial sector restructuring which needs to be addressed through adjustment lending. Therefore, Bank adjustment lending should be scaled down gradually. It is the intention to use sector

investment credits in agriculture, education and health with emphasis on sectoral policies, donor coordination, and acceleration of disbursements. Once sector objectives and investment programs are agreed, all donors will be encouraged to provide assistance within the agreed sector investment program framework. The focus of ESW will be on better understanding of and creative solutions to major issues affecting the long-term performance of the economy. The proposed lending program is shown in the table below.

TABLE 1: PROPOSED LENDING PROGRAM FY94-98

(US$ MILLION)

FISCAL YEAR	OPERATION	COMMITMENT (US$ Million)	SUB-TOTAL
FY94	Economic and Social Adjustment Credit (ESAC)	150.0	
	Petroleum Rehabilitation	30.0	
	Financial and Legal Management Upgrading	18.0	198.0
FY95	Industrial and Financial Sector	100.0	
	Health Sector	30.0	
	Public Service Management	10.0	
	Agriculture Sector (ASIP)	30.0	
	Water Supply and Sanitation	20.0	190.0
FY96	Adjustment	90.0	
	Power Rehabilitation	10.0	
	Transport Rehabilitation	40.0	
	Education Sector	15.0	155.0
FY97	Adjustment	80.0	
	Urban and Local Government	15.0	
	Environment Sector	13.0	
	Social Recovery II	25.0	133.0
FY98	Adjustment	70.0	
	Agriculture Sector (ASIP II)	30.0	
	Health Sector II	20.0	
	Small-Scale Enterprise Development	20.0	140.0
	GRAND TOTAL FY94-98		816.0

54. The lending scenario shown above would be predicated upon continued satisfactory macroeconomic policy performance, implementation of structural reforms, and improvement of portfolio performance. Macroeconomic policy performance would be measured against the benchmarks agreed with the IMF. Implementation of structural reforms would be more difficult to measure, since progress could only become perceptible over the long-term, but the focus will be on exports, investment, and the business climate. The main measure of portfolio performance will be the trend in disbursements. Any shortfalls in these three would trigger reductions in lending in the area concerned, but it should be remembered that any

substantial reduction in balance of payments assistance for any length of time could well result in a complete interruption due to the difficulties in meeting multilateral debt service payments.

Donor Coordination

55. The Bank has played a key role in coordination of donor assistance since 1991. This effort has been pursued in the context of consultative group meetings, the SPA meetings, and regular contacts with individual donors. The CG will provide a forum for reviewing program performance and financing requirements. As noted earlier, sector lending will provide a vehicle for coordinating donor assistance in agriculture, education, and health.

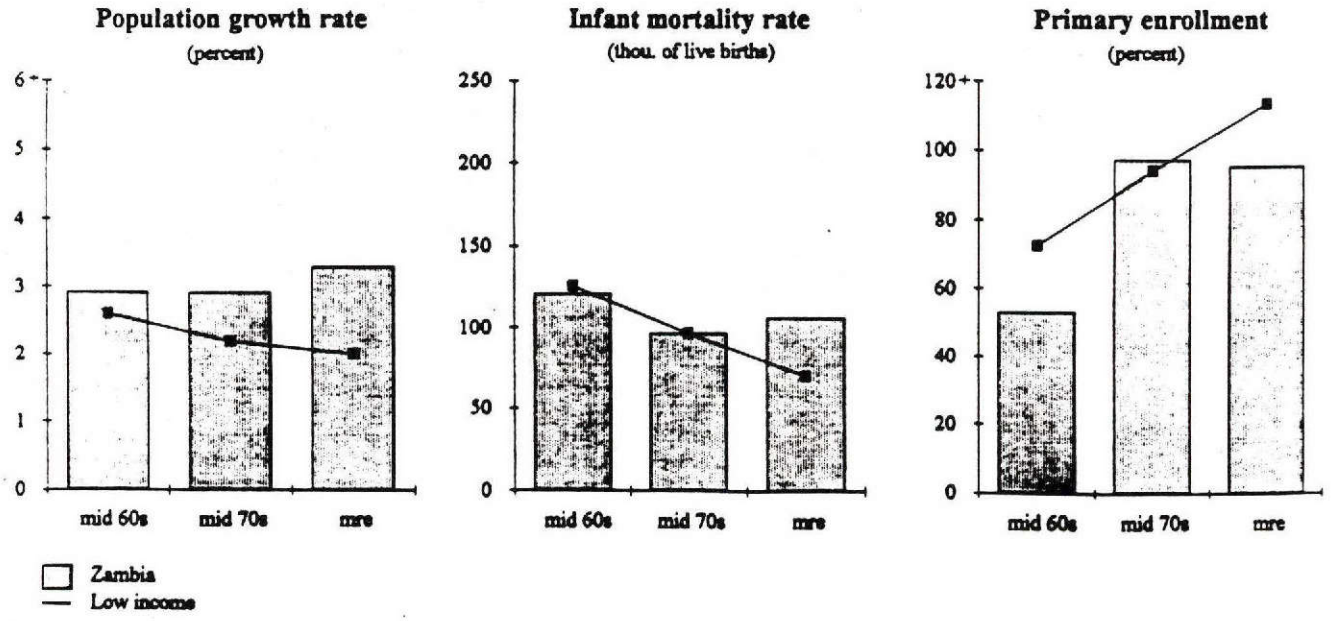
Risks and Overall Assessment

56. There are considerable risks in the Zambia program. The high level of reliance on balance of payments assistance and the high debt service burden mean that any significant policy shortcoming could result in an interruption in assistance causing an interruption in debt service and a complete unraveling of international support. The long and steep decline in living standards means that the population will not long be patient if the present government does not deliver some immediate tangible benefits, and this could result either in government's relaxing the fiscal restraint or reducing civil liberties, either of which could be disastrous for continued donor support. Zambia also remains vulnerable to external developments such as a decline in copper prices or an interruption in the southern transport corridor. With the help of the international community, Zambia is taking strong measures to address these sources of risk, and performance to date has merited the exceptional levels of support it has received, but the Zambia program will continue to need very close monitoring. On the brighter side, Zambia has accomplished an unprecedented peaceful political transition, managed to deal with the worst drought of the century, and dramatically transformed the economy from state domination to private markets in less than two years. The opportunity is now at hand to begin to see some positive results from these efforts, and the Bank can play a critical role in this transition. Success in Zambia would send a very positive signal to the many countries in need of a similar reforms.

ZAMBIA: Social Indicators of Development

Priority Poverty Indicators

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
POVERTY							
Upper poverty line	local curr.	..	..	1,380	..	..	..
Headcount index	% of pop.	..	..	64	..	..	..
Lower poverty line	local curr.	..	..	962	..	..	..
Headcount index	% of pop.	..	..	54	..	..	..
GNP per capita	US$	260	550	460	350	350	1,610
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	5	9	1,438	..	..	..
Lower income	"	..	..	..	..	..	..
Food	"	..	..	769	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	3	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	53	97	95	70	113	100
Male	"	59	105	99	76	122	106
Female	"	46	88	91	60	106	98
Mortality							
Infant mortality	thou. live births	121	96	106	104	70	40
Under 5 mortality	"	..	..	176	177	98	53
Immunization							
Measles	% age group	..	..	80	40	73	70
DPT	"	..	..	66	35	81	74
Child malnutrition (under-5)	"	..	24	23	..	..	..
Life expectancy							
Total	years	44	49	49	51	63	67
Females/males	ratio	1.07	1.07	1.07	1.06	0.95	1.08
Total fertility rate	births per woman	6.6	6.7	6.5	6.4	3.7	3.5
Maternal mortality rate	100,000 live births	..	..	..	..	..	..



ZAMBIA: Social Indicators of Development

Resources And Expenditures

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group: Sub-Saharan Africa	Same region/income group: Low-income	Next higher income group
HUMAN RESOURCES							
Population (mre=1991)	thousands	3,614	4,841	8,319	488,932	3,127,265	773,803
Age dependency ratio	ratio	0.92	0.97	1.07	0.97	0.66	0.71
Urban	% of pop.	23.3	34.8	51.0	28.7	40.1	53.9
Population growth rate	annual %	2.9	2.9	3.3	3.0	1.9	1.7
Urban	"	8.3	5.6	5.5	5.0	5.2	3.1
Labor force (15-64)	thousands	1,287	1,665	2,744	203,947	1,448,104	302,448
Agriculture	% of labor force	79	75	..	..	..	..
Industry	"	8	9	..	..	..	..
Female	"	28	28	29	37	33	32
Female per 100 males							
Urban	number	..	87	..	..	..	..
Rural	"	..	123	..	..	..	..
NATURAL RESOURCES							
Area	thou. sq. km	753	753	753	23,066	38,828	23,990
Density	pop. per sq. km	5.0	6.0	10.0	20.0	77.0	31.0
Agricultural land	% of land area	46.9	47.1	47.4	51.0	47.4	41.8
Change in agricultural land	annual %	0.1	0.0	0.1	0.0	0.0	0.0
Agricultural land under irrigation	%	0.0	0.1	0.1	5.5	13.7	12.6
Forests and woodland	thou. sq. km	306	299	289	6,651	9,197	5,396
Deforestation (net)	annual %	-0.2	-0.2	-0.2	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	..	63	..	..	..	..
Share of bottom 40% of households	"	..	11	..	..	..	..
Share of bottom 20% of households	"	..	4	..	..	..	..
EXPENDITURE							
Food	% of GDP	..	22.7	25.8	..	..	..
Staples	"	..	5.9	5.5	..	..	..
Meat, fish, milk, cheese, eggs	"	..	10.0	12.8	..	..	..
Cereal imports	thou. metric tonnes	45	164	100	7,838	36,008	44,418
Food aid in cereals	"	..	5	3	2,677	6,669	4,047
Food production per capita	1979-81=100	100	138	83	94	122	101
Fertilizer consumption	kg/ha	2.0	11.0	18.0	14.5	47.5	94.2
Share of agriculture in GDP	% of GDP	14.3	13.1	15.7	29.2	28.7	..
Housing	% of GDP	..	5.8	7.6	..	..	..
Average household size	persons per household	..	4	..	..	..	..
Urban	"	..	..	..	..	..	..
Fixed investment: housing	% of GDP	..	4.8	0.3	..	..	..
Fuel and power	% of GDP	..	1.9	3.1	..	..	..
Energy consumption per capita	kg of oil equiv.	464	533	379	100	350	1,249
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	3.9	3.8	..	..	..
Fixed investment: transport equipment	"	..	6.0	1.7	..	..	..
Total road length	km	..	..	37,359	..	..	..
INVESTMENT IN HUMAN CAPITAL							
Health							
Access to health care	% of pop.	..	..	..	..	..	..
Population per physician	persons	11,401	13,486	11,290	..	..	..
Population per nurse	"	5,829	1,698	603	..	..	..
Population per hospital bed	"	..	300	..	1,328	1,048	509
Access to safe water	% of pop.	..	42.0	58.0	36.7	70.6	..
Urban	"	..	86.0	76.0	74.3	79.3	..
Rural	"	..	16.0	41.0	24.2	62.8	..
Oral rehydration therapy (under-5)	% of cases	..	..	87	35	32	..
Education							
Gross enrollment ratio							
Secondary	% of school-age pop.	7	15	20	18	44	56
Female	"	3	10	14	14	37	..
Pupil-teacher ratio: primary	pupils per teacher	51	48	44	39	39	25
Pupil-teacher ratio: secondary	"	19	23	28	..	20	..
Pupils reaching grade 4	% of cohort	..	96	..	69	..	..
Repeater rate: primary	% of total enroll	..	2	2	..	..	..
Illiteracy	% of pop. (age 15+)	..	..	27	51	39	..
Female	% of fem. (age 15+)	..	..	35	62	52	..
Newspaper circulation	per thou. pop.	7	22	17	5	..	..

Source: World Bank International Economics Department, April 1993

ZAMBIA--KEY INDICATORS

Base Case Projection

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Real Growth Rates:										
Gross Domestic Product (GDP)	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.1%	14.8%	6.2%	4.7%	6.1%
Gross Domestic Income (GDY)	-2.8%	11.4%	-14.0%	5.9%	2.3%	-16.6%	29.9%	6.4%	5.4%	6.3%
Real Per Capita Growth Rates:										
Gross Domestic Product (GDP)	-0.3	2.5%	-4.7%	-4.1%	-5.0%	-13.3%	11.6%	3.0%	1.6%	3.1%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	-14.0%	28.7%	1.2%	0.3%	0.1%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	-18.6%	36.7%	1.0%	-0.2%	-0.3%
Debt & D. Services (LT+ST+IMF): 1/										
Total DOD (US$M) 2/	3261.1	6839.0	6716.0	7260.0	7423.0	7614.8	7801.3	8135.8	8321.0	8307.8
DOD / GDP	84.0%	188.3%	154.6%	196.0%	193.8%	189.1%	271.8%	263.6%	232.2%	164.3%
Debt Service (US$M)	..	751.9	711.3	801.0	783.0	743.0	652.0	582.0	415.0	687.0
Debt Service / Exports	..	61.9%	47.6%	59.7%	67.2%	62.8%	62.9%	53.8%	33.1%	38.8%
Debt Service / GDP	..	20.7%	16.4%	21.6%	20.4%	18.4%	22.7%	18.9%	11.6%	13.6%
Interest Burden (LT+ST+IMF):										
Interest Paid (US$M)	..	411.0	407.0	332.0	371.0	320.0	280.0	250.0	212.0	211.0
Interest / Exports	..	33.9%	27.3%	24.7%	31.8%	27.0%	27.0%	23.1%	16.9%	11.9%
Interest / GDP	..	11.3%	9.4%	9.0%	9.7%	7.9%	9.8%	8.1%	5.9%	4.2%
Gross Investment / GDP	23.3%	11.4%	9.9%	15.5%	13.0%	15.6%	19.4%	21.2%	23.5%	26.2%
ICORs (5-yr ending year shown) 3/	77.00	5.90	6.40	8.00	12.40	-8.70	765.00	9.50	4.40	4.40
Domestic Savings / GDP	19.3%	16.4%	14.8%	14.8%	10.7%	6.4%	7.1%	8.9%	12.0%	18.5%
BOP Resource Balance / GDP 4/	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-9.2%	-12.3%	-12.3%	-11.5%	-7.7%
BOP Current Account Balance / GDP 5/	-13.8%	-7.3%	-5.1%	-10.9%	-13.4%	-18.3%	-24.0%	-22.1%	-17.8%	-11.9%
Marginal Domestic Savings Rate	0.78	0.54	0.86	1.84	2.20	0.43	0.01	0.34	0.46	0.58
Government Investment / GDP	..	4.7%	4.7%	5.5%	4.7%	5.9%	5.2%	6.7%	7.2%	7.2%
Government Savings / GDP	-9.8%	-8.0%	-4.1%	-1.0%	0.5%	3.8%	13.3%	15.4%	20.1%	20.2%
Private Investment / GDP	..	6.7%	5.3%	10.0%	8.3%	9.7%	14.2%	14.4%	16.3%	19.0%
Government Revenues / GDP	24.0%	18.8%	19.2%	21.9%	23.5%	32.6%	32.4%	30.6%	31.8%	29.5%
Government Expenditures / GDP	44.3%	27.3%	28.8%	29.3%	30.6%	32.7%	25.6%	22.7%	19.4%	16.8%
Budg. Def. (-) or Surplus / GDP	-20.3%	-8.5%	-9.6%	-7.4%	-7.1%	-0.1%	6.8%	7.9%	12.4%	12.7%
Primary Deficit (-) or Surplus / GDP	19.3%	-7.1%	-6.2%	-0.5%	0.1%	8.3%	13.8%	9.7%	11.0%	9.3%
Consumer Price Index (% growth)	11.7%	55.6%	96.3%	109.6%	93.4%	209.3%	112.0%	57.0%	17.0%	5.0%
GDP Deflator (% growth rate)	11.8%	42.8%	102.0%	113.7%	97.5%	209.3%	112.0%	57.0%	17.0%	5.0%
Real Exchange Rate (1987=100)	232.3	155.7	205.8	173.4	153.6	162.0	176.5	176.5	176.5	176.5
Terms of Trade Index (1987=100)	..	97.6	107.3	91.8	75.4	63.1	85.4	82.5	85.9	96.6
Export (GNFS)/Volume Growth Rate 6/	-3.1%	-5.9%	-1.4%	15.9%	-16.6%	9.1%	-3.7%	2.0%	2.7%	16.1%
Exports (GNFS) / GDP	41.4%	34.2%	32.0%	34.7%	30.4%	29.4%	36.1%	35.1%	35.0%	35.0%
Imports (GNFS) Volume Growth Rate	12.9%	-0.2%	-16.2%	-6.4%	-8.9%	5.7%	44.1%	3.7%	4.8%	4.9%
Imports (GNFS) / GDP	45.4%	26.9%	27.6%	35.4%	32.3%	38.6%	48.5%	47.3%	46.5%	42.8%
BOP Current Balance (US$M)	-537.0	-263.9	-222.4	-401.9	-512.5	-737.0	-687.9	-683.1	-636.3	-600.0
Net Reserves (US$M)	78.0	134.0	116.0	193.0	185.0	280.0	298.0	338.0	378.0	458.0
Gross Reserves(US$M)	..	..	..	..	..	..	..	..	..	..
Net Reserves (months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.1	2.3	2.4	2.3

Note: All ratios are calculated from data in current prices and exchange rates. ICOR and growth rates are based on constant price data. Marginal savings rates are based on current price data deflated by expenditures deflator.

1. "LT" denotes long-term debt; "ST" denotes short-term debt.
2. Debt outstanding and debt disbursed.
3. Incremental capital output ratios with a 5-year period.
4. "BOP" denotes "Balance of Payments.
5. Current account balance is before official transfers.
6. Goods and nonfactor services.

ZAMBIA--NATIONAL ACCOUNTS

Base Case Projection
1991 Per Capita GNP (US$) 429.4
Mid-1991 Population (Mil) 8.3

PART A: CURRENT PRICE DATA
(Millions of LCUs)

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	3063.6	30020.8	60024.5	127649.7	247623.2	688699.0	1676312.0	2795901.0	4740266.0	7744292.0
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	66190.8	171119.9	309721.9	530376.8	871272.5
GDP at Factor Cost	2842.6	28710.1	57323.5	119515.9	232006.9	622508.2	1505192.1	2486179.1	4209889.2	6873019.5
Imports (GNFS)	1391.2	8065.6	16537.6	45148.6	75370.4	265836.6	812285.6	1323075.0	2201889.0	3311036.0
Exports (GNFS)	1268.0	10266.2	19226.2	44258.0	71901.2	202361.4	605316.0	980388.6	1657325.0	2713944.0
Resource Balance	-123.2	2200.6	2688.6	-890.6	-3469.2	-63475.2	-206969.6	-342686.4	-544564.0	-597092.0
Total Expenditure	3186.8	27820.2	57335.4	128540.3	251092.3	752174.2	1883281.9	3138588.4	5284830.2	8341384.9
Total Consumption	2473.5	24407.2	51371.7	108957.1	217708.2	644665.6	1558266.3	2546816.9	4169104.2	6309528.4
Government	781.6	4582.4	8460.8	14453.3	25220.9	103535.7	171142.3	284452.9	472345.2	748310.4
Private	1691.9	19824.8	42910.9	94503.8	192487.3	541129.9	1387124.0	2262364.0	3696759.0	5561218.0
Gross Domestic Investment	713.3	3413.0	5963.7	19583.2	33384.1	107508.6	325015.6	591771.5	1115726.0	2031856.5
Government	..	1411.0	2821.2	7058.8	11757.5	40800.0	86756.5	188110.2	343461.4	561121.5
Private	..	2002.0	3142.5	12524.4	21626.6	66708.6	238259.1	403661.3	772264.6	1470735.0
Memorandum Items:										
Domestic Savings	590.1	5613.6	8652.8	18692.6	29915.0	44033.4	118045.7	249084.1	571161.8	1434763.6
Net Factor Income	-168.6	-3924.9	-5176.0	-10950.0	-24400.0	-47533.8	-112372.0	-145022.0	-152247.0	-187279.0
Net Current Transfers	-138.5	292.6	1085.0	8041.7	27914.0	103882.5	279619.2	307045.3	582061.0	811379.9
National Savings	283.0	1981.3	4561.8	15784.3	33429.0	100382.1	285292.9	411107.4	1000975.8	2058864.5
Optional details for RMSM-X:										
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	66190.8	171119.9	309721.9	530376.8	871272.5
Indirect Taxes	417.8	2706.7	4203.8	12048.9	21379.3	73690.8	178694.9	317334.8	538020.2	878977.1
Subsidies	196.8	1396.0	1502.8	3915.1	5763.0	7500.0	7575.0	7612.9	7643.4	7704.7

ART B: CONSTANT PRICE DATA
(Millions of LCUs, 1977=100)

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	1995.8	2247.1	2224.2	2213.6	2174.4	1954.8	2244.1	2383.2	2615.0	3233.3
Imports (GNFS)	710.4	540.4	452.7	423.7	385.9	407.9	587.8	609.5	657.3	748.9
Exports (GNFS)	632.7	476.3	469.6	544.5	454.3	495.6	477.3	486.8	501.0	573.4
Resource Balance	-77.7	-64.1	16.9	120.8	68.4	87.7	-110.5	-122.7	-156.3	-175.5
Total Expenditure	2074.4	2237.2	2172.4	1994.1	2209.4	2113.6	2791.8	2979.1	3311.3	4063.3
Total Consumption	1635.3	1992.2	1944.2	1654.6	1909.4	1703.2	2246.7	2347.0	2539.4	2999.4
Government	531.3	331.3	438.7	427.8	427.8	..	..	..	..	..
Private	1104.0	1660.9	1505.5	1226.8	1481.6	..	..	..	..	..
Total Investment Expenditure	439.1	245.0	228.2	339.5	300.0	410.4	545.3	632.4	771.9	1063.9
Government	..	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..	..
Terms of Trade (TT) Effect	14.8	211.5	-110.9	24.6	115.3	..	..	..	..	..
Gross Domestic Income	2010.6	2458.6	2113.4	2238.2	2289.7	..	..	..	..	..
Domestic Savings (TT Adjusted)	375.3	466.4	169.1	583.6	380.3	..	..	..	..	..

PART C: VALUED ADDED BY SECTOR
sectoral shares in percent of GDP at market price

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Agriculture	14.2%	16.8%	17.6%	18.2%	15.7%	9.4%	17.4%	17.9%	18.9%	20.0%
Industry, of which:	41.3%	45.3%	51.5%	45.3%	47.2%	65.1%	58.2%	57.9%	57.3%	57.8%
Manufacturing	18.5%	31.6%	36.5%	31.9%	36.3%	34.2%	31.8%	31.9%	32.1%	31.6%
Mining	16.4%	10.5%	12.9%	9.0%	7.3%	18.3%	12.5%	10.1%	8.7%	8.4%
Services	44.5%	37.9%	30.9%	36.5%	37.1%	25.5%	24.4%	24.2%	23.8%	22.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: shares are calculated from current price data.

PART D: LONG-TERM GROWTH RATES

(average annual growth rates calculated from constant price data)

	Actual			Projected	
	1965-73	1973-80	1980-90	1991-95	1995-2000
Gross Domestic Product (m.p.)	1.9%	0.8%	1.1%	3.5%	5.4%
Agriculture	1.7%	1.4%	2.4%	8.6%	7.0%
Industry of which	2.5%	0.4%	2.5%	2.7%	5.4%
Manufacturing	10.3%	1.0%	4.3%	0.9%	5.3%
Mining	-4.4%	-1.6%	-2.3%	2.4%	1.7%
Services	1.5%	1.0%	0.4%	2.9%	3.9%
Imports of GNFS	3.7%	-5.3%	-5.0%	12.9%	3.6%
Exports of GNFS	0.5%	-0.3%	-1.5%	1.8%	3.3%
Total Expenditures	3.2%	-1.3%	-0.4%	8.6%	5.1%
Total Consumption	1.6%	2.8%	0.1%	6.6%	4.0%
Government	9.2%	0.4%	-2.1%	5.6%	5.3%
Private	-1.4%	4.2%	1.1%	6.7%	3.9%
Gross Domestic Investment	5.8%	-10.2%	-2.5%	22.3%	9.6%
Government	..	..	..	14.1%	5.4%
Private	..	..	..	27.9%	11.6%
Memorandum Items:					
Capacity to Import	4.2%	-11.6%	-1.3%	7.1%	5.4%
Gross National Income	3.3%	-4.4%	1.9%	6.1%	6.5%
Gross National Product	1.4%	1.5%	0.8%	4.4%	5.9%
Gross Domestic Income	3.5%	-4.5%	1.1%	5.1%	5.8%
Gross Domestic Savings	5.6%	-17.4%	-0.2%	-6.2%	20.2%
Gross National Savings	5.4%	-26.8%	-0.2%	..	..
Population	3.0%	3.1%	3.7%	3.2%	3.2%
Labor Force	2.6%	2.7%	3.3%	..	..
GDP per capita	-1.1%	-2.3%	-2.6%	0.3%	2.2%

PART E: ANNUAL GROWTH RATES

(anual growth rates are calculated from constant price data)

	Actual					Proje cted			
	1980	1988	1989	1990	1991	1992	1993	1994	1996
Gross Domestic Product (m.p.):	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-10.1%	14.8%	6.2%	4.7%
Agriculture	-1.9%	19.3%	-2.7%	-8.9%	5.2%	-39.3%	100.0%	7.0%	7.0%
Industry	2.3%	6.7%	-0.7%	4.6%	-6.4%	-1.8%	2.4%	5.8%	4.3%
Services	5.4%	1.0%	-0.5%	-1.1%	-0.4%	2.7%	3.0%	2.9%	3.7%
Gross Domestic Income	-2.8%	11.4%	-14.0%	5.9%	2.3%	-16.6%	29.9%	6.4%	5.4%
Total Investment	64.6%	4.7%	-6.9%	48.8%	-11.6%	36.8%	32.8%	15.9%	14.9%
Total Consumption	-0.8%	6.2%	-2.4%	-14.9%	15.4%	-10.8%	31.9%	4.5%	3.4%
Population	3.3%	3.8%	3.7%	3.6%	3.2%	3.2%	3.2%	3.2%	3.1%
Per Capita Growth Rates:									
Gross Domestic Product m.p.	-0.3%	2.5%	-4.7%	-4.1%	-5.0%	-13.3%	11.6%	3.0%	1.6%
Total Consumption	-4.1%	2.4%	-6.1%	-18.5%	12.2%	-14.0%	28.7%	1.2%	0.3%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	-18.6%	36.7%	1.0%	-0.2%

-------PART F: PRICE INDICES----------

(national accounts deflators; 1977=100)

	Actual					Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996
GDP Deflator	153.5	1336.0	2698.7	5766.6	11388.1	35231.4	74698.8	117315.7	181272.1
Import (GNFS)	195.8	1492.5	3653.1	10655.8	19531.1	65172.6	138195.9	217066.1	334990.0
Export (GNFS)	200.4	2155.4	4094.2	8128.2	15826.8	40828.2	126820.2	201374.4	330836.4
Total Expenditures	153.6	1243.5	2639.3	6446.0	11364.7	35587.7	67457.9	105352.5	159599.9
Consumption	151.3	1225.1	2642.3	6585.1	11401.9	37850.6	69358.9	108514.4	164176.7
Investment	162.4	1393.0	2613.4	5768.2	11128.0	26196.1	59603.2	93570.0	144542.8
Agriculture	143.2	1159.0	2488.1	6008.5	9577.1	26197.2	59174.2	95169.9	148406.8
Industry, of which	167.1	1618.0	3714.1	6639.8	14336.0	48310.9	99298.2	152532.0	233505.4
Mining	244.5	1967.1	4396.2	2976.5	10882.2	69228.2	114856.5	155596.1	227655.8
Manufacturing	1476.1	1735.9	4031.1	6931.0	17165.7	46955.1	106062.1	170579.6	265999.9
Services	145.8	1171.8	1916.4	4873.4	9637.5	26362.4	59547.4	95770.1	149342.8

-------PART G: Other Economic Indicators----------

	1973-80	1980-90	1991-95	1995-2000	1973	1980	1990
Import Elasticity based on:							
Imports (GNFS)	-6.6	-4.5	3.7	0.7	-18.0	4.2	13.4
Marginal Savings Rate:							
Gross Domestic Saving	115.7	-0.4	-0.1	0.4	1.5	0.8	-0.1
Gross National Saving	131.0	0.3	0.1	0.1	1.6	4.0	0.3
ICOR (period averages)	-0.6	-3.3	-0.3	4.4	-54.00	4.50	-20.80
Labor Force(%): 1/							
Agriculture	74.3%	15.6%	..	..	75.5%	73.1%	15.2%
Industry	9.4%	32.1%	..	..	9.0%	9.8%	29.9%
Services	16.3%	52.3%	..	..	15.5%	17.1%	54.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/ For 1990 and 1980-90 is only formal sector.

ZAMBIA -- EXTERNAL TRADE

Base Case Projection

PART A: VOLUME, VALUE AND PRICES

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Volume Indices 1987=100										
Merchandise Exports:										
X.COPPER	143.3	83.7	90.7	92.7	79.1	86.3	82.9	84.4	86.5	98.1
X.ZINC	161.4	97.5	66.0	48.2	32.0	32.0	26.0	20.0	6.0	0.0
X.COBALT	48.8	120.9	97.6	113.9	116.2	77.6	77.5	122.7	123.9	123.9
Manufactures	..	..	..	..	..	..	..	..	..	..
Other Exports	..	..	..	..	..	..	..	..	..	..
Total Merchandise Exports (FOB)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Exports										
X.COPPER	1106.0	1009.0	1184.0	979.0	869.0	876.0	726.0	694.0	788.0	1166.0
X.ZINC	25.0	20.0	22.0	13.0	6.0	0.0	0.0	0.0	0.0	0.0
X.COBALT	111.0	72.0	80.0	74.0	98.0	137.0	79.0	129.0	136.0	136.0
Manufactures	13.0	13.0	5.0	13.0	25.0	..	..	..	..	..
Other Exports	202.0	41.0	119.0	184.0	87.0	98.0	144.0	150.0	194.0	263.0
Total Merchandise Exports (FOB)	1457.0	1155.0	1410.0	1263.0	1085.0	1111.0	949.0	973.0	1118.0	1565.0
Volume Indices 1987=100										
Merchandise Imports:										
Food	339.5	102.0	111.8	74.8	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..
POL and Other Energy	164.2	118.9	188.3	133.8	168.7	..	..	..	..	..
Intermediate Goods	244.7	112.5	82.4	105.5	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	139.7	108.9	92.5	161.5	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Imports										
Food	55.0	14.0	14.0	9.0	16.0	262.8	50.3	0.0	0.0	0.0
Other Consumer Goods	..	..	..	..	158.3	263.8	253.2	332.9	307.5	388.3
POL and Other Energy	248.0	80.0	152.0	141.0	83.0	53.0	63.0	65.1	74.0	97.3
Intermediate Goods	611.0	372.0	271.0	367.0	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	283.0	292.0	246.0	455.0	171.0	157.2	139.1	177.3	257.8	312.0
Total Merchandise Imports (CIF)	1324.0	888.0	1020.0	1084.0	952.0	1271.0	1075.0	1159.0	1335.0	1808.0
US$ Prices Indices 1987=100										
Terms of Trade:										
Merchandise Export Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Import Prices	..	..	..	..	..	..	..	..	..	..
Merchandise Terms of Trade	..	97.6	107.3	91.8	75.4	63.1	85.4	82.5	85.9	96.6

PART B: SHARES OF TOTAL AND GROWTH RATES

	Share of Merchandise Exports and Imports (in current prices)					Export and Import Volume Growth Rates (from constant price data)		
	Actual		Projected			Actual	Projected	
	1980	1990	1994	1996	2000	1986-90	1991-96	1996-2000
Merchandise Exports (%, %p.a.)								
X.COPPER	75.9%	77.5%	71.3%	70.4%	74.5%	-5.9%	1.8%	3.2%
X.ZINC	1.7%	1.0%	0.0%	0.0%	0.0%	-10.3%	-28.5%	0.0%
X.COBALT	7.6%	5.9%	13.3%	12.2%	8.7%	11.5%	1.3%	0.0%
Manufactures	0.9%	1.0%	..	..	..	..	..	..
Other Exports	13.9%	14.6%	15.4%	17.4%	16.8%	..	..	..
Total Merch. Exports FOB	100.0%	100.0%	100.0%	100.0%	100.0%	..	..	..
Merchandise Imports (%, %p.a.)								
Food	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..
POL and Other Energy	..	..	..	..	..	..	..	..
Intermediate Goods n.e.i.	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..

PART C: TRENDS IN NON-FACTOR SERVICES

	Actual				Projected			
	1988	1989	1990	1991	1992	1993	1996	2000
Volume Indices 1987=100								
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..
	..	..	..	..	..	..	..	..
US$ Price Indices 1987=100	..	..	..	..	..	..	..	..
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..

ZAMBIA BALANCE OF PAYMENTS
(US$ millions in current prices)

Base Case Projection

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
A. Exports of GNFS 1/	1609.0	1214.0	1493.0	1342.0	1168.4	1183.4	1036.5	1082.1	1253.0	1771.7
1. Merchandise (FOB)	1457.0	1155.0	1410.0	1263.0	1085.0	1111.0	949.0	973.0	1118.0	1565.0
2. Non-Factor Services	152.0	59.0	83.0	79.0	83.4	72.4	87.5	109.1	135.0	206.7
B. Imports of GNFS 2/	1765.0	1031.9	1280.4	1368.9	1257.7	1554.6	1390.9	1460.3	1664.7	2161.5
1. Merchandise	1114.0	788.0	900.0	889.0	952.4	1270.2	1075.0	1159.6	1334.3	1808.5
2. Non-Factor Services	651.0	243.9	380.4	479.9	305.3	284.4	315.9	300.7	330.4	353.0
C. Resource Balance	-156.0	182.1	212.6	-26.9	-89.3	-371.2	-354.4	-378.2	-411.7	-389.8
D. Net Factor Income	-205.0	-411.0	-407.0	-332.0	-383.1	-332.9	-299.5	-269.9	-187.3	-181.4
1. Factor Receips	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Factor Payments	205.0	411.0	407.0	332.0	383.1	332.9	299.5	269.9	187.3	181.4
a. Total Interest Paid (DRS) 3/	..	75.0	72.0	70.0	371.1	319.9	279.5	249.9	212.3	211.4
b. Interest due but not paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. Other Factor Payments and discrepe	..	336.0	335.0	262.0	12.0	13.0	20.0	20.0	-25.0	-30.0
E. Net Current Transfers	-176.0	-35.0	-28.0	-43.0	-40.1	-32.9	-34.0	-35.0	-37.3	-28.8
1. Current Receipts	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Workers remittances	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other current Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Current Payments	210.9	35.0	28.0	43.0	40.1	32.9	34.0	35.0	37.3	28.8
F. Current Account Balance										
1. Before official capital grants	-537.0	-263.9	-222.4	-401.9	-512.5	-737.0	-687.9	-683.1	-636.3	-600.0
2. Official capital grants	33.0	99.9	71.8	295.5	521.0	640.0	513.0	374.0	477.0	558.0
3. After official capital grants	-504.0	-164.0	-150.6	-106.4	8.5	-97.0	-174.9	-309.1	-159.3	-42.0
G. Long Term Capital Inflows	467.0	21.9	-477.0	-714.4	-178.0	-191.0	-64.0	-123.0	47.0	-187.0
1. Direct Investment	62.0	0.0	0.0	0.0	0.0	0.0	7.0	15.0	131.0	148.0
2. Net LT Borrowing (DRS)	424.0	136.0	105.9	63.7	-178.0	-191.0	-71.0	-138.0	-84.0	-335.0
a. Disbursements	693.3	242.0	208.9	159.7	234.0	232.0	301.0	194.0	119.0	140.0
b. Repayments	269.3	106.0	103.0	96.0	412.0	423.0	372.0	332.0	203.0	475.0
3. Other LT Inflows (net)	-19.0	-114.1	-582.9	-778.1	0.0	0.0	0.0	0.0	0.0	0.0
H. Total Other Items (net)	-122.0	-220.1	371.7	390.8	73.6	0.0	0.0	0.0	0.0	0.0
1. Net Short-Term Capital	-147.0	-163.0	502.0	529.0	73.6	0.0	0.0	0.0	0.0	0.0
a. Interest Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other net ST capital	-147.0	-163.0	502.0	529.0	73.6	0.0	0.0	0.0	0.0	0.0
2. Capital Flows n.e.i. 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Errors and omissions	25.0	-57.1	-130.3	-138.2	0.0	0.0	0.0	0.0	0.0	0.0
I. Change in Net Reserves	159.0	362.2	255.9	430.0	95.9	288.0	238.9	432.1	112.3	229.0
1. Net Credit from the IMF	8.0	75.6	77.3	89.4	-37.7	-39.4	-72.8	-20.0	0.0	-175.2
2. Reserves Changes n.e.i.	151.0	286.6	178.6	340.6	133.6	327.4	311.7	452.1	112.3	404.2
3. Escrow account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1. Goods and nonfactor services.
2. Figures on imports up to 1991 are F.O.B., and afterwards are C.I.F.
3. "DRS" denotes Debt Reporting Service.
4. "n.e.i." denotes not elsewhere included.

J. As Shares of GDP (current US$):										
1. Resources Balance	-4.0%	5.0%	4.9%	-0.7%	-2.3%	-9.2%	-12.3%	-12.3%	-11.5%	-7.7%
2. Interest Payments (LT+IMF+ST)	..	11.3%	9.4%	9.0%	9.7%	7.9%	9.7%	8.1%	5.9%	4.2%
3. Current Account Balance	-13.8%	-7.3%	-5.1%	-10.9%	-13.4%	-18.3%	-24.0%	-22.1%	-17.8%	-11.9%
4. LT capital Inflow (F.2+G)	12.0%	0.6%	-11.0%	-19.3%	-4.6%	-4.7%	-2.2%	-4.0%	1.3%	-3.7%
5. Net Credit from the IMF	0.2%	2.1%	1.8%	2.4%	-1.0%	-1.0%	-2.5%	-0.6%	0.0%	-3.5%
K. Foreign Exchange Reserves:										
1. Gross Reserves (excluding gold)	78.0	134.0	116.0	193.0	185.0	280.0	298.0	338.0	378.0	458.0
2. Gold (end-year London price)	..	..	..	..	..	..	..	..	..	..
3. Gross Reserves (including gold)	..	..	..	..	..	..	..	..	..	..
4. Net Reserves (in months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.1	2.3	2.4	2.3
L. Exchange Rates										
1. In Nominal Terms (LCU/US$) 5/										
a. Primary (Official) Rate										
Annual Average	0.789	8.266	13.814	30.289	64.640	171.000	584.000	906.006	1322.690	1531.830
End-of-Year	0.803	10.000	21.640	42.700	84.000	377.500	745.003	1036.360	1377.690	1545.190
b. GNP Conversion Factor	0.789	8.266	13.814	30.289	64.640	171.000	584.000	906.006	1322.690	1531.830
2. In Real Terms (base 1987=100)										
a. MUV (PAC estimates)(% change) 6/	9.7%	7.3%	-0.7%	5.7%	2.1%	4.4%	1.3%	1.2%	3.2%	3.4%
b. Index Real Exchange Rate (US$/LCU)	232.3	155.7	205.8	173.4	153.6	162.0	176.5	176.5	176.5	176.5
M. Memorandum Item										
GDP (current US$M)	3884.0	3632.0	4345.0	3704.0	3830.8	4027.5	2870.4	3086.0	3583.8	5055.6
N. Optional Details for RMSM-X										
1. Total Factor Payments	..	..	..	..	..	..	..	..	..	..
a. Government Interest	..	..	..	..	..	..	..	..	..	..
b. Private Sector Interest	..	..	..	..	..	..	..	..	..	..
c. Profit on Direct Foreign Investment	..	..	..	..	..	..	..	..	..	..
2. Official Capital Grants	..	..	..	..	..	..	..	..	..	..
a. For Budgetary Financing	..	..	..	..	..	..	..	..	..	..
b. To Extra-Budgetary Entities (OPS)	..	..	..	..	..	..	..	..	..	..
3. Government Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..
4. Private Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..

5. "LCU" denotes local currency units.
6. "MUV" denotes the unit value index of manufactured exports from selected industrialized countries (France, Germany, Japan, U.K., and U.S.) to developing country expressed in US$.

ZAMBIA: External Debt

(US $ Million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt Service Before Rescheduling													
Bilateral	261.2	315.8	442.7	393.5	335.0	319.2	214.4	160.9	161.5	210.1	256.0	243.1	232.9
Paris Club	179.0	270.7	408.0	336.0	291.0	292.1	201.9	148.2	148.8	197.0	245.6	237.9	228.8
Other Bilateral	82.2	45.1	34.7	57.5	44.0	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	135.1	141.4	59.3	45.0	46.6	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
Suppliers Credit	93.9	108.2	39.6	27.4	23.4	29.4	35.3	41.6	48.3	55.3	62.8	70.6	78.8
Commercial Bank	10.2	9.6	5.9	6.1	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	31.0	23.6	13.8	11.5	14.8	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Multilateral	391.1	326.0	241.0	213.0	199.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
Bank	72.5	84.6	79.0	82.0	71.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	239.8	171.5	95.0	68.0	66.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	78.8	69.9	67.0	63.0	62.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	0.0	0.0	0.0	0.6	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	787.4	783.2	743.0	652.0	582.0	524.8	414.9	358.6	428.0	526.7	686.3	778.1	720.5
Rescheduling													
Bilateral	179.0	268.4	553.0	351.0	231.7	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Paris Club	179.0	262.5	503.0	263.0	200.0	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Bilateral	0.0	5.9	50.0	88.0	31.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private	0.0	0.0	0.0	12.0	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	179.0	268.4	553.0	363.0	240.0	112.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service After Rescheduling													
Bilateral	82.2	47.4	-110.3	42.5	103.3	206.4	214.4	160.9	161.5	210.1	256.0	243.1	232.9
Paris Club	-0.0	8.2	-95.0	73.0	91.0	179.2	201.9	148.2	148.8	197.0	245.6	237.9	228.8
Other Bilateral	82.2	39.2	-15.3	-30.5	12.3	27.2	12.5	12.7	12.6	13.1	10.4	5.2	4.1
Private	135.1	141.4	59.3	33.0	38.2	45.4	51.4	57.7	64.4	71.4	78.8	86.6	94.8
Multilateral	391.1	326.0	241.0	213.0	199.0	155.9	141.0	128.0	185.7	223.7	278.5	364.2	299.3
Bank	72.5	84.6	79.0	82.0	71.0	57.4	57.0	49.1	43.1	34.7	33.0	38.9	46.0
IMF	239.8	171.5	95.0	68.0	66.0	43.4	31.2	31.2	78.2	121.7	192.5	263.0	208.4
Other Multilateral	78.8	69.9	67.0	63.0	62.0	55.1	52.8	47.6	64.4	67.3	53.0	62.3	45.0
Other 1/	0.0	0.0	0.0	0.6	1.4	4.3	8.1	12.1	16.4	21.5	72.9	84.2	93.4
Total	608.4	514.9	190.0	289.0	341.9	412.0	414.9	358.6	428.0	526.7	686.3	778.1	720.5
Total Debt Service Bef. Resc./Exports	58.6	67.2	62.1	62.4	53.9	45.6	33.2	26.9	30.0	35.1	38.8	39.5	33.5
Total Debt Service Aft. Resc./Exports	45.3	44.2	15.9	27.7	31.7	35.8	33.2	26.9	30.0	35.1	38.8	39.5	33.5
Total Debt Service Bef. Resc./GDP	18.7	20.4	18.5	22.7	18.8	15.7	11.5	9.1	10.0	11.3	13.4	13.8	11.7
Total Debt Service Aft. Resc./GDP	14.4	13.4	4.7	10.0	11.1	12.4	11.5	9.1	10.0	11.3	13.4	13.8	11.7

1/ Includes interest on gap and Konkola financing.

ZAMBIA--GOVERNMENT BUDGET
(millions of LCUs at current prices)

Base Case Projection

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Direct Taxes	313	1988	4073	8805	14335	36417	56294	180248	305217	498294
Indirect Taxes	396	2337	6029	9776	11445	73691	178695	317335	538020	878977
Non-Tax Receipts	58	494	431	424	860	4821	9489	19571	33182	54210
Total Current Revenues	711	4819	10533	19005	26640	114928	244478	517154	876419	1431481
Interest on External Debt	431	1132	2058	7275	14063	47534	112372	145022	152247	187279
Interest on Domestic Debt	..	598	1006	1584	3662	10310	4737	-94862	-220605	-455011
Other Current Transfers 1\	..	615	1088	2909	6162	-93806	-274163	-254878	-489189	-623168
Subsidies	..	1396	1879	4060	8744	7500	7575	7613	7643	7705
Consumption	623	3827	6649	13414	24256	103536	171142	284453	472345	748310
Total Current Expenditures	1054	7568	12680	29243	56887	75073	21663	87348	-77559	-134885
Budgetary Savings	-343	-2749	-2147	-10237	-30247	39855	222815	429806	953978	1566366
Capital Revenues	0	0	0	0	0	0	0	0	0	0
Capital Transfers	226	349	1805	1100	1012	0	21000	21000	21000	21000
Budgetary Investment	120	1178	2801	7059	11758	40800	86757	188110	343461	561122
Total Capital Expenditures	346	628	4606	8159	12769	40800	107757	209110	364461	582122
Total Deficit Financing	622	-2552	-5725	-9623	-17581	-945	115058	220697	589517	984244
External Capital Grants 2/	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	27	1220	621	1617	4812	9783	41995	70668	131144	208957
Monetary System Credit (net)	..	1509	2530	2675	12384	-8838	-157054	-291365	-720661	-1000000
Other Domestic Borrowing (net)	..	48	1294	405	1205	0	0	0	0	0
Debt (at the end of the year)										
External Debt										
(in millions of LCUs)	1689	36632	58455	147159	320240	681666	2370024	3747474	5717189	7378260
(in millions of US$)	2141	4432	4232	4859	4954	3986	4058	4136	4322	4817
Domestic Debt	..	5076	8897	5256	12887	4049	-153005	-444370	-2000000	-6000000
To Monetary System	..	5076	8897	5256	12887	4049	-153005	-444370	-2000000	-6000000
Other Domestic Debt	..	0	0	0	0	0	0	0	0	0
Memorandum Item:										
Primary Deficit	591	-2141	-3716	-764	-17237	56899	232167	270857	521158	716512
External Grants	26	825	992	8950	31551	109508	299475	338755	631397	855497

ZAMBIA - Summary of Country Assistance Strategy, FY94-98

Macroeconomic Stability and Structural Reforms	Capacity Building in Public Service	Private Sector Development	Management of Natural Resources and Environment	Poverty Reduction/ Human Resources.
POLICY DIALOGUE				
Control inflation, eliminate budget deficit, increase public saving and investment.	Discuss Public Service reform agenda, including retrenchment, policy reform for improving service delivery in the social sectors.	Reduce public sector involvement in commercial and productive activities, stimulate private sector saving and investment by improving institutional and regulatory framework. Develop market in land.	Regular consultation with Ministry of Environment and Natural Resources on implementation of NEAP.	Define the causes and dimensions of poverty, re-orient public expenditure toward poverty reduction, improve access of the poor to essential services.
ESW				
Public Expenditure Review FY94 to focus on macro-balance and public savings, PFP 1994-96 to address policy measures for removing remaining imbalances, stimulating supply response and inducing structural change.	Institutional needs assessment in FY94.	Financial Sector Study and Non-traditional Exports Study in FY94, and Small-Scale Enterprises Study.	Complete NEAP in FY94.	Carry out Poverty Assessment, Participatory Assessment Study in FY94, Gender Issues and AIDS Assessment. Labor market
LENDING				
Structural Adjustment Credit (SAC) in FY94, and adjustment credits in FY96, 97 and 98.	Financial and Legal Management Upgrading Project in FY94, Public Service Management Project in FY95.	Industrial and Financial Sector Adjustment Credit in FY95, Petroleum Rehab. Project in FY94, Agriculture Sector Credits in FY95 and FY98, Power and Transport Rehab. in FY96 and Small-scale Enterprises in FY98.	Environment Sector Credit in FY97.	Water Supply Project in FY95, Health and Education Sector Credits in FY95, FY96 and FY98, Social Recovery II Project in FY97, Urban and Local Govt. Project in FY97. Health Sector Credits in FY95 and FY98, Education Sector Credit in FY96.
PORTFOLIO MANAGEMENT				
Performance review in the context of ongoing adjustment operations and sector credits.	Portfolio Performance Review in FY94, and each year of the CSP period, review of Macro-economic Management Technical Assistance Project in MOF, effective supervision of Second Technical Assistance Project in relation to capacity building.	Review implementation and tranche release of PIRC I and II, implementation of the Agricultural Marketing and Processing Infrastructure Project and its impact on private sector development, Industrial and Financial Sector Adjustment Credit and Small-Scale Enterprise Development	Supervision of implementation of NEAP and Environment Sector Credit.	Supervision of social sector credits and SAC, Client participation in project design and implementation.
DONOR COORDINATION				
Discussions during December 1993 CG meeting, regular Donors' meetings with Resident Rep., consultations during SPA meetings.	Consultations on capacity building framework and under sector credits.	Consultations on key policy and investment opportunities.	Consultations on the NEAP under the leadership of the Ministry of Environment and Natural Resources.	Regular consultation on and monitoring of poverty reduction activities.

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OFFICE MEMORANDUM

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DATE: June 10, 1993

TO: Files

FROM: Michael Lav, Economic Adviser, DPG

EXTENSION: 35092

SUBJECT: ZAMBIA: Country Strategy Note - Working Level Review

1. The review meeting was brief. The paper will be substantially reworked, perhaps as a CSP, since there has been no CSP since 1985.

2. Issues to be addressed (more fully):

a) long range view of what we hope to achieve;

b) what is the proposed program and why is the proposed program appropriate given our objectives;

c) justify proposed level of IDA lending (which is high and assumes performance rating equivalent to Ghana's;

d) what are appropriate alternative scenarios (the CSN now just has a base case;

e) private savings;

f) public sector deficit - realistic trajectory; and

g) debt management options.

3. No timetable was proposed for the new version.

cc: Messrs. Ray, Chaudhri, McCarthy

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

File

DATE: June 2, 1993

TO: Distribution Below

FROM: Roger W. Grawe, Acting Director, AF6

EXTENSION: 34049

SUBJECT: **ZAMBIA - Country Strategy Note (Working Level Review)**

You are invited to a Working Level Review meeting on the attached Zambia Country Strategy Note on Thursday, June 10, 1993, at 4:30 p.m., in Conference Room J11-044. Mr. Stephen Denning will chair the meeting.

Attachment

Distribution

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ZAMBIA

COUNTRY STRATEGY NOTE

AFRICA REGION
SOUTHERN AFRICA DEPARTMENT
COUNTRY OPERATIONS DIVISION

ZAMBIA
COUNTRY STRATEGY NOTE

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EXECUTIVE SUMMARY

Summary Assessment

1. After years of decline, Zambia now has a Government strongly committed to economic reform. Since coming to office in November 1991, the Movement for Multi-party Democracy (MMD) Government has established a credible track record of policy performance. However, the process of implementing structural reforms aimed at stimulating economic growth and raising living standards, especially of the poor, will be a long haul. Because public expectations are high, it is necessary for the Government to begin to show positive results to sustain the momentum for change. Given Zambia's domestic resource constraints, continued donor support is critical if this objective is to be achieved. Substantial foreign assistance, including debt relief, will continue to be required to provide essential inputs and those consumer goods that cannot be produced competitively domestically, to develop the nation's human resources and program implementation capacity, and to rehabilitate and develop the country's infrastructure.

2. The success of Zambia's reform program will depend on: (i) the Government's capacity to implement macroeconomic policies (monetary, fiscal and exchange rate policies) that can accomplish and sustain financial stabilization, measured against the targets for inflation, the budget deficit and credit expansion; (ii) more effective delivery of essential public services; (iii) Government's success in public sector reform, particularly progress on divesting itself of parastatals and on reforming public utilities; and (iv) future growth and diversification of the economy away from dependence on copper for export earnings and Government revenues.

3. There are three possible risks which may hamper the successful implementation of the adjustment program. First, success will depend on the sustained commitment of the authorities to program implementation. The Government has demonstrated strong commitment and determination to reform the economy. Second, Zambia is saddled with a crippling debt-service burden. Unless substantial debt relief and highly concessional external assistance continue to be extended to the country, there will be inadequate financial resources for the adjustment program and for rehabilitation of the infrastructure. The Bank is playing a key role in mobilizing the donor support needed to sustain Zambia's adjustment effort. Third, successful implementation of the adjustment program requires sacrifices on the part of all Zambians. Erosion of popular support for the program could impede its implementation. It is critical to develop safety net provisions to ensure that there is an equitable distribution of the costs and gains of both reforms and opportunities generated. If the Government were to abandon the reform program, the Bank's lending strategy would be to reduce the support almost to zero, since the economy could not support investment projects in such a situation.

Proposed Bank Assistance Strategy

4. The main elements of the Bank's strategy are to support efforts to: (a) achieve macroeconomic stability and initiate a path of sustainable and equitable growth through elimination of the budget deficit and lowering of the inflation rate, and increasing the allocation of resources to economic and social sectors by restructuring the composition of public spending; (b) ensure sufficient access to imports, and an adequate reserve cushion, through maintenance of an appropriate exchange rate and other measures to encourage exports and to use imports wisely, and through coordination of donor assistance and efforts to secure needed debt reduction and rescheduling; (c) improve the climate for private sector development through deregulation, improvement of infrastructure and privatization of parastatals; (d) strengthen human

resource capacity in the Public Service, including rehabilitation of the education and health infrastructure and improvement of the quality of education and health services; and (e) implement an effective environmental strategy.

5. Over the next four years, Bank assistance to Zambia will be directed at achieving macroeconomic stability, increasing productivity in agriculture, promoting private sector development and developing the country's human resources and physical infrastructure. The Bank will continue to play a leading role in helping the Government design and implement the adjustment program, place the economy on a sustainable growth path, and mobilize financial resources in support of the program. Zambia's economy has the capacity to grow at over 5% per year over the next decade, provided that the policy environment continues to improve and donor and creditor assistance remains generous.

Issues and Recommendations

6. There are several major challenges facing Zambia in its efforts to bring about sustainable and equitable economic growth. First is the need to achieve macroeconomic balance, particularly to eliminate the budget deficit in order to lower the inflation rate, which was over 190% in 1992. This requires strict expenditure control, restraint on public sector wage increases, improved revenue collection, ending subsidies to Zambia Airways, and controlling the growth of money supply. **It is recommended that both the Bank and IMF monitor closely performance in this regard to ensure that agreed targets are met.**

7. Second, Zambian authorities need to lay a firm foundation for long-term sustainable growth by expanding non-metal exports, enhancing agricultural productivity, improving efficiency and effectiveness in the Public Service and promoting the role of the private sector as deregulation and privatization gain momentum. Donors are already supporting projects for Public Service reform and the Bank is also supporting these efforts and privatization of parastatals through ongoing adjustment operations as well as investment projects. **It is recommended that this support continue over the next four years.**

8. Third, the most challenging task for the Government is to improve the delivery of essential social services. This requires restructuring the composition of expenditure such that increased resources are allocated for rehabilitation of infrastructure, supply of essential equipment and materials, and maintenance of existing facilities. The Government has announced its intention to move decisively on these fronts. In addition, the Government has requested the Bank to focus the next adjustment operation not only on macroeconomic policy reforms but also on policy reforms designed to improve the delivery of social services. Improving the quantity and quality of social services, such as health, nutrition, education, and clean water, is essential to effective delivery of tangible benefits to the average Zambian in the early years of the economic reform process. **It is recommended that, in addition to investment projects in education, health, and urban development, the next Bank adjustment operation pay increased attention to policy reforms in the social sectors.**

9. Finally, Zambia will be unable to service its external debt without substantial external support. Failure to service World Bank debt would only result in suspension of disbursements and a return to economic isolation and decline. Assuring an adequate supply of foreign exchange is necessary, given the poor prospects for existing copper mines and the high level of external debt. Continued assistance from donors, including rescheduling and cancellation of bilateral debt, is essential. **It is recommended that the Bank continue its present high level of support for the Zambian program, while helping to mobilize donor resources to supplement the Government's meager domestic resources.**

ZAMBIA COUNTRY STRATEGY NOTE

I. BACKGROUND AND RECENT DEVELOPMENT POLICY PERFORMANCE

1. After more than two decades of disappointing economic performance, Zambia has started to establish a track record of strong economic performance. The record of policy performance has been good, although there remain structural issues whose resolution will require a long haul. The economy continues to suffer from severe distortions that will require an ongoing structural adjustment effort over an extended period. The export base remains heavily dependent on copper. An earlier policy of nationalization left behind an economy dominated by parastatals. Falling world prices of copper, deterioration in the terms of trade, and failure to diversify the economy led to a steep economic decline. Per capita GDP is now a third of its 1978 level. Attempts to support consumption through borrowing failed to contribute to economic growth and created an exceptionally severe debt problem - total external debt at end-1991 amounted to US$7.3 billion, over 300% of GDP. Zambia's ability to redress its economic problems is now contingent on significant international assistance, particularly quick-disbursing assistance and debt relief. Because of its massive debt burden, including some US$1.2 billion in arrears to the IMF, Zambia faces stark choices. It must either sustain tough economic reforms and rely on generous donor support to redress the existing imbalances or default on debt service obligations, forsake most donor assistance, and continue the path of economic decline of the past twenty years.

2. Recent efforts at economic reform in Zambia fall into three distinct phases. The first began in 1985 when the United National Independence Party (UNIP) Government adopted a comprehensive structural reform program with Bank and IMF support. However, political commitment to reform proved to be weak, and the program was abandoned in 1987 when the Government reversed many of the policy reforms undertaken previously. Foreign exchange shortages led the Government to stop most external debt service, including to the Bank. Consequently, the Bank suspended disbursements, and balance of payments support from the donor community was withdrawn. By early 1991, arrears of more than US$300 million to the Bank Group had accumulated.

3. The second phase of economic reforms began in late 1988 when dialogue between the Government and the Bank/IMF resumed. Steady progress was made on reintroducing reforms, and in March 1991, Bank arrears were cleared with the help of a bridging loan from the Bank of England, permitting the first tranche of an Economic Recovery Credit (ERC) of US$210 million to be disbursed immediately. Zambia also began a rights accumulation program which was approved by the Executive Board of the IMF in April 1991. However, implementation of the program was shortlived. In the run-up to the multi-party elections of October 1991, adherence to the reforms began to slacken. Informal price controls were introduced and public expenditure started getting out of control. The Government announced to donors that it did not intend to implement the understandings reached on maize prices. Donor support evaporated, and Government defaulted on its payments to the Bank, resulting in the suspension of disbursements in September 1991, and a new accumulation of arrears.

4. In the October 1991 elections, the opposition MMD party was elected to office with a strong mandate for economic reform. This change in Government ushered in the third and more robust phase of economic reforms. The new Cabinet included pragmatic businessmen and farmers and the Government quickly adopted a comprehensive program of stabilization and structural reform. In February 1992, the Government agreed a Policy Framework Paper

(PFP) with the Bank and IMF covering the period 1992-94. The PFP articulated a comprehensive package of policy reforms for macroeconomic stabilization, restructuring the economy, and stimulating the resumption of sustainable economic growth. It included steps to reduce the fiscal deficit, slow monetary expansion, eliminate distortions and controls on key prices, including the exchange rate, interest rates, public utility tariffs and prices of agricultural inputs and output, and reduce the size of the civil service. Government also started an ambitious program of privatization and parastatal reform.

5. These changes led to a resumption of substantial external support from bilateral donors. Bank arrears were again cleared in January 1992, and the suspension of disbursements was lifted. A fresh adjustment credit of US$200 million -- the Privatization and Industrial Reform Credit (PIRC) -- was made to Zambia in June 1992. In July 1992, the IMF approved a restructured rights accumulation program for Zambia. Bilateral donors provided substantial balance of payments support and debt relief through the Paris Club.

6. The Government's impressive progress on its economic reform program has been achieved even though the country had to face the worst drought of the century in 1992. Two-thirds of the vital maize crop was lost. The Government was successful in securing donor support to meet the country's maize requirement and averted a potential disaster resulting from loss of the principal food crop. Grant assistance financed the import of 700,000 tons of maize and another 245,000 tons were imported on commercial terms, but financed by donors ex-post. Food shortages were averted through adoption of targeted free food and food for work programs. The direct balance of payments impact of the drought is estimated at US$290 million in 1992, and a further US$70 million in 1993. This includes the cost of increased maize imports, of reduced non-traditional exports (including electricity), and of electricity imports.

7. The major instrument for combatting the worst effects of drought on vulnerable groups was the Program to Prevent Malnutrition (PPM). This program, covering the crop year 1992/93, included (i) funding food-for-work programs, such as digging irrigation ditches, building feeder roads and preparing land for the new cropping season; (ii) provision of free food for those unable to work; and (iii) transporting maize to remote, normally self-sufficient rural areas. These programs distributed more than 100,000 tons of maize and other food (about an eighth of total food aid) and benefitted 1.7 million people (a fifth of the population). Overall, Zambia's performance in coping with the drought has been the best in the Region. This year the rains have been much better, and there are good prospects that the size of the maize crop, which will be harvested in the second half of the year, will be above normal.

8. Macroeconomic Performance: Despite the heavy demands on its time and attention created by the drought, the Government has made excellent progress in its first year and a half in office in implementing structural reforms, liberalizing the economy, and launching a comprehensive privatization program. Although the worst effects of the drought on Zambia's populace were averted, it did have significant negative effects on income growth, fiscal and monetary operations, and domestic inflation. Agricultural production in 1992 dropped 39.3% (in constant 1985 prices). Although this was offset by a 10% rise in mining output, overall GDP at factor cost fell by 2.8%. The primary fiscal deficit (on a cash basis, excluding grants and interest) for 1992 is estimated at about K19 billion, or 3% of GDP (compared to the

original PFP target of K8 billion). The higher-than-expected deficit was due in large part to the costs of the drought, which were well above expectations. However, non-drought expenditures were also above target in several areas due to high public sector wage increases and large losses by Zambia Airways. Monetary expansion was rapid because of these fiscal slippages and because the mechanism for sterilizing excess copper earnings (amounting to 3% of GDP) was not effective. It is estimated that broad money grew by 99% for the year. Since the Government was taking aggressive action on the exchange rate, reduction of maize subsidies, and price liberalization, inflation accelerated to 190% for 1992.

9. The major development in the balance of payments in 1992 was the increased import levels due to drought. Imports, (c.i.f.), rose from US$952 million in 1992 to US$1268 million. Of the US$316 million increase (85%), US$269 million was due to maize imports. On the export side, copper sales in 1992 were marginally lower than in 1991, US$852 million, compared with US$895 million, despite an increase in export tonnage from 375,000 to 400,000 tons. On the brighter side, exports of other products rose by 13%, but from a very small base. Overall, exports were off marginally (1.7%) from their 1991 level. With higher import levels, the current account deficit, excluding interest and official transfers, increased from US$90 million in 1991 to about US$450 million (about US$290 million of this was attributable to drought). In July 1992, the Paris Club agreed to a comprehensive debt rescheduling which resulted in debt relief of US$450 million in 1992.

10. During the fourth quarter of 1992, the Government took strong measures to restore control over the macroeconomic situation. In its 1993 budget, Government stated that its goal was to bring the annual rate of inflation down to 10% by the fourth quarter of 1993. While early inflation results in 1993 suggest that this target will not be met, Government has started a serious and concerted effort to keep spending within actual revenues collected and to mop up excess liquidity in the financial system by increasing bank reserve requirements, raising the bank rate and introducing a 5% charge on bank rediscounting operations. To strengthen its fiscal position in the fourth quarter of 1992, the Government received a mandatory dividend of K1.1 billion from ZIMCO in December, capital and military expenditures were cut by K1.5 billion, and over-funding of some ministries was clawed back. As a result, the fourth quarter saw a deceleration of monetary expansion and strengthening of the fiscal position. The end-1992 performance benchmarks were met (except for a minor shortfall in net international reserves) and, in April 1993, the IMF Board approved the accumulation of rights for the fourth quarter of 1992. Nevertheless, controlling inflation will remain the key challenge for the immediate future.

11. Structural Reforms: Government has made much progress in effecting structural reform and market liberalization in the eighteen months it has been in office. In the area of agricultural prices, fertilizer subsidies have been eliminated and maize prices increased substantially. Fertilizer prices have been decontrolled and fertilizer can now be imported and traded freely. Consumer prices for maize meal have been deregulated, but the Government, as the major supplier of maize to the mills during the drought, has continued to establish the into-mill price. Nevertheless, no budgetary provision has been made for maize subsidies for the 1993 crop and all maize markets will be decontrolled during 1993; the price of maize meal to the consumer has risen by 700% from November 1991.

12. The exchange system was liberalized by introducing bureaux de change in September 1992, widening the export retention market, and increasing the coverage of OGL and converting it to a negative list. Since the OGL market uses the bureaux rate, all exchange rates are now unified and market-determined. Receipts from non-traditional exports and other current transactions may be sold at the bureaux de change or at the retention market at market-determined rates. The Bank of Zambia purchases all foreign exchange of Zambia Consolidated Copper Mines (ZCCM) and provides foreign exchange to ZCCM and the Government at market rates of exchange. There is now virtually unrestricted access to foreign exchange for current transactions, including travel (up to US$2,000). All goods (with the exception of jewelry, precious metals and weapons) and all services (with the exception of external debt payments) are eligible for bureaux financing. Interest rates were freed in mid-September, 1992, when the ceiling on commercial bank lending rates and the floor on deposit rates were removed. Interest rates are driven by prices in the Treasury bill market and are now positive in real terms.

13. The civil service was reduced by 10% in 1992 by a freeze on new recruitment and retrenchment of 12,000 Government employees. The budgetary cost of retrenchment was K6 billion, or about 1% of GDP. In March 1993, the Government announced a comprehensive Public Service Reform Programme which will restructure ministries, introduce a performance management system, decentralize more functions to local government, and introduce an explicit and transparent system of personnel evaluation and appraisal. Further reductions in civil service staffing levels are expected as a result of implementation of this Programme.

14. Progress on the critical component of the structural reform program, viz. privatization and parastatal reform, is ahead of schedule. The Government's publicly stated objectives are ambitious. Specifically, it plans to: (i) restructure ZIMCO (the overall investment holding company) and abolish its sub-holding companies; (ii) privatize or liquidate all commercially-oriented parastatals (including the public utilities), about 130 companies over the next five to seven years; (iii) reform ZCCM with a view to its privatization; and (iv) reform the public utilities, and establish appropriate regulatory mechanisms, to enhance efficiency in the provision of public services and as a preparatory measure toward privatization. Preparation for the privatization program has been thorough and comprehensive, and the program of sales is well underway. In August 1992, the Privatization Act became law and the Zambia Privatization Agency (ZPA) was subsequently established. The ZPA operates independently, but under Government supervision, and is responsible for the sale of companies (including prior preparation, valuation, advertising, valuing offers and negotiations). A first tranche of 19 parastatals (compared to the target of at least ten agreed as a condition of first tranche release of the PIRC) was offered for sale in late 1992 and more bids than expected were received. The ZPA has completed negotiations for the sale of nine of these companies, and only final legal clearance is required before their sale is finalized. A second tranche of 29 companies, including several large ones, has now been advertized for sale. Initial investor interest (both foreign and domestic) in bidding for these companies appears strong. Preparation of future tranches is well advanced. Government is keen to sustain a rapid pace of change and has solicited broad technical and financial donor support to help it attain its objectives. ZIMCO is being streamlined and its sub-holding companies are no longer operational. A review of the options for privatizing ZCCM, and for opening up the copper mining sector to private investment, is about to start.

15. The parastatal reform program involves a review of the management, staffing, policies and finances of the public utilities to make them efficient and financially autonomous. It envisages the establishment of an autonomous agency to regulate the utilities and review pricing policies on the basis of pre-agreed incentive-based formulae that incorporate efficiency measures and performance targets. Progress to-date includes the completion of business plans for the smaller utilities and the start of efficiency studies and strategy plans for three large ones, Zambia Railways (ZRL), Zambia Electricity Supply Corporation (ZESCO), and Posts and Telecommunications Corporation (PTC).

16. The Government is also undertaking several reforms to spur the development of the private sector. Investment licensing procedures are being simplified, and an Investment Center is in operation. The import and export licensing system now operates efficiently through the commercial banks. The exchange rate policy and lower tariffs further enhance competitiveness. The Government is updating the laws that are important for investment and business and that in their present form are outdated and restrictive. These include the Companies Act, the Stock Exchange Act, the Securities Act, the Bank of Zambia Act and the Financial Institutions Act. In addition, the Government's investment program places priority on improving essential physical infrastructure.

II. POLICIES AND STRATEGIES

17. The Government's strategy to restore long-term sustainable growth calls for the creation of an enabling environment conducive to the growth of the private sector, so that it can provide most goods and services, and to limit Government's role in the economy to essential public functions. Most important of these functions are: rehabilitation and development of infrastructure, human resources development, provision of social services (and social safety net) and protection of the environment. Successful execution of policies and programs in these areas will lay the foundation for sustainable and equitable economic growth and alleviation of poverty in the long-term. The Government is aware that for this strategy to succeed, it needs to deal with the overwhelming debt-service burden. With assistance from UNDP, the Government is undertaking a National Long-Term Perspective Study (NLTPS) to provide a framework for implementing this strategy. The NLTPS will articulate a vision of Zambia's development prospects over a twenty five-year timeframe and propose strategies for translating it into medium-term action plans.

18. The ultimate objective of Zambia's economic reform program is to raise the standard of living of Zambians, particularly the poor. This objective is to be achieved by reversing the economic decline of the past and placing the economy on a sustainable and equitable growth path. Given the existing imbalances in the economy, it is essential to establish macroeconomic stability so as to create an environment conducive to increased investment. To this end, an issue of top priority is reducing the high inflation rate, primarily through eliminating the Government's budget deficit and controlling money supply. This requires restraint on borrowing, curbing monetary expansion, and achieving a balance of payments equilibrium, while addressing the underlying structural imbalances. The Government's strategy also aims at providing a less intrusive and more supportive regulatory framework for private investment, increasing investment in rehabilitation of the physical and social

infrastructure; improvement of the quality of social services, particularly those aimed at the poor; implementation of environmentally sound policies; and enhancement of the efficiency of public institutions.

19. Fiscal Policy: One of the objectives of the Government's fiscal policy is to eliminate the budget deficit by increasing revenue and restraining expenditure. This objective is to be pursued while supporting measures for stimulating economic growth and alleviating poverty. The Government's revenue strategy is to simplify and reduce direct taxation rates, while lowering protection and increasing direct taxation. Overall revenues will be increased mainly by removing tax loopholes and the plan is to achieve higher dividends from parastatals. Expenditure reduction plans include reform of the public and parastatal sectors, increased devolution of authority to local governments, better coordination and control of commitments and expenditures, reprioritization of expenditure, especially in favor of the social sectors, and phased elimination of subsidies. Civil service pay is to be controlled by maintaining aggregate emoluments at a constant proportion of GDP, with any extra pay raises being offset by savings from redundancies. Major reductions in spending on crop financing and subsidies have been made. The change in crop financing is primarily a result of the greater private sector role in maize purchasing and marketing. Reduction in subsidies comes from maize transport, fertilizer, and maize meal. Government has announced a shift in expenditure priorities such that more funds will be allocated for non-wage recurrent expenditures on equipment and building maintenance. As part of the measures for ensuring expenditure restraint, the Government moved to a cash-based system in early 1993. Under this system, Government spending will be matched with revenue collected.

20. Monetary and Interest Rate Policies: Excessive growth in money supply has been one of the factors contributing to upward inflationary pressures. To help curb inflation, the Bank of Zambia (BOZ) has adopted a policy of dramatic reduction in the growth of money supply from almost 100% in 1992 to about 20% in 1993. The BOZ will use open market sales of Treasury Bills through tender to contain the growth in reserve money and overall money supply. With the decontrol of interest rates and the introduction of the Treasury Bill tender system, interest rates have become positive in real terms. This policy is designed to encourage saving and investment. The exchange rate has also been completely freed by basing the OGL rate on the market-determined bureaux de change rate.

21. External Sector Policies: The centerpiece of the strategy for expanding non-traditional exports by 10-15% a year over the next decade is an exchange rate policy that aligns the value of the Kwacha closely to the market rate to promote efficient allocation of foreign exchange, and to give added incentive to exporters through a liberalized export retention scheme and the abolition of the remaining export restrictions (most importantly for maize). To that end, the Kwacha has been completely freed from exchange controls and the OGL rate has been merged with the free market rate as determined in the export retention and bureau de change markets. In addition, the Government announced complementary reforms to encourage exports through an improved duty drawback scheme and further development of bonded warehouses. Continued improvement in the management of the OGL system is a key test of progress on Zambia's macroeconomic reforms.

22. Private Sector Development Policy: The Government has embarked on a major parastatal reform program designed to make public utilities more efficient and to reform the

incentive, legal and regulatory framework with a view to supporting a strong private sector. The privatization and parastatal reform program aims to privatize all parastatals (150 companies are scheduled to be divested out of 160 parastatals) over a period of five years, including ZCCM. Efforts to promote the private sector include reducing the Government's share of credit financing, improving infrastructure, and simplifying investment licensing procedures. It continues the streamlined import and export licensing system now operated efficiently through the commercial banks, and exchange rate policy and enhanced competitiveness through reduction of import tariffs. The Government has also started a comprehensive review of out-dated laws inhibiting business development. It is expected that the major Acts affecting the private sector (including laws regulating the banking system and capital markets) will be updated in 1993. The Government is to introduce a New Investment Act in 1993 to replace the 1991 Act which will eliminate unnecessary tax holidays for investors and exemptions from customs duty and sales taxes on imported goods. The new Act will eliminate special preferences which discriminate against existing investors and encourage capital and import-intensive investments that create minimal employment. To offset the disincentive effects of these measures, company tax and import tax rates will be reduced. It will also allow 100% repatriation of after-tax profits. Other measures to promote the private sector include reorganization of the Development Bank of Zambia so as to better serve investors, strengthening of the Investment Center, and training programs for small-scale entrepreneurs. In addition, a Privatization Fund is to be established in the course of 1993 to enable Zambians to participate directly in the privatization program. Finally, preparations are underway to establish a stock exchange this year.

23. Public Service Reform Policy: Zambia's Public Service expanded considerably since the mid-1970s. Its current size is estimated at about 180,000 comprising about 75,000 civil servants, some 26,000 local authority employees, about 45,000 non-joint council employees and 34,000 daily employees. The expansion of the Public Service has not been matched by increases in its quality, effectiveness and efficiency. Instead, the Public Service has deteriorated in these respects over the years. Along with the overall reduction in living standards in Zambia, Public Service salaries have declined in real terms, morale has waned, job satisfaction is poor, and discipline is seldom enforced. Overall, the Public Service lacks the skills and motivation to formulate, manage and implement measures aimed at achieving demanding policy objectives. Achieving a more effective, better-paid and leaner Public Service has become a cardinal objective of Government policy. To implement the policy, a Public Service Reform Programme (PSRP), recently approved by Cabinet, has been elaborated. The program aims at transforming the Public Service and local authorities so as to achieve the following objectives:

(a) to improve Government capacity to implement its appropriate functions;

(b) to rationalize public expenditure to meet fiscal stabilization and developmental objectives; and

(c) to make the Public Service more efficient and responsive to the needs of Zambia's population.

24. Infrastructure: The Government has renewed its emphasis on a better infrastructure, including improved roads to ensure that crops get to the market in time, a more reliable

freight-rail system, and a better quality telecommunications system, essential for the development of an outward-oriented and efficient productive sector. A larger share of available resources will be devoted to rehabilitation of existing infrastructure and improvement of operational efficiency.

25. Human Resource Strategy: The centerpiece of the human resource strategy is rehabilitation and expansion of education and health services. These services have borne the brunt of expenditure reductions in the past, and the country is faced with a dilapidated and under-funded social infrastructure. The new education strategy focuses on improvements in primary education, with special emphasis on providing much-needed infrastructure, rehabilitating existing schools, and improving management capacity and supply of learning materials. Other activities in education are geared toward ensuring the necessary supply of skilled manpower for the development needs of Zambia, focusing on key skills relevant to private sector development. In the health sector, the Government is emphasizing service delivery and decentralization of the management of health services to ensure community participation. The Government has formulated a health sector strategy designed to meet the new challenge of a decentralized system of health service delivery. A key area of emphasis is the prevention of AIDS and support for family-based care of AIDS patients. With an HIV prevalence of over 20% in urban areas, the treatment of infections and support for home-based care is important to limit the otherwise devastating effects the AIDS epidemic could have on the human resource base and the economy. With respect to nutrition, the Government is streamlining the management of national programs and encouraging the development of local initiatives. The program to prevent malnutrition has been particularly successful in ensuring the distribution of free or subsidized food to the needy. The Government is aware of the key role women can play in poverty alleviation and growth of the economy and is focusing social service delivery, particularly education and primary health care and agricultural extension on women, since smallholder farming is predominantly a women's activity. Government is also removing obstacles to women's participation in the labor force and access to credit.

26. Population Policy: According to the 1990 census, Zambia's population was 7.8 million and growing at an annual rate of 3.2%. It is estimated to have increased to 8.3 million by 1992. These trends suggest that Zambia's population could double in the next twenty years if the rate of growth remains constant. The structure of the population is such that there is a preponderance of young persons. For every five Zambians, there is one child under the age of five, and half the population is under fifteen years of age. This means a high dependency ratio and a greater demand for school places and health services than the country can afford. A high fertility rate of 7.2, coupled with a declining mortality rate estimated in 1990 at 11.7 per 1,000, account for the high rate of population growth. Considerable internal migration takes place, especially from rural to urban areas. Nearly half the population lives in urban areas. This has placed a great strain on the urban infrastructure, social services and the labor market. At the same time, the rural areas are losing some of their most able-bodied, educated and productive members. Overall population density remains low and was estimated to be 10 persons per square kilometer in 1990. Thus, the vast agricultural potential is yet to be fully exploited. In addition, the widely dispersed population makes it difficult to provide social services in a cost-effective manner.

27. It was the Government's recognition of the consequences of current demographics for the country's development which led to the adoption of a national population policy to complement other development policies. The objective of the policy is to help improve the standard of living and quality of life of all Zambians. Its components are:

(a) measures to reduce the rate of population growth;

(b) integration of population factors into the country's policies and programs;

(c) supply of information and contraceptives to ensure that couples make informed decisions about the size of their families;

(d) provision of maternal and child health services to help reduce infant, child, and maternal mortality;

(e) fostering of more even population distribution between rural and urban areas and regulation of international migration; and

(f) expansion and maintenance of the country's population data base.

The Government has announced its intention to set up a National Population Council to advise on population issues and to coordinate implementation of the population policy.

28. Social Safety Net: The Government is taking steps to alleviate the impact of the structural adjustment program on the poor and disadvantaged. It has allocated savings from the removal of subsidies to expanding social welfare services, is expanding small-scale, labor-intensive public works (supported by IDA and other donors), and has increased the share of the national budget allocated to social services, with emphasis on primary education, health care, and other services of particular importance to low-income groups. In 1992, Kwacha 1 billion was allocated in the Ministry of Community Development and Social Services budget for expenditure on activities benefiting the needy. The 1993 Budget calls for an increase in expenditures on social services from 27% of expenditures in 1992 to 33% in 1993. Expenditure on education will increase 163%, while expenditure on health will increase 203%. Particular attention is being paid to rural infrastructure benefiting the poorer segment of the population. A program of severance pay and business counseling is being developed for retrenched civil servants and parastatal employees. Policies to stimulate small-scale industrial development to provide income-earning opportunities for unemployed people in urban and rural areas are also being developed.

29. Environment Strategy: Zambia's economic development prospects are heavily influenced by the country's natural resource endowment. Government policy aims to ensure that environmentally sustainable development is pursued vigorously. Among the most pressing environmental concerns are the declining quality of water in the country's rivers and streams, the deteriorating air quality in areas of heavy industrial emissions, the poor quality of urban life due to inadequate sanitation and disposal of waste material, the rapid depletion of wildlife through poaching and loss of habitat, deforestation of wooded areas, increasing soil acidity, less than optimal livestock production due to overgrazing, and depletion of fishing

stocks through inefficient fishing practices. These problems are exacerbated by inefficient, unsafe and unsustainable use of the available natural resource base. Government strategy aims at mitigating the negative impact on the environment of these problems by enforcing existing policy governing natural resource use. A National Environmental Action Plan (NEAP) is currently under preparation with Bank support. The Government has reaffirmed its concern for environmental issues by establishing a Ministry of Environment and Natural Resources and a National Environment Council.

30. Agriculture Strategy: The highest rate of economic growth is expected to occur in agriculture. Government strategy in agriculture emphasizes smallholder production by redirecting research and extension services from maize to drought-resistant crops, provision of credit, improvement of infrastructure (especially feeder roads), strengthening of agricultural information services, and rehabilitation and expansion of veterinary services. The main interventions for increasing agricultural productivity are:

(a) improving the environment for agricultural growth through policy reforms designed to enhance the structure of incentives for farmers and agribusiness;

(b) expanding production of traditional crops, namely, maize, cotton, oilseeds, wheat, and tobacco, by bringing new land (estimated at 3 million hectares) under cultivation and encouraging better use of under-utilized commercial farms;

(c) increasing productivity on smallholder farms by providing support services (including financial services), and upgrading the level of technology;

(d) widening Zambia's export base by increasing horticultural exports; and

(e) promoting the role of the private sector in agribusiness (distribution of inputs, processing and marketing of agricultural products, etc.)

31. Zambia's debt management strategy is to pursue maximum relief from the Paris Club, debt forgiveness from individual bilaterals, a debt buy-back for commercial debt, and equivalent reductions for non-Paris Club bilaterals. At present Zambia is meeting in full its obligations to the Paris Club, IMF, World Bank, and other multilateral creditors (although some short-term arrears have developed from time to time when donor disbursements have lagged). No payments are being made on most longer-term private and non-Paris Club bilateral debt. A debt buy-back plan with World Bank and bilateral donor support is planned for later this year.

III. MACROECONOMIC PROSPECTS AND EXTERNAL FINANCING REQUIREMENTS

32. Zambia's economy has the capacity to grow at over 5% per year over the coming decade if the policy environment continues to improve and donor and creditor assistance remains generous. The Government has generated considerable business confidence in the private sector. Many private sector representatives and potential foreign investors have expressed interest in doing business in Zambia. Medium-term prospects will, however, depend on the price of copper, which is expected to be weak over the next two-to-three years.

Copper prices in the medium term have been variously estimated to range from negative 50 cents to positive 50 cents per pound from their present level and are therefore subject to great uncertainty. Output from existing copper operations will decline unless adequate resources are allocated to rehabilitation investment. Overall investment levels will need to increase significantly over the decade if economic growth is to be sustainable over the long-term. Similarly, non-traditional exports will need to grow sharply to offset the stagnation of copper output and the potential increase in debt service payments. Another key element in the long-term is reducing the rate of population growth from its current level of 3.2% per year. This high rate produces a dependency ratio of more than one-to-one, thus increasing the burden on already crowded health and education facilities.

33. Based on these assumptions, the following economic growth scenario would be possible. Investment would increase from 14% of GDP in 1991 to 26% by 2002. The rate of population growth would decrease from 3.2% to 3.0%. Domestic savings would grow from 7% of GDP in 1992 to 17% in 2002. Non-traditional export earnings would triple over the next ten years. Assuming continued donor support and debt rescheduling, this would permit non-mining imports to grow by 3% per year. Given the availability of land, the opportunities for foreign investment, and the potential for increased efficiency of resource use with better policies, output could grow at over 5% under these assumptions, thus increasing per capita incomes by over one percent per year. This by itself will not bring about dramatic improvements in living standards, but the mere fact of reversing nearly two decades of decline, together with improved delivery of social services, should be adequate to sustain political support for the program.

34. The balance of exports and imports worsened in 1992 largely because of the drought. The current account deficit (excluding grants and interest) increased from $90 million in 1991 to $410 million in 1992 due primarily to the need for $260 million in emergency maize imports. The value of copper exports increased by 6% in 1992 due to a 9% increase in export volumes (to 409,000 metric tons) only partially offset by a 2% fall in the price (to $1.04 per pound). However, actual receipts fell by 3% because of an increase in surrender lags. Non-maize imports increased by 7%, mainly as a result of higher ZCCM imports. Zambia's gross external financing requirement of $1.44 billion was met through $570 million in debt relief, $640 million in balance of payments and emergency maize support, and $290 million in other commodity and project assistance.

35. Actual donor support was less than pledged in 1992 by about $80 million largely because the second tranche of the PIRC ($50 million) was not disbursed as originally planned. This shortfall was offset by a shortfall in reserves, arrears on debt service, and higher copper earnings.

36. The external financing picture for 1993 is not much better than 1992 despite the ending of the drought. Copper proceeds will be well down due to the recent drop in the price of copper (to 84 US cents per pound in May). In addition, cobalt earnings remain depressed, some maize imports will still be needed in the early months, and net debt service requirements will be higher than in 1992. Projected debt service payments in 1993 are US$80 million above actual payments in 1992 because of increases to the Paris Club and IMF (See the following Table).

Zambia's External Debt Service
(Millions of US Dollars)

Paris Club			
Debt Service	408	344	297
Arrears	119	0	0
Debt Relief	517	247	210
Net	10	97	87
Other Non-Multilateral			
Debt Service	94	100	117
Debt Relief	50	60	54
Net	44	40	63
World Bank			
Debt Service	73	77	71
Arrears	39	0	0
Net	112	77	71
IMF			
Debt Service	95	74	66
Arrears	32	87	0
Net	127	161	66
Other Multilateral			
Debt Service	67	69	66
Arrears	9	36	0
Debt Relief	0	31	0
Net	76	74	66
TOTAL			
Debt Service	737	664	617
Arrears	199	123	0
Debt Relief	567	338	264
Net	369	449	353

IV. BANK ASSISTANCE STRATEGY

37. The main elements of the Bank's strategy are to support efforts to:

- achieve macroeconomic stability and initiate a path of sustainable and equitable growth through elimination of the budget deficit and lowering of the inflation rate, and increasing the allocation of resources to economic and social sectors by restructuring the composition of public spending;

- ensure sufficient access to imports, and an adequate reserve cushion, through maintenance of an appropriate exchange rate and other measures to encourage exports and to use imports wisely, and through coordination of donor assistance and efforts to secure needed debt reduction and rescheduling;

- improve the climate for private sector development through deregulation, improvement of infrastructure and privatization of parastatals;

- strengthen human resource capacity by rehabilitating the education and health infrastructures and improving the quality of education and health services; and

- implement an effective environmental strategy.

38. Bank assistance to Zambia will be directed at achieving macroeconomic stability, increasing productivity in agriculture, promoting private sector development and developing the country's human resources and physical infrastructure. The Bank will continue to play a leading role in helping Government design and implement the adjustment program, place the economy on a sustainable growth path, and mobilize financial resources in support of the program. Zambia's economy has the capacity to grow at over 5% per year over the next decade, provided that the policy environment continues to improve and donor and creditor assistance remains generous.

Lending Program and Economic and Sector Work

39. Bank assistance over the next four years will comprise a blend of adjustment and investment operations, and economic and sector work. Balance of payments assistance will continue to be a major element of the Bank's assistance to Zambia. The process of economic reform is likely to take several years, and Zambia's need for balance of payments support will remain high because of the very high debt service obligations even after rescheduling. Therefore, the Bank program includes one adjustment operation per year, with amounts gradually decreasing from US$210 million in FY91 to US$100 million in FY96. Each operation will combine macroeconomic reforms with an emphasis on a particular sector. Sectoral investments in agriculture, population, health, petroleum rehabilitation, infrastructure rehabilitation and financial and legal management will complement adjustment lending. In addition, a debt and debt service reduction operation is planned for FY94. This lending program will build on the knowledge accumulated in past years through ESW. Future ESW will cover agriculture, mining, public expenditure, education sector, public sector management, environment, population, health and nutrition, gender issues and natural

resources. Particular attention will be given to a sectoral approach in lending, initially in agriculture and health, with major efforts to improve aid coordination with bilateral donors through regular Consultative Group meetings and intensive informal contacts.

40. The Government has requested that the upcoming adjustment operations concentrate on helping strengthen public sector implementation capacity. The first operation will focus on privatization and industrial reform. Government commitment and the extensive preparations have resulted in this component of the structural reforms proceeding ahead of schedule. However, to sustain the pace of change, Government has to cope with a number of challenges. These include the need to: (i) demonstrate to the Zambian public that the program is succeeding in its broader objectives of enhancing efficiency and attracting increased private investment by ensuring that the privatization program does not lead to concentration of corporate ownership in a few hands and that Government promotes the development of financial arrangements to facilitate increased local investor participation in newly privatized companies; (ii) develop a comprehensive, affordable and socially acceptable program to tackle the substantial numbers of redundancies likely to arise from corporate restructuring; (iii) strengthen the capacity of key institutions to handle the rapidly expanding privatization workload; and (iv) promote the development of a strong and diversified financial sector and capital market and of a dynamic private sector. Dealing with these issues is the subject of the proposed PIRC II operation.

41. Overall, progress on implementing rapid policy change has been impressive, although the benefits will not be perceptible to the general population for some time. Sustaining the adjustment program will depend in large part on adhering to sound policies until the desired supply response materializes and in part on demonstrating progress in dealing with the backlog of problems in the social sectors. The next adjustment operation (proposed Social Sector and Economic Policy Reform Credit) scheduled for Board approval in FY94, would continue the program of improved macroeconomic management and help identify and eliminate key constraints to effective delivery of essential social services, particularly health care, education and water.

V. CRITERIA FOR MONITORING PROGRESS

42. Progress in implementing this strategy will be measured against the following criteria: (i) Government's ability to implement macroeconomic policies (monetary, fiscal and exchange rate policies) that can accomplish and sustain financial stabilization, measured against targets for inflation, the fiscal deficit and credit expansion; (ii) Government's success in public sector reform, particularly progress in divesting itself of parastatals and in reforming public utilities; and (iii) future growth and diversification of the economy which will require significant increases in private investment and growth of non-metal exports.

43. There are three possible risks which may hamper the successful implementation of the adjustment program. First, success will depend on sustained commitment of the authorities to program implementation. Lack of commitment and policy reversals contributed to implementation failure in the past. This risk is minimized by the new Government's demonstration of firm commitment to the program. Second, Zambia is saddled with a crippling debt-service burden. Unless substantial debt relief and highly concessional external

assistance is extended to Zambia, there will be inadequate financial resources for the adjustment program and the minimal investment resources needed to rehabilitate capital stock. The Bank is playing a key role in mobilizing the donor support needed to sustain Zambia's adjustment effort. Third, successful implementation of the adjustment program requires sacrifices on the part of all Zambians. Lack of mass support for the program could impede its implementation. It is critical to develop safety net provisions to ensure that there is an equitable distribution of the costs and gains of reforms and the opportunities generated.

Base Case Projection

ZAMBIA--KEY INDICATORS

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Real Growth Rates:										
Gross Domestic Product (GDP)	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-9.6%	11.9%	5.4%	5.6%	5.8%
Gross Domestic Income (GDY)	-2.8%	11.4%	-14.0%	5.9%	2.3%	-16.0%	17.0%	6.2%	4.1%	7.8%
Real Per Capita Growth Rates:										
Gross Domestic Product (GDP)	-0.3	2.4%	-4.7%	-4.1%	-4.8%	-12.4%	8.4%	2.1%	2.3%	2.5%
Total Consumption	-4.1%	2.3%	-6.1%	-18.5%	12.2%	-12.4%	12.5%	-2.6%	1.4%	1.3%
Private Consumption	-9.3%	6.8%	-13.1%	-22.1%	16.2%	-12.8%	12.9%	-2.7%	1.5%	1.5%
Debt & D. Services (LT+ST+IMF): 1/										
Total DOD (US$M) 2/	3261.1	6839.0	6716.0	7260.0	7423.0	7622.0	7905.0	8094.0	8488.0	9265.0
DOD / GDP	84.0%	188.3%	154.6%	196.0%	193.8%	188.3%	216.6%	202.5%	177.5%	135.9%
Debt Service (US$M)	..	751.9	711.3	801.0	791.0	736.0	663.0	617.0	465.5	645.0
Debt Service / Exports	..	61.9%	47.6%	59.7%	67.9%	61.9%	63.6%	54.1%	41.2%	42.9%
Debt Service / GDP	..	20.7%	16.4%	21.6%	20.6%	18.2%	18.2%	15.4%	9.7%	9.5%
Interest Burden (LT+ST+IMF):										
Interest Paid (US$M)	..	411.0	407.0	332.0	378.0	313.0	314.0	291.0	272.0	282.0
Interest / Exports	..	33.9%	27.3%	24.7%	32.4%	26.3%	30.1%	25.5%	24.1%	18.8%
Interest / GDP	..	11.3%	9.4%	9.0%	9.9%	7.7%	8.6%	7.3%	5.7%	4.1%
Gross Investment / GDP	23.3%	11.4%	9.9%	15.5%	12.7%	15.2%	18.0%	20.5%	24.0%	25.0%
ICORs (5-yr ending year shown) 3/	77.00	5.90	6.40	8.00	12.40	-9.30	-30.90	15.90	5.00	4.50
Domestic Savings / GDP	19.3%	16.4%	14.8%	14.8%	10.8%	5.9%	6.9%	12.1%	12.3%	15.3%
BOP Resource Balance / GDP 4/	-4.0%	5.0%	4.9%	-0.7%	-1.9%	-9.3%	-11.1%	-8.4%	-11.7%	-9.7%
National Savings / GDP	9.2%	6.6%	7.6%	12.4%	13.5%	13.7%	14.0%	15.4%	16.5%	18.4%
BOP Current Account Balance / GDP 5/	-13.8%	-7.3%	-5.1%	-10.9%	-13.2%	-18.2%	-21.2%	-17.0%	-17.6%	-13.9%
Marginal Domestic Savings Rate	0.78	-0.26	-0.88	-0.13	0.16	-0.51	-0.17	-0.94	0.02	-0.53
Marginal National Savings Rate	3.97	-0.16	0.66	0.27	-0.34	-0.34	-0.16	-0.34	0.02	-0.50
Government Investment / GDP	..	4.7%	4.7%	5.5%	4.7%	5.2%	6.0%	6.5%	7.0%	7.0%
Government Savings / GDP	-9.8%	-8.0%	-4.1%	-1.0%	0.5%	6.0%	10.3%	10.4%	11.6%	9.9%
Private Investment / GDP	..	6.7%	5.3%	10.0%	8.0%	10.0%	12.0%	14.0%	17.0%	18.0%
Government Revenues / GDP	24.0%	18.8%	19.2%	21.9%	23.5%	32.9%	31.1%	27.5%	27.4%	24.4%
Government Expenditures / GDP	44.3%	27.3%	28.8%	29.3%	30.6%	32.3%	26.9%	23.5%	22.8%	21.4%
Budg. Def. (-) or Surplus / GDP	-20.3%	-8.5%	-9.6%	-7.4%	-7.1%	0.6%	4.2%	4.0%	4.6%	3.0%
Primary Deficit (-) or Surplus / GDP	19.3%	-7.1%	-6.2%	-0.5%	0.1%	8.8%	10.4%	6.6%	5.7%	2.9%
Consumer Price Index (% growth)	11.7%	55.6%	96.3%	109.6%	93.4%	209.3%	112.0%	57.4%	17.3%	5.0%
GDP Deflator (% growth rate)	11.8%	42.8%	102.0%	113.7%	97.5%	209.3%	112.0%	57.4%	17.3%	5.0%
Real Exchange Rate (1987=100)	232.3	155.7	205.8	173.4	153.6	161.3	172.6	172.6	172.6	172.6
Terms of Trade Index (1987=100)	..	122.0	64.5	100.9	95.0	104.5	83.2	107.8	101.2	105.5
Export (GNFS)/Volume Growth Rate 6/	-3.1%	-5.9%	-1.4%	15.9%	-16.6%	9.1%	-4.4%	2.7%	2.5%	2.3%
Exports (GNFS) / GDP	41.4%	34.2%	32.0%	34.7%	30.4%	29.1%	29.0%	29.0%	24.0%	22.4%
Imports (GNFS) Volume Growth Rate	12.9%	-0.2%	-16.2%	-6.4%	-8.9%	8.3%	14.8%	-1.9%	2.2%	1.6%
Imports (GNFS) / GDP	45.4%	26.9%	27.6%	35.4%	32.3%	38.9%	40.3%	37.0%	35.3%	31.8%
BOP Current Balance (US$M)	-537.0	-263.9	-222.4	-401.9	-504.0	-736.8	-772.8	-680.9	-842.7	-949.8
Net Reserves (US$M)	78.0	134.0	116.0	193.0	185.0	277.0	297.0	327.0	367.0	447.0
Gross Reserves(US$M)	..	..	..	..	..	..	..	..	..	..
Net Reserves (months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.0	2.2	2.3	2.3

Note: All ratios are calculated from data in current prices and exchange rates. ICOR and growth rates are based on constant price data. Marginal savings rates are based on current price data deflated by expenditures deflator.

1. "LT" denotes long-term debt; "ST" denotes short-term debt.
2. Debt outstanding and debt disbursed.
3. Incremental capital output ratios with a 5-year period.
4. "BOP" denotes "Balance of Payments.
5. Current account balance is before official transfers.
6. Goods and nonfactor services.

ZAMBIA BALANCE OF PAYMENTS
(US$ millions in current prices)

Base Case Projection

	Actual				Projected					
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
A. Exports of GNFS 1/	1609.0	1214.0	1493.0	1342.0	1165.0	1188.2	1042.2	1140.1	1128.6	1502.9
1. Merchandise (FOB)	1457.0	1155.0	1410.0	1263.0	1082.0	1104.0	947.0	1034.0	996.7	1299.0
2. Non-Factor Services	152.0	59.0	83.0	79.0	83.0	84.2	95.2	106.1	131.9	203.9
B. Imports of GNFS	1765.0	1031.9	1280.4	1368.9	1237.0	1566.0	1448.0	1476.0	1686.7	2165.7
1. Merchandise (CIF)	1114.0	788.0	900.0	889.0	952.0	1281.0	1133.0	1137.0	1402.0	1839.0
2. Non-Factor Services	651.0	243.9	380.4	479.9	285.0	285.0	315.0	339.0	284.7	326.7
C. Resource Balance	-156.0	182.1	212.6	-26.9	-72.0	-377.8	-405.8	-335.9	-558.1	-662.8
D. Net Factor Income	-205.0	-411.0	-407.0	-332.0	-392.0	-326.0	-334.0	-312.0	-248.0	-252.0
1. Factor Receips	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Factor Payments	205.0	411.0	407.0	332.0	392.0	326.0	334.0	312.0	248.0	252.0
a. Total Interest Paid (DRS) 2/	..	75.0	72.0	70.0	378.0	313.0	314.0	291.0	272.0	282.0
b. Interest due but not paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. Other Factor Payments and discrepa	..	336.0	335.0	262.0	14.0	13.0	20.0	21.0	-24.0	-30.0
E. Net Current Transfers	-176.0	-35.0	-28.0	-43.0	-40.0	-33.0	-33.0	-33.0	-36.6	-35.0
1. Current Receipts	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. Workers remittances	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other current Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Current Payments	210.9	35.0	28.0	43.0	40.0	33.0	33.0	33.0	36.6	35.0
F. Current Account Balance										
1. Before official capital grants	-537.0	-263.9	-222.4	-401.9	-504.0	-736.8	-772.8	-680.9	-842.7	-949.8
2. Official capital grants	33.0	99.9	71.8	295.5	508.0	632.0	505.0	359.0	428.0	400.0
3. After official capital grants	-504.0	-164.0	-150.6	-106.4	4.0	-104.8	-267.8	-321.9	-414.7	-549.8
G. Long Term Capital Inflows	467.0	21.9	-477.0	-714.4	-136.0	-128.0	-39.0	-61.0	65.0	-133.0
1. Direct Investment	62.0	0.0	0.0	0.0	0.0	0.0	7.0	35.0	151.0	130.0
2. Net LT Borrowing (DRS)	424.0	136.0	105.9	63.7	-179.0	-183.0	-96.0	-116.0	-86.0	-263.0
a. Disbursements	693.3	242.0	208.9	159.7	234.0	240.0	253.0	210.0	107.0	100.0
b. Repayments	269.3	106.0	103.0	96.0	413.0	423.0	349.0	326.0	193.0	363.0
3. Other LT Inflows (net)	-19.0	-114.1	-582.9	-778.1	43.0	55.0	50.0	20.0	0.0	0.0
H. Total Other Items (net)	-122.0	-220.1	371.7	390.8	36.1	-55.0	-50.0	-20.0	0.0	0.0
1. Net Short-Term Capital	-147.0	-163.0	502.0	529.0	-43.0	-55.0	-50.0	-20.0	0.0	0.0
a. Interest Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Other net ST capital	-147.0	-163.0	502.0	529.0	-43.0	-55.0	-50.0	-20.0	0.0	0.0
2. Capital Flows n.e.i. 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Errors and omissions	25.0	-57.1	-130.3	-138.2	79.1	0.0	0.0	0.0	0.0	0.0
I. Change in Net Reserves (- indicates increases)	159.0	362.2	255.9	430.0	95.9	287.8	356.8	402.9	349.7	682.8
1. Net Credit from the IMF	8.0	75.6	77.3	89.4	-37.7	-39.2	-89.6	0.0	0.0	-175.7
2. Reserves Changes n.e.i.	151.0	286.6	178.6	340.6	133.6	327.0	446.4	402.9	349.7	858.5
3. Escrow account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
J. As Shares of GDP (current US$):										
1. Resources Balance	-4.0%	5.0%	4.9%	-0.7%	-1.9%	-9.3%	-11.1%	-8.4%	-11.7%	-9.7%
2. Interest Payments (LT+IMF+ST)	..	11.3%	9.4%	9.0%	9.9%	7.7%	8.6%	7.3%	5.7%	4.1%
3. Current Account Balance	-13.8%	-7.3%	-5.1%	-10.9%	-13.2%	-18.2%	-21.2%	-17.0%	-17.6%	-13.9%
4. LT capital Inflow (F.2+G)	12.0%	0.6%	-11.0%	-19.3%	-3.5%	-3.2%	-1.1%	-1.5%	1.4%	-2.0%
5. Net Credit from the IMF	0.2%	2.1%	1.8%	2.4%	-1.0%	-1.0%	-2.5%	0.0%	0.0%	-2.6%
K. Foreign Exchange Reserves:										
1. Gross Reserves (excluding gold)	78.0	134.0	116.0	193.0	185.0	277.0	297.0	327.0	367.0	447.0

1. Goods and nonfactor services.
2. "DRS" denotes Debt Reporting Service.
3. "n.e.i." denotes not elsewhere included.

2. Gold (end-year London price)	..	..	..	..	..	..	..	..	..	..
3. Gross Reserves (including gold)	..	..	..	..	..	..	..	..	..	..
4. Net Reserves (in months imports)	1.0	1.0	1.0	1.6	1.7	1.8	2.0	2.2	2.3	2.3
L. Exchange Rates										
1. In Nominal Terms (LCU/US$) 4/										
a. Primary (Official) Rate										
Annual Average	0.789	8.266	13.814	30.289	64.640	171.000	450.000	679.981	974.679	1136.420
End-of-Year	0.803	10.000	21.640	42.700	84.000	295.500	528.148	798.068	1143.944	1301.955
b. GNP Conversion Factor	0.789	8.266	13.814	30.289	64.640	171.000	450.000	679.981	974.679	1136.420
2. In Real Terms (base 1987=100)										
a. MUV (PAC estimates)(% change) 5/	9.7%	7.3%	-0.7%	5.7%	2.1%	2.8%	3.9%	3.9%	3.8%	3.8%
b. Index Real Exchange Rate (US$/LCU)	232.3	155.7	205.8	173.4	153.6	161.3	172.6	172.6	172.6	172.6
M. Memorandumn Item										
GDP (current US$M)	3884.0	3632.0	4345.0	3704.0	3831.0	4048.0	3649.0	3998.0	4783.0	6818.0
N. Optional Details for RMSM-X										
1. Total Factor Payments	..	..	..	..	..	..	..	..	..	..
a. Government Interest	..	..	..	..	..	..	..	..	..	..
b. Private Sector Interest	..	..	..	..	..	..	..	..	..	..
c. Profit on Direct Foreign Investment	..	..	..	..	..	..	..	..	..	..
2. Official Capital Grants	..	..	..	..	..	..	..	..	..	..
a. For Budgetary Financing	..	..	..	..	..	..	..	..	..	..
b. To Extra-Budgetary Entities (OPS)	..	..	..	..	..	..	..	..	..	..
3. Government Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..
4. Private Net LT Borrowing	..	..	..	..	..	..	..	..	..	..
a. Disbursements	..	..	..	..	..	..	..	..	..	..
b. Repayments	..	..	..	..	..	..	..	..	..	..

4. "LCU" denotes local currency units.
5. "MUV" denotes the unit value index of manufactured exports from selected industrialized countries (France, Germany, Japan, U.K., and U.S.) to developing country expressed in US$.

ZAMBIA: External Financing Requirements,
(In millions of U.S. dollars)

	Est. 1991	1992	1993	1994
1. Current Account, excluding interest and official transfers	-90	-411	-446	-373
(Drought Impact)		(283)	50	(...)
2. Debt service obligations	-791	-736	-663	-617
Nonmultilaterals	-462	-502	-444	-414
Scheduled obligations	-334	-481	-368	-327
Paris Club creditors	-212	-400	-285	-235
Other	-122	-81	-83	-92
Interest on arrears and service of rescheduled obligations	-128	-21	-76	-87
Paris Club creditors	-78	-8	-59	-62
Other	-50	-13	-17	-25
Multilaterals	-329	-235	-220	-203
World Bank	-88	-73	-77	-71
IMF	-172	-95	-74	-66
Other Multilaterals	-69	-67	-69	-66
3. Targeted reduction of arrears 1/	-1050	-199	-123	0
Nonmultilaterals	-833	-119	...	...
Paris Club creditors	-76	-119	...	...
Other	-757	0	...	...
Multilaterals	-217	-80	-123	0
World Bank	-253	-39	...	...
IMF	20	-32	-87	...
Other Multilaterals	16	-9	-36	...
4. Change in net international reserves, ex. IMF (increase -)	31	-92	-20 3/	-30
(o/w: gross reserves)	11	-14	-30 3/	-30
5. Gross Financing requirement (= 1+2+3+4)	-1900	-1439	-1253	-1020
6. Debt relief 2/	1158	567	338	264
Paris Club creditors	295	517	247	210
Other	863	50	91	54
7. Financing requirement after arrears accumulation and debt relief (= 5 + 6)	-742	-872	-915	-756
8. Identified possible disbursements	742	872	758	569
World Bank (nonproject)	202	165	205	125
BOP support from other donors	264	326	302	150
Commodity Assistance	76	246	103	54
(Maize)	(--)	(146)	(50)	(--)
(non-maize)	(76)	(100)	(52)	(54)
Project assistance	244	191	240	260
Suppliers, private and short-term capital, net 3/	-43	-55	-50 3/	-20
9. Financing requirement, after identified disbursements and debt relief	0	0	115	-187
Memo: Copper volume ('000 MT)	375	409	390	400
Copper price (US$/lb)	1.06	$1.036	$0.920	$0.920

Source: Bank of Zambia, and Fund staff estimates.

1/ Excludes temporary further accumulation of arrears to nonmultilaterals pending conclusion of rescheduling discussions.
2/ Includes deferral, and temporary accumulation of arrears to nonmultilaterals pending conclusion of rescheduling discussions.
3/ Does not include expected shift of US$28 million in gross reserves from the Bank of Zambia to the commercial banks, under new procedures for managing OGL funds and retention accounts.

ZAMBIA--NATIONAL ACCOUNTS

Base Case Projection
Per Capita GNP (US$) 412.6
Midyear Population (Mil) 8.4

PART A: CURRENT PRICE DATA
(Millions of LCUs)

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	3063.6	30020.8	60024.5	127649.7	247623.2	692207.8	1642217.0	2718354.0	4661430.0	7563785.0
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	69699.6	177437.0	299533.7	520036.9	849381.6
GDP at Factor Cost	2842.6	28710.1	57323.5	119515.9	232006.9	622508.2	1464780.0	2418820.0	4141393.0	6714403.0
Imports (GNFS)	1391.2	8065.6	16537.6	45148.6	75370.4	267924.9	657661.5	1038612.0	1632276.0	2386220.0
Exports (GNFS)	1268.0	10266.2	19226.2	44258.0	71901.2	201433.0	468900.0	762938.7	1100413.0	1667291.0
Resource Balance	-123.2	2200.6	2688.6	-890.6	-3469.2	-66486.9	-188762.0	-275674.0	-531863.0	-718928.0
Total Expenditure	3186.8	27820.2	57335.4	128540.3	251092.3	758694.7	1830979.0	2994027.0	5193294.0	8282713.0
Total Consumption	2473.5	24407.2	51371.7	108957.1	217708.2	655423.4	1528797.0	2432465.0	4096197.0	6395900.0
Government	781.6	4582.4	8460.8	14453.3	25220.9	99586.9	177309.6	288440.6	512351.5	822977.8
Private	1691.9	19824.8	42910.9	94503.8	192487.3	555836.5	1351488.0	2144025.0	3583846.0	5572922.0
Gross Domestic Investment	713.3	3413.0	5963.7	19583.2	33384.1	103271.3	302181.4	561561.9	1097096.0	1886813.0
Government	..	1411.0	2821.2	7058.8	11757.5	36180.2	97929.9	175611.5	324307.3	526227.7
Private	..	2002.0	3142.5	12524.4	21626.6	67091.1	204251.5	385950.4	772789.1	1360586.0
Memorandum Items:										
Domestic Savings	590.1	5613.6	8652.8	18692.6	29915.0	36784.4	113419.9	285888.2	565233.0	1167885.0
Net Factor Income	-168.6	-3924.9	-5176.0	-10950.0	-24400.0	-46353.9	-101938.0	-163757.0	-166498.0	-169862.0
Net Current Transfers	-138.5	292.6	1085.0	8041.7	27914.0	102429.0	212400.0	279472.2	380807.1	404897.8
National Savings	283.0	1981.3	4561.8	15784.3	33429.0	92859.5	223881.8	401603.4	779542.1	1402921.0
Optional details for RMSM-X:										
Net Indirect Taxes	221.0	1310.7	2701.0	8133.8	15616.3	69699.6	177437.0	299533.7	520036.9	849381.6
Indirect Taxes	417.8	2706.7	4203.8	12048.9	21379.3	78565.6	186391.6	308533.1	529072.3	858489.6
Subsidies	196.8	1396.0	1502.8	3915.1	5763.0	8866.0	8954.7	8999.4	9035.5	9108.0

PART B: CONSTANT PRICE DATA
(Millions of LCUs, 1977=100)

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Gross Domestic Product	1995.8	2247.1	2224.2	2213.6	2174.4	1965.6	2199.5	2318.2	2573.0	3160.2
Imports (GNFS)	710.4	540.4	452.7	423.7	385.9	417.9	483.9	486.9	495.6	548.1
Exports (GNFS)	632.7	476.3	469.6	544.5	454.3	436.5	422.3	411.4	433.4	476.9
Resource Balance	-77.7	-64.1	16.9	120.8	68.4	18.6	-61.6	-75.5	-62.2	-71.2
Total Expenditure	2074.4	2237.2	2172.4	1994.1	2192.2	2192.3	2592.4	2753.8	3031.6	3704.3
Total Consumption	1635.3	1992.2	1944.2	1654.6	1892.2	1792.2	2064.4	2128.8	2240.9	2675.1
Government	531.3	331.3	438.7	427.8	427.8	..	..	..	..	..
Private	1104.0	1660.9	1505.5	1226.8	1464.4	..	..	..	..	..
Total Investment Expenditure	439.1	245.0	228.2	339.5	300.0	400.1	528.0	625.0	790.7	1029.2
Government	..	..	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..	..	..
Terms of Trade (TT) Effect	14.8	211.5	-110.9	24.6	50.1	..	..	..	..	..
Gross Domestic Income	2010.6	2458.6	2113.4	2238.2	2224.5	..	..	..	..	..
Domestic Savings (TT Adjusted)	375.3	466.4	169.1	583.6	332.3	..	..	..	..	..

PART C: VALUED ADDED BY SECTOR
sectoral shares in percent of GDP at factor cost

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000

	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Agriculture	15.3%	17.6%	18.4%	19.4%	16.8%	10.9%	15.7%	16.4%	18.0%	19.3%
Industry, of which:	44.5%	47.3%	54.0%	48.4%	50.4%	59.7%	55.3%	54.7%	53.2%	53.2%
Manufacturing	19.9%	33.1%	38.3%	34.0%	38.8%	39.6%	39.6%	39.8%	41.0%	41.0%
Mining	17.6%	11.0%	13.5%	9.6%	7.8%	16.7%	11.4%	9.5%	5.1%	4.7%
Services	47.9%	39.7%	32.3%	39.0%	39.6%	21.1%	21.2%	21.3%	21.7%	21.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Historical shares are calculated from current price data. Projected shares are from current prices if available, otherwise from constant price data.

PART D: LONG-TERM GROWTH RATES

(average annual growth rates calculated from constant price data)

	Actual			Projected	
	1965-73	1973-80	1980-90	1991-95	1995-2000
Gross Domestic Product (m.p.)	1.9%	0.8%	1.1%	2.9%	5.2%
Agriculture	1.7%	1.4%	2.4%	2.0%	7.2%
Industry of which	2.5%	0.4%	2.5%	3.8%	5.1%
Manufacturing	10.3%	1.0%	4.3%	2.4%	5.4%
Mining	-4.4%	-1.6%	-2.3%	-4.7%	
Services	1.5%	1.0%	0.4%	3.1%	5.1%
Imports of GNFS	3.7%	-5.3%	-5.0%	5.9%	2.6%
Exports of GNFS	0.5%	-0.3%	-1.5%	-1.8%	2.4%
Total Expenditures	3.2%	-1.3%	-0.4%	7.2%	5.0%
Total Consumption	1.6%	2.8%	0.1%	3.2%	4.6%
Government	9.2%	0.4%	-2.1%	..	..
Private	-1.4%	4.2%	1.1%	..	..
Gross Domestic Investment	5.8%	-10.2%	-2.5%	25.1%	6.4%
Government	..	..	..	..	..
Private	..	..	..	..	..
Memorandum Items:					
Capacity to Import	4.2%	-11.6%	-1.3%	-1.2%	3.0%
Gross National Income	3.3%	-4.4%	1.9%	..	5.4%
Gross National Product	1.4%	1.5%	0.8%	4.2%	5.2%
Gross Domestic Income	3.5%	-4.5%	1.1%	..	5.4%
Gross Domestic Savings	5.6%	-17.4%	-0.2%	..	10.1%
Gross National Savings	5.4%	-26.8%	-0.2%	..	10.1%
Population	3.0%	3.1%	3.7%	3.2%	3.2%
Labor Force	2.6%	2.7%	3.3%	..	..
GDP per capita	-1.1%	-2.3%	-2.6%	-0.3%	2.0%

PART E: ANNUAL GROWTH RATES

(anual growth rates are calculated from constant price data)

	Actual						Proje cted		
	1980	1988	1989	1990	1991	1992	1993	1994	1996
Gross Domestic Product (m.p.):	3.0%	6.3%	-1.0%	-0.5%	-1.8%	-9.6%	11.9%	5.4%	5.6%
Agriculture	-1.9%	19.3%	-2.7%	-8.9%	5.2%	-39.3%	53.0%	8.0%	8.0%
Industry	2.3%	6.7%	-0.7%	4.6%	-6.4%	-1.8%	6.3%	5.6%	5.8%
Services	5.4%	1.0%	-0.5%	-1.1%	-0.4%	3.0%	6.0%	4.0%	4.6%
Gross Domestic Income	-2.8%	11.4%	-7.2%	-8.6%	0.2%	-100.0%	ERR	ERR	ERR
Total Investment	64.6%	4.7%	-6.9%	48.8%	73.3%	33.4%	32.0%	18.4%	26.5%
Total Consumption	-0.8%	6.2%	-2.4%	-14.9%	-3.1%	-5.3%	15.2%	3.1%	5.3%
Population	3.3%	3.8%	3.7%	3.6%	3.2%	3.2%	3.2%	3.2%	3.2%

Per Capita Growth Rates:

Gross Domestic Product m.p.	-0.3%	2.4%	-4.7%	-4.1%	-5.0%	-12.8%	8.7%	2.2%	2.4%
Total Consumption	-4.1%	2.3%	-6.1%	-18.5%	11.2%	-8.5%	12.0%	-0.1%	1.4%
Private Consumption	-12.0%	6.8%	-13.1%	-22.1%	16.2%	-9.8%	-3.4%	11.5%	1.0%

-------PART F: PRICE INDICES----------

(national accounts deflators; 1987=100)

	Actual					Projected			
	1980	1988	1989	1990	1991	1992	1993	1994	1996
GDP Deflator	16.4	142.8	288.5	616.5	1217.4	3758.0	7966.9	12508.0	19316.0
Import (GNFS)	13.8	105.0	257.0	749.7	1374.2	3758.0	7966.9	12508.0	19316.0
Export (GNFS)	11.9	128.1	243.3	483.1	940.6	3369.2	8105.2	13538.9	18536.8
Total Expenditures	17.5	138.4	293.7	717.3	1274.6	3910.6	8022.8	12421.8	19738.4
Consumption	18.9	141.7	305.6	761.7	1330.9	3969.4	8037.7	12401.6	19838.3
Investment	13.9	118.8	222.9	492.0	949.3	3571.3	7918.1	12431.4	19198.0
Agriculture	24.0	194.3	417.2	1007.5	1605.8	3474.1	7742.8	12367.7	19830.2
Industry, of which	14.8	143.5	329.4	588.9	1271.6	3977.9	8157.8	12626.5	19885.3
Mining	16.7	143.0	288.0	615.0	1215.0	6353.0	10265.0	14033.0	13013.0
Manufacturing	12.3	144.9	336.4	578.4	1432.5	3474.1	7742.8	12367.7	19830.2
Services	16.1	129.2	211.2	537.2	1062.3	3474.1	7742.8	12367.7	19830.2

-------PART G: Other Economic Indicators----------

	1973-80	1980-90	1991-95	1995-2000	1973	1980	1990
Import Elasticity based on:							
Imports (GNFS)	-6.6	-4.5	2.0	0.5	-18.0	4.2	13.4
Marginal Savings Rate:							
Gross Domestic Saving	115.7	-0.4	-0.5	-0.2	1.5	0.8	-0.1
Gross National Saving	131.0	0.3	-0.3	-0.2	1.6	4.0	0.3
ICOR (period averages)	-0.6	-3.3	0.5	4.6	-54.00	4.50	-20.80
Labor Force(%): 1/							
Agriculture	74.3%	15.6%	..	..	75.5%	73.1%	15.2%
Industry	9.4%	32.1%	..	..	9.0%	9.3%	29.9%
Services	16.3%	52.3%	..	..	15.5%	17.1%	54.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/ For 1990 and 1980-90 is only formal sector.

ZAMBIA -- EXTERNAL TRADE

Base Case Projection

PART A: VOLUME, VALUE AND PRICES

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Volume Indices 1987=100										
Merchandise Exports:										
X.COPPER	143.3	83.7	90.9	94.7	81.1	87.3	84.3	84.3	83.7	91.9
X.ZINC	161.4	95.0	65.0	55.0	40.0	40.0	32.5	25.0	7.5	0.0
X.COBALT	48.8	120.7	98.2	113.4	105.0	58.9	70.0	111.0	111.0	111.0
Manufactures	..	..	..	..	..	..	..	..	..	..
Other Exports	..	..	..	..	..	..	..	..	..	..
Total Merchandise Exports (FOB)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Exports										
X.COPPER	1106.0	981.9	1233.4	1194.6	894.8	857.0	738.0	736.0	805.0	1153.0
X.ZINC	25.0	18.0	23.0	16.0	9.0	0.0	0.0	0.0	0.0	0.0
X.COBALT	111.0	72.7	83.4	78.9	93.8	137.0	79.0	129.0	136.0	136.0
Manufactures	13.0	13.0	5.0	13.0	21.0	..	..	..	..	..
Other Exports	202.0	69.4	65.2	100.5	62.4	..	..	..	..	..
Total Merchandise Exports (FOB)	1457.0	1155.0	1410.0	1263.0	1081.0	1094.0	947.0	1016.0	997.0	1299.0
Volume Indices 1987=100										
Merchandise Imports:										
Food	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..
POL and Other Energy	..	..	..	..	..	..	..	..	..	..
Intermediate Goods n.e.i.	..	..	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..	..	..
Value Current Prices (US$ millions)										
Merchandise Imports										
Food	55.0	..	..	..	16.0	262.8	50.3	0.0	0.0	0.0
Other Consumer Goods	..	..	..	..	..	247.0	288.0	311.3	343.0	436.0
POL and Other Energy	248.0	62.0	103.0	119.0	74.0	106.0	110.0	112.6	107.9	144.0
Intermediate Goods n.e.i.	611.0	..	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..	..	..
Capital Goods	283.0	565.6	843.8	851.8	171.0	101.0	117.9	154.0	205.3	328.0
Total Merchandise Imports (CIF)	1324.0	888.0	1020.0	1084.0	952.0	1282.4	1146.0	1198.3	1389.7	1824.1
US$ Prices Indices 1987=100										
Terms of Trade:										
Merchandise Export Prices	..	138.4	129.0	133.2	175.0	184.2	168.4	186.1	177.8	215.1
Merchandise Import Prices	..	113.4	199.9	132.0	184.2	171.8	203.0	163.0	176.2	204.5
Merchandise Terms of Trade	..	122.0	64.5	100.9	95.0	107.2	83.2	113.8	100.9	105.2

PART B: SHARES OF TOTAL AND GROWTH RATES

	Share of Merchandise Exports and Imports (in current prices)					Export and Import Volume Growth Rates (from constant price data)		
	Actual	Projected				Actual	Projected	
	1980	1990	1994	1996	2000	1986-90	1991-96	1996-2000
Merchandise Exports (%, %p.a.)								
X.COPPER	75.9%	83.5%	72.4%	80.7%	88.8%	-5.9%	1.1%	2.3%
X.ZINC	1.7%	1.3%	0.0%	0.0%	0.0%	-10.3%	-28.0%	0.0%
X.COBALT	7.6%	6.2%	12.7%	13.6%	10.5%	11.5%	1.3%	0.0%
Manufactures	0.9%	1.0%	..	..	..	..	..	..
Other Exports	13.9%	8.0%	..	..	..	..	..	..
Total Merch. Exports FOB	100.0%	100.0%	100.0%	100.0%	100.0%	..	..	..
Merchandise Imports (%, %p.a.)								

Food	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..
POL and Other Energy	..	..	..	..	..	..	..	..
Intermediate Goods n.e.i.	..	..	..	..	..	..	..	..
Primary Goods	..	..	..	..	..	..	..	..
Manufactured Goods	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..
Total Merchandise Imports (CIF)	..	..	..	..	..	..	..	..

PART C: TRENDS IN NON-FACTOR SERVICES

	Actual				Projected			
	1988	1989	1990	1991	1992	1993	1996	2000
Volume Indices 1987=100								
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..
US$ Price Indices 1987=100	..	..	..	..	..	..	..	..
Exports of NonFactor Services	..	..	..	..	..	..	..	..
Imports of NonFactor Services	..	..	..	..	..	..	..	..

ZAMBIA: Debt Tables

(US $ Millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Debt Service Before Rescheduling													
Bilateral	256.9	358.1	435.6	425.2	371.1	285.3	219.0	165.8	166.8	215.5	128.6	253.4	243.0
Paris Club	179.0	313.0	370.8	359.7	304.2	248.4	196.4	142.7	143.2	191.1	106.4	231.2	221.7
Other Bilateral	77.9	45.1	64.8	65.5	66.9	36.9	22.6	23.2	23.6	24.4	22.1	22.1	21.2
Private	152.4	139.8	59.1	56.8	67.7	83.0	86.4	90.1	94.1	98.5	103.1	108.1	113.5
Suppliers Credit	110.7	108.2	39.6	36.5	40.6	46.3	48.7	51.4	54.3	57.4	60.7	64.3	68.1
Commercial Bank	10.6	8.0	5.9	6.7	8.9	12.1	13.1	14.1	15.2	16.5	17.8	19.2	20.7
Short Term	31.0	23.6	13.6	13.6	18.2	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6
Multilateral	391.1	293.1	241.3	181.0	178.2	182.1	160.2	147.0	188.9	217.5	280.3	350.8	301.5
Bank	72.5	84.6	79.3	78.5	77.0	53.0	53.2	45.9	40.5	32.4	30.9	37.0	46.7
IMF	239.8	171.5	95.0	77.0	74.0	65.8	44.5	44.5	90.8	132.0	199.7	267.1	209.9
Other Multilateral	78.8	37.0	67.0	25.5	27.2	63.3	62.5	56.6	57.7	53.1	49.6	46.6	44.9
Total	800.4	791.0	736.0	663.0	617.0	550.4	465.6	403.0	449.9	531.5	511.9	712.2	657.9
Rescheduling													
Paris Club	179.0	291.2	475.1	251.6	222.7	134.4	87.1	51.4	51.2	40.6	33.3	29.5	27.4
Other Bilateral	0.0	0.0	42.4	58.1	49.2	31.9	17.6	18.2	18.6	19.4	17.1	17.1	16.2
Private	0.0	3.8	49.5	38.3	20.1	23.9	25.8	27.8	30.0	32.5	35.0	37.9	40.9
Total	179.0	295.0	567.0	348.0	292.0	190.1	130.4	97.3	99.8	92.5	85.5	84.5	84.5
Debt Service After Rescheduling													
Bilateral	77.9	66.9	-81.9	115.5	99.2	119.1	114.3	96.3	97.1	155.4	78.1	206.7	199.3
Paris Club	-0.0	21.8	-104.3	108.1	81.5	114.1	109.3	91.3	92.1	150.4	73.1	201.7	194.3
Other Bilateral	77.9	45.1	22.4	7.4	17.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Private	152.4	136.0	9.6	18.5	47.6	59.1	60.7	62.3	64.1	66.0	68.1	70.2	72.6
Multilateral	391.1	293.1	241.3	181.0	178.2	182.1	160.2	147.0	188.9	217.5	280.3	350.8	301.5
Bank	72.5	84.6	79.3	78.5	77.0	53.0	53.2	45.9	40.5	32.4	30.9	37.0	46.7
IMF	239.8	171.5	95.0	77.0	74.0	65.8	44.5	44.5	90.8	132.0	199.7	267.1	209.9
Other Multilateral	78.8	37.0	67.0	25.5	27.2	63.3	62.5	56.6	57.7	53.1	49.6	46.6	44.9
Total	621.4	496.0	169.0	315.0	325.0	360.3	335.2	305.7	350.1	439.0	426.4	627.7	573.4
Total Debt Service Bef. Resc./Exports 1/	59.7	67.9	64.1	63.4	55.0	48.8	41.2	33.8	35.7	40.7	34.1	43.0	38.7
Total Debt Service Aft. Resc./Exports 1/	46.3	42.6	14.7	30.1	30.7	32.0	29.7	25.7	27.8	33.6	28.4	37.9	33.7
Total Debt Service Bef. Resc./GDP 1/	21.6	20.6	18.2	18.2	15.4	12.6	9.7	7.7	7.9	8.6	7.5	9.5	8.0
Total Debt Service Aft. Resc./GDP 1/	16.8	12.9	4.2	8.6	8.1	8.3	7.0	5.9	6.1	7.1	6.3	8.4	7.0

1/ For 1992 and 1993 exclude repayment of arrears.

ZAMBIA MONEY AND CREDIT
(millions of LCUs at current prices)

Base Case Projection

	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
		Actual						Projected		
A. Annual Flows:										
Net International Reserves	..	908.6	1342.7	-287.7	-1971.5	15732.0	13500.0	20399.4	19493.6	22186.2
Net Domestic Credit	..	3384.0	5680.0	4445.0	35446.0	195899.0	-16699.0	151166.0	119350.0	212297.0
To Government Budget	..	1300.6	3392.9	2675.1	12384.0	-18762.0	-113649.0	-212610.0	-339044.0	-383306.0
To Other Official Entities	..	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0
To Private Sector	..	2083.4	2287.1	1769.9	23062.0	214660.0	96950.2	363776.0	458395.0	595602.0
Total Assets and Liabilities	..	4292.6	7022.7	4157.3	33474.5	211631.0	-3199.2	171566.0	138844.0	234483.0
Money and Quasimoney	..	3861.0	6602.0	7662.0	24061.0	114709.0	29289.0	187997.0	164871.0	181777.0
Net Other Liabilities	..	-1010.9	-1896.2	-1158.4	-3120.8	-91603.0	-16443.0	-103864.0	-11686.0	66192.2
B. End of Year Stocks:										
Net International Reserves	-828.0	1107.1	1605.6	5849.7	11934.5	27666.5	41166.5	61565.9	98353.8	185188.0
Net Domestic Credit	1863.0	5314.7	11356.0	19455.0	37178.0	233077.0	216377.0	367544.0	790852.0	1729662.0
To Government Budget	1354.0	857.7	2307.0	5256.0	12887.0	-5874.6	-119524.0	-332134.0	-974958.0	-2000000.0
To Other Official Entities	-1354.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To Private Sector	..	4457.0	9049.0	14199.0	24291.0	238951.0	335901.0	699677.0	1765810.0	4155607.0
Total Assets and Liabilities	1035.0	6421.8	12961.6	25304.7	49112.5	260743.0	257544.0	429109.0	889205.0	1914850.0
Money and Quasimoney	907.0	10126.0	16728.0	24390.0	48451.0	163160.0	192449.0	380446.0	932773.0	1823353.0
Net Other Liabilities	128.0	-3704.2	-3766.4	914.7	661.5	97583.4	65095.2	48663.6	-43568.0	91497.6
C. Offsets to Expansion of MQM:										
Increase in Money and Quasimoney	..	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Foreign Assets	..	23.5%	20.3%	-3.8%	-8.2%	13.7%	46.1%	10.9%	11.8%	12.2%
Net Domestic Credit	..	87.6%	86.0%	58.0%	147.3%	170.8%	-57.0%	80.4%	72.4%	116.8%
To Government Budget	..	33.7%	51.4%	34.9%	51.5%	-16.4%	-388.0%	-113.1%	-205.6%	-210.9%
To Other Official Entities	..	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.0%	0.0%	0.0%
To Private Sector	..	54.0%	34.6%	23.1%	95.8%	187.1%	331.0%	193.5%	278.0%	327.7%
Net Other Liabilities	..	-26.2%	-28.7%	-15.1%	-13.0%	-79.9%	-56.1%	-55.2%	-7.1%	36.4%
D. Memorandum Items:										
Net International Reserves (in millions of US$)										
Change during the year	..	109.9	97.2	-9.5	-30.5	92.0	30.0	30.0	20.0	20.0
Stock at the end-of-year	78.0	134.0	116.0	193.0	185.0	277.0	307.0	337.0	377.0	457.0

ZAMBIA--GOVERNMENT BUDGET
(millions of LCUs at current prices)

Base Case Projection

	Actual					Projected				
	1980	1988	1989	1990	1991	1992	1993	1994	1996	2000
Direct Taxes	313	1988	4073	8805	14335	36417	85690	175364	300251	486794
Indirect Taxes	396	2337	6029	9776	11445	78566	186392	308533	529072	858490
Non-Tax Receipts	58	494	431	424	860	4846	11496	19029	32630	52946
Total Current Revenues	711	4819	10533	19005	26640	119828	283577	502926	861953	1398230
Interest on External Debt	431	1132	2058	7275	14063	46354	101938	163757	166498	169862
Interest on Domestic Debt	..	598	1006	1584	3662	10310	-6873	-74104	-139874	-204270
Other Current Transfers 1\	..	615	1088	2909	6162	-91459	-177983	-220361	-277320	-216810
Subsidies	..	1396	1879	4060	8744	8866	8955	8999	9035	9108
Consumption	623	3827	6649	13414	24256	99587	177310	288441	512352	822978
Total Current Expenditures	1054	7568	12680	29243	56887	73657	103346	166732	270691	580868
Budgetary Savings	-343	-2749	-2147	-10237	-30247	46170	180231	336194	591262	817362
Capital Revenues	0	0	0	0	0	0	0	0	-0	0
Capital Transfers	226	349	1805	1100	1012	1012	1012	1012	1012	1012
Budgetary Investment	120	1178	2801	7059	11758	36180	97930	175611	324307	526228
Total Capital Expenditures	346	628	4606	8159	12769	37192	98941	176623	325319	527239
Total Deficit Financing	622	-2552	-5725	-9623	-17581	8979	81290	159571	265943	290124
External Capital Grants 2/	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	27	1220	621	1617	4812	9733	32360	53039	73101	93182
Monetary System Credit (net)	..	1509	2530	2675	12384	-18762	-113649	-212610	-339044	-383306
Other Domestic Borrowing (net)	..	48	1294	405	1205	0	0	0	0	0
Debt (at the end of the year)										
External Debt										
(in millions of LCUs)	1689	36632	58455	147159	320240	681666	1826217	2812578	4178404	5114203
(in millions of US$)	2141	4432	4232	4859	4954	3986	4058	4136	4283	4610
Domestic Debt	..	5076	8897	5256	12887	-5875	-119524	-332134	-974958	-2000000
To Monetary System	..	5076	8897	5256	12887	-5875	-119524	-332134	-974958	-2000000
Other Domestic Debt	..	0	0	0	0	0	0	0	0	0
Memorandum Item:										
Primary Deficit	591	-2141	-3716	-764	-17237	65642	176355	249224	292567	255715
External Grants	26	825	992	8950	31551	108072	227250	301912	417163	443724

cc: DPG

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: February 21, 1992 02:35pm

TO: See Distribution Below

FROM: Jane Armitage, EXC (JANE ARMITAGE)

EXT.: 81114

SUBJECT: EXC Information Memo

Leave
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We have received a number of requests to distribute more widely the bi-weekly information memoranda from the Office of the President. The A1 staff in ITF is developing a distribution list for Bank Group managers, Division Chief and above. This Divisional managers list should be available for our next information memo. This memo is being sent to Bank Group managers, Director and above, and we would appreciate your sharing it with your divisional management team.

If you wish to print this note, we suggest that you suppress most of the lengthy distribution list before printing, in order to avoid unnecessary waste of paper. You can do this by typing US (user set-up parameters) and then specifying a small number for DLC (Distribution List Count).

Mr. Preston's Trip

Mr. Preston has just returned from his visit to the United Kingdom, Tanzania, Zambia, Zimbabwe, and South Africa. Country visits included meetings with heads of state and government officials, the private sector, donors, and field visits.

United Kingdom. Mr. Preston met with Prime Minister John Major, Foreign Secretary Douglas Hurd, Chancellor of the Exchequer Norman Lamont, Governor of the Bank of England Robin Leigh-Pemberton, and Minister for Overseas Development Lynda Chalker. The discussions focused on the provision of assistance to the republics of the former Soviet Union, the economic progress being made in the countries to be visited in southern Africa, and the Bank's work on poverty, environment, private sector development, technical assistance, and good governance.

Tanzania. Mr. Preston met with President Mwinyi, Prime Minister Malecela, Minister of Finance Cabana and other senior Government officials. The discussions focused on Tanzania's Economic Recovery Program, and the need to maintain the economic reforms in order to realize higher levels of growth. Mr. Preston noted that if Tanzania continued on its current economic path, it could become the success story of growth and development in Africa. The trip included visits to rural areas to see agricultural extension activities, to Mwanza to be briefed on the Integrated

Roads Project, and to the Ngorongoro Conservation Area.

Zambia. Although the visit to Zambia was short, Mr. Preston was able to meet with President Chiluba, Minister of Finance Kasonde, and members of the economic team. Mr. Preston emphasized the need to continue the bold actions undertaken to reduce poverty and accelerate growth during the new Government's first 100 days in office, especially given the responsibility and accountability that a democratically elected government has to its electorate.

Zimbabwe. Mr. Preston met with President Mugabe, Senior Minister of Finance Chidzero, and other senior officials. At the meeting with President Mugabe, Mr. Preston's discussion of the Land Acquisition Bill resulted in agreement by the Government to review it, paying particular attention to its drafting. Having visited and seen the severity of the problem in the drought areas, Mr. Preston reaffirmed Bank support and encouraged other donors to assist the Government in the drought relief effort.

South Africa. Mr. Preston's program in South Africa was balanced to include meetings with Mr. Mandela and other senior officials of the ANC, Minister of Finance du Plessis, Minister of Trade Keys, and Minister of Foreign Affairs Botha, Central Bank Governor Stals, and senior officials of Inkatha, including Mr. Myeni. Mr. Preston indicated that the Bank would not start lending operations in South Africa until there was an international and domestic consensus to do so, but would undertake studies so that we will be prepared to provide assistance at the appropriate time.

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Mr. A. Rao 8841

file

93 MAR 17 PM 3:57

DATE: March 12, 1993

TO: Mr. Olivier Lafourcade, Acting RVP, AFR

FROM: Gene Tidrick, GT Acting Director, AF6

EXTENSION: 33341

SUBJECT: **ZAMBIA - CSP Initiating Brief**

I am forwarding herewith the Zambia Country Strategy Paper (CSP) Initiating Brief for your endorsement. A transmittal memorandum from you to Mr. Karaosmanoglu is attached for your approval and signature.

The Brief has been reviewed by the Chief Economist's office and comments have been incorporated into the present version.

Attachment

cc: Messrs/Mmes Choksi (HROVP); Eccles (CTRVP); Einhorn (TREVP)
Kashiwaya (CFSVP); Linn (FPRVP); Rao (IECDR)
Rischard (FPDVP); Serageldin (ESDVP); Shihata (LEGVP)
Cleaver (AFTDR); Denning, Edstrom, Tidrick (AF6DR)
Patel (AF6CO); Grawe (AF6PH); Pomerantz (AF6IN)
Cook (AF6IE); Helman (AF6AG)

ZAMBIA - Country Team

GTidrick\JJKisa\gbj

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: March 12, 1993

TO: Mr. Attila Karaosmanoglu, EXC

FROM: Olivier Lafourcade, Acting RVP, AFR

EXTENSION: 34880

SUBJECT: **ZAMBIA - Country Strategy Paper (CSP) Initiating Brief**

Attached is the Zambia Country Strategy Paper (CSP) Initiating Brief for your consideration. Any comments you may have on the Brief will be appreciated.

The proposed processing timetable is as follows:

Working Level Review	-	March 26, 1993
RVP Review	-	April 2, 1993
Final CSP to MD	-	April 30, 1993

Attachment

OLafourcade\GTidrick\JJKisa\gbj

ZAMBIA

COUNTRY STRATEGY PAPER INITIATING BRIEF

Background

1. Zambia has made a commendable effort in its attempt to reverse the economic decline of the past twenty years. The new government, which came to power in November 1991, realized that there were only two options open to Zambia. It could either take tough economic reforms, with donor support, to address existing imbalances, or revert to the previous policies of public sector dominance and regulation, thus forgoing most donor assistance and continuing on the path of economic decline. The government opted for the former by adopting an economic recovery program encompassing a comprehensive set of economic reforms. In February 1992, the new government agreed to a third Policy Framework Paper (PFP) with the Bank and IMF covering the period 1992-94. It also issued a Public Investment Program for the period 1992-95 in which it articulated its priorities, policies, and programs. Bank support resumed in March 1991 after nearly a four-year hiatus which began in 1987 when Zambia abandoned a previous reform effort and stopped paying most external debt service.

2. After a year-and-a-half in office, the government has made impressive progress in implementing reforms aimed at achieving macroeconomic stability and restructuring the economy. These objectives are being pursued through reduction of the role of the public sector, reform of the civil service, and promotion of private sector development, including privatization of parastatals. In some instances, such as the privatization of parastatals, the government is trying to move even faster than its implementation capacity can cope. Negotiations have begun for the sale of 19 parastatals, and a second tranche of 29 has been offered for sale, the total of which is about half the number of companies planned to be privatized over a five-year period. Over 12,000 government workers were retrenched in 1992, with a similar number planned for 1993. Interest rates were completely decontrolled in September 1992, and the official exchange rate was substantially devalued and merged with the market-determined bureaux de change rate in December 1992. Fertilizer pricing and marketing have been completely liberalized. Maize prices have increased seven-fold in the past 14 months, bringing the Zambian price into line with world market prices in preparation for full decontrol in May 1993. The composition of public spending has been improved, with health and education receiving a greater share of budget resources. Subsidies to Zambia Airways have been ended. And the government plans to balance the budget in 1993 through the use of cash budgeting and expenditure restraint. Like other countries in Southern Africa, Zambia was hit by a devastating drought in 1992. Zambia had the most effective drought relief program in the region. There was non-observance of end-September 1992 performance criteria under the IMF rights accumulation program and end-December 1992 performance criteria had to be modified. All but two of the criteria were met. The IMF reviewed program performance in February 1993 and will be recommending release of rights for the fourth quarter of 1992. However, a high rate of inflation remained a major problem.

Future Challenges

3. There are five major challenges facing Zambia: (a) maintenance of macroeconomic balances, especially lowering of the inflation rate, which was over 190 percent in 1992, and elimination of the budget deficit; (b) removal of structural imbalances, such as excessive dependence on copper, through diversification of the economy and expansion of agricultural

production; (c) enhancement of public sector implementation capacity through increased efficiency and effectiveness in the public sector; (d) improvement of social services; and (e) management of debt-service payments. Addressing these challenges will require that several imperatives be met. First, elimination of the budget deficit will require that Zambia live within its means through expenditure restraint. The test of the government's resolve will be decisions on wage negotiations with the unions in April 1993. Second, successful restructuring of the economy will depend on maintenance of a system of incentives and environment conducive to private sector development. Third, enhancing implementation capacity in the public sector will require success with the civil service reform program. Fourth, improving the quantity and quality of social services, such as health, education, and clean water, is essential to effective delivery of tangible benefits to the average Zambian in the early years of the economic reform process. Finally, Zambia would be unable to service its external debt without substantial external support. Failure to service World Bank debt would only result in suspension of disbursements and a return to economic decline. Assuring an adequate supply of foreign exchange is necessary, given the poor prospects for existing copper mines and the high level of external debt. Continued assistance from donors, including rescheduling and cancelation of bilateral debt, is essential. A long-term objective should be to encourage private savings by shifting the burden of taxation from income to consumption, and by improving the range and depth of available financial instruments through removing regulatory constraints.

Macroeconomic Prospects

4. Zambia's economy has the capacity to grow at over 5 percent per year over the coming decade if the policy environment continues to improve and donor and creditor assistance remains generous. The new government has generated considerable business confidence in the private sector. Many private sector representatives and potential foreign investors have expressed interest in doing business in Zambia. Medium-term prospects will, however, depend on the price of copper, which is expected to be weak over the next two-to-three years, and then should recover reaching $1.20 a pound by the year 2000. Output from existing copper operations will decline unless adequate resources are allocated to rehabilitation investment. Overall investment levels will need to increase significantly over the decade if economic growth is to be sustainable over the long-term. Similarly, non-traditional exports will need to grow sharply to offset the stagnation of copper output and the potential increase in debt service payments. Another key element in the long-term is reducing the rate of population growth from its current level of 3.2 percent per year. This high rate produces a dependency ratio of more than one-to-one, thus increasing the burden on already crowded health and education facilities.

5. Based on these assumptions, the following economic growth scenario would be possible. Investment would increase from 18 percent of GDP in 1992 to 26 percent by 2002. The rate of population growth would decrease from 3.2 percent to 3.0 percent. Domestic savings would grow from 7 percent of GDP in 1992 to 17 percent in 2002. Non-traditional export earnings would triple over the next ten years. Assuming continued donor support and debt rescheduling, this would permit non-mining imports to grow by 3 percent per year. Given the availability of land, the opportunities for foreign investment, and the potential for increased efficiency of resource use with better policies, output could grow at over 5 percent under these assumptions, thus increasing per capita incomes by over one percent per year. This by itself will not bring about dramatic improvements in living standards, but the mere fact of reversing nearly two decades of decline, together with improved delivery of social

services, should be adequate to sustain political support for the program.

Bank Assistance Strategy

6. Zambia's development strategy aims at achieving macroeconomic stability, economic recovery, and sustainable growth. It is consistent with the country's needs and prospects and, if fully implemented, should lead to stability, structural change, and a higher rate of economic growth. Bank assistance to Zambia will be directed at helping the country achieve macroeconomic stability, increase productivity in agriculture, promote private sector development, and develop its human resources and physical infrastructure, while protecting vulnerable groups from adverse effects of adjustment. The main source of growth will be agriculture. Government strategy in agriculture emphasizes smallholder production by redirecting research and extension services from maize to drought-resistant crops, provision of credit, improvement of infrastructure (especially feeder roads), strengthening of agricultural information services, and rehabilitation and expansion of veterinary services.

7. The Bank will continue to play a leading role in assisting the government to design and implement the adjustment program, to place the economy on a sustainable growth path, and to mobilize financial resources in support of the program. This will be accomplished through continued policy dialogue, economic and sector work, adjustment and investment lending operations, and effective aid coordination. Currently, donor assistance to Zambia is fragmented and ineffectively coordinated. In the agricultural sector alone, there are over 100 projects financed by different donors. This proliferation of projects defies coordination and reduces their impact. To help improve the situation, the Bank is moving to a sector lending approach in agriculture, health, and education. This approach will enable the Bank to finance a time-slice of programs in these sectors, while urging donors to do the same. Initial soundings of donors have elicited considerable interest in this approach.

Lending Program and Economic and Sector Work

8. Since 1991, IDA committed a total of $585 million to Zambia for adjustment operations and investment projects. The credits supported the government's economic recovery and adjustment program, agricultural development, rehabilitation of the transport system, strengthening of the institutional capacity, and rehabilitation and improvement of service delivery in the social sectors. Project implementation has been constrained by limited capacity within the public sector. A Country Implementation Review held in February 1993 identified priority actions to improve performance, including project restructuring, and efficient procurement and disbursement.

9. Bank assistance over the next four years will comprise a blend of adjustment and investment operations, and ESW. Poverty alleviation will be a major theme. Some work in this area has been done during FY93 in the context of the CEM. A full poverty assessment is planned for FY94. The next structural adjustment operation, currently under preparation, will pay particular attention to poverty issues and the social sectors. And an increasing share of lending program resources will be directed at social sectors through the proposed Population, Health and Education Projects. In addition, a Debt and Debt Service Reduction operation is planned for FY94. Future ESW will cover agriculture, mining, public expenditure, education sector, public sector management, environment, population, health and nutrition, gender issues and natural resources.

10. Government commitment to adjustment remains strong, and sometimes outstrips its ability to implement policy decisions. Hence the government has requested that the upcoming adjustment operations focus on enhancing its implementation capacity by identifying policy changes and designing practical measures for improving implementation. This approach is proposed for the next two adjustment operations. Privatization and industrial reform is generally proceeding ahead of schedule, given government's strong commitment to privatization of all commercially-oriented parastatals, except public utilities, over a period of five years. Nevertheless, sustaining this pace of change is unlikely unless the government can cope with a new set of challenges, including developing financial arrangements to facilitate increased local participation in privatized companies; developing a comprehensive, affordable and socially acceptable program to tackle the substantial numbers of redundancies likely to arise from corporate restructuring; strengthening the capacity of key institutions to handle the rapidly expanding privatization workload; and promoting the development of the financial sector and capital market and of a dynamic private sector. The proposed Privatization Fund scheduled for Board presentation later in FY93 will address these issues. The next adjustment operation (in FY94) would continue the program of support for improved macroeconomic management as well as identifying and eliminating key constraints to delivery of social services, particularly health, education and water.

11. An amount of US$100 million equivalent is proposed for the second Privatization and Industrial Reform Credit from Zambia's IDA 9 allocation. Several donors have indicated their willingness to co-finance the credit. Zambia's IDA allocations of US$251 million in FY91, US$210 million in FY92 and US$192 million in FY93 (including the proposed Privatization Fund) are somewhat exceptional. These allocations followed a period of three fiscal years in which no IDA commitments were made. The amount in FY91 was part of the overall agreements with donors and the IMF on exceptional funding to help clear arrears and enable multilateral financing to resume. The FY92 amount included an additional US$100 million in emergency drought relief. Some further relief is also warranted in FY93. While proposed IDA commitments for FY93 amount to about $22 per capita, the average for FY88 to FY93 would amount to only $12 per capita. The future level of financial support will depend on Zambia's performance under the economic reform program and the needs of the program. For the period FY94-96, the proposed IDA allocation is: FY94 $185 million; FY95 $185 million; and FY96 $155 million, or a total of $525 million. This level of support will be required to ensure that the program remains on track. Bank support is predicated on the program remaining on track. There is no fall-back position, since the impact of investment operations would be limited without macroeconomic stability.

Processing Timetable

12. The timetable for processing the IB and the CSP is as follows:

Distribution of IB to RVP	-	March 12, 1993
Distribution of IB to MD	-	March 15, 1993
Working Level Review of CSP	-	March 26, 1993
RVP Meeting on Draft CSP	-	April 2, 1993
Final CSP to MD	-	April 30, 1993

file

A L L - I N - 1 N O T E

DATE: 31-Jan-1992 10:15am

TO: See Distribution Below

FROM: John Todd, AF6CO (JOHN TODD)

EXT.: 35056

SUBJECT: Zambia Clearance

Payment was received this morning from Citibank of $46.87 million (comprised of the bridge loan of $42.37 million and $4.5 in money from Canada that Zambia had already put in their Citibank account). This combined with the 30 million Norwegian Kroner has been deemed to have cleared all debt service outstanding. Actually, it is a little over, and we will use the rest to make a small partial payment of the $7.5 million they will owe us as of tomorrow. As a result, the suspension of disbursements has been lifted, and Zambia has been restored to accrual status. A telex to that effect has been sent to Zambia, and a notice is being sent today to the EDs, after which a press release will be issued.

Because the suspension has been lifted and because the eight day period of notification has passed without objections from the EDs, the second tranche of the ERC has been released, and a telex to that effect has been sent to government.

Based on import documents received to date, we have made an initial disbursement today of $73.9 million to Zambia's account at Citibank, of which $42.37 million will be used to repay the bridge loan and approximately $27 million will be used to pay current debt service to the Fund. The rest will be retained by Zambia. We haope to disburse the remainder of the tranche over the next few weeks.

We hope these events will speed up the disbursement of donor funds, especially from the US ($10 million), the UK ($18 million), and Germany ($21 million). We will be issuing the invitations to the CG on Monday for March 22-24 in Paris.

After extensive meetings last week with the IMF and a team from Zambia, we have a first draft of the PFP completed which the economic team has taken back to Lusaka for review. We are expecting to be taking it and the PIRC IM through Bank clearance in February so missions can begin in late February.

I am very grateful for all the hard work and cooperation that this effort has required. Much of what you all did went above and beyond your normal job requirements, and it was all done in such good spirit. It has made my job so much easier. I can't thank everyone by name, but I want to express my special thanks

to all members of the Zambia Clearance Working Group (which I hope can now permanently disband) and to the support staff of AF6CO (which I hope never disbands). I will be expressing our thanks separately to the Resident Mission, the Zambian officials, our colleagues at the Fund, and to Citibank. But to all of you here at 20433 my special thanks. I am proud to work with you. Zambia has a new chance in large part due to your special efforts

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cc: FC

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

DATE: January 29, 1992

TO: Enzo Grilli, Director, DPG

FROM: John D. Shilling

EXT.: 81943

SUBJECT: **Zambia Arrears Clearance**

I attended a meeting on Tuesday that went over the final stages of the arrears clearance process for Zambia. The letter of no objection had been received from the IMF, and a notification of proposed second tranche release for the the outstanding adjustment credit had been sent to the Board. The no objection period expires on Thursday. Several Directors had been contacted, and no request for a discussion was expected. Thus everything is set to clear arrears on Friday and release the second tranche. If delayed beyond Friday, there will be additional payments due the Bank and IDA, and there will not be enough funds available to clear the then higher level of arrears.

Outstanding arrears will be cleared (with a little to spare) by a combination of Can$ 5 million from Canada, NKr 30 million from Norway, and a US$ 42 million bridge from Citibank in Lusaka. The second tranche is for US$ 80 million, of which US$ 70 million is needed to repay the bridge loan plus US$ 27 million due to the IMF, payment of which was a condition for the letter of no objection. Valid import documentation for about US$ 55 million has been received, and more is expected imminently. However, there maybe some delay in approving all the necessary withdrawal applications, which could slow the payment to the IMF. Citi negotiated a prior payment clause in its bridge, preferred creditor status of the IMF notwithstanding.

The rest of the meeting was devoted to processing details and sequencing of signatures and deposits and disbursements.

cc: Summers, Walton

International Bank for Reconstruction and Development

cc: F.C.

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SecM92-73

FROM: Vice President and Secretary

January 17, 1992

ZAMBIA

Nonaccrual Status

In view of nonpayment of outstanding debt service payment obligations, Zambia's loans and credits were placed in nonaccrual status as of January 16, 1992. This means that interest and charges on Zambia's loans/credits will be included in income only when received in cash, and that interest and charges accrued but not yet paid will be deducted from net income for the current quarter. As of January 15, 1992, US$50.51 million equivalent was overdue to the IBRD. This amount consists of US$32.92 million equivalent of principal and US$17.59 million equivalent of interest and charges. Arrears to IDA totaled US$1.21 million equivalent.

As of December 31, 1991, loans disbursed and outstanding to Zambia totaled US$373.16 million equivalent, equal to .37 percent of all loans outstanding as of that date. IDA credits outstanding totaled US$493.01 million equivalent.

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International Bank for Reconstruction and Development

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To. A.R.

ac. Directors.

SecM93-424

FROM: Vice President and Secretary

April 30, 1993

CONSULTATIVE GROUP MEETING FOR ZAMBIA

Paris, April 6-7, 1993

Attached for information is a note entitled "Consultative Group for Zambia".

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ZAMBIA CONSULTATIVE GROUP MEETING

1. A meeting of the Consultative Group for Zambia took place in Paris, from April 6-7, 1993. It was attended by delegations from Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden Switzerland, United Kingdom and the United States of America. Also attending were delegations from the African Development Bank, Commission of the European Communities, European Investment Bank, Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development, International Monetary Fund, United Nations Children's Fund, United Nations Development Programme, and World Food Programme. Belgium and Organization of Economic Cooperation and Development attended the meeting as observers. The Zambian delegation was led by the Minister of Finance, Mr. Emmanuel Kasonde, and included Mr. Ronald Penza (Minister of Commerce, Trade and Industry), Mr. Gabriel Maka (Minister of Community Development and Social Services), Mr. Dean Mung'omba, Deputy Minister for Planning and Development Cooperation in the Office of the President, and senior Government officials.

2. The Zambian delegation presented detailed reports on **implementation of the economic recovery program** and on the country's policy reforms. The reports highlighted the Government's increased emphasis on rehabilitation of the social infrastructure and effective delivery of social services. They also stressed the importance of providing a safety net for retrenched workers from the civil service and privatized parastatals. Despite the devastating drought of 1992, the Government had not only met the adjustment program targets but had the most effective drought program in Southern Africa. The Government reaffirmed its commitment to continued implementation of the economic recovery program, including lowering the inflation rate, accelerating the privatization of parastatals, enhancing civil service efficiency and effectiveness, and achieving results which would benefit the people. Limited implementation capacity was singled out as the main constraint to achieving results. This underscored the importance of implementing the civil service reform program.

3. Donors commended the Government of Zambia for its **exemplary handling of the severe drought of 1992**. A potential famine was averted through the Government's timely and effective drought program. The donor community made this possible with its extraordinary efforts in mobilizing external resources in support of the program. It was heartening to note that Zambia expected a bumper harvest of maize in 1993. This presented a new challenge of how to handle a potentially large maize surplus. It was crucial that the large surplus be not allowed to depress prices so much that producer prices would be undermined. The Government would have to explore possible export outlets for the surplus. This was, however, an easier problem to deal with than a shortage of maize.

4. Donors also commended the Government for sticking to its **restructuring program** in the face of adverse circumstances. In spite of the drought, the Government took bold measures to increase maize prices, eliminate fertilizer subsidies, decontrol lending interest rates, liberalize the foreign exchange regime, reduce the budget deficit, and continue with implementation of its privatization program.

5. One of the dominant themes of the discussion was the **need for results**. Donors supported the direction of policy change in Zambia but stressed the need for better implementation in order to achieve perceptible benefits. The Government had embarked upon

an ambitious and promising program, but unless the perceived gap between expectations and results was closed, both donors and the Zambia population could become disillusioned and the program might become unsustainable.

6. The gap between targets and outcomes was particularly marked in the case of **inflation**. Against a target reduction from 100 percent to 45 percent in 1992, the actual rate rose to 190 percent, and inflation in the first three months of 1993 had been running even higher. Although partly explained by monetary overhang and the effect of long-delayed and much needed structural reforms, the high inflation rate had also been due to high civil service wage increases and inadequate control of money supply. Success in reducing the inflation rate would depend on the Government carrying through its resolve to restrain or offset wage increases in 1993.

7. Better delivery of **social services and protection of the most vulnerable groups** from the adverse consequences of adjustment was recognized as being as important as controlling inflation. This need was underlined by the statistics on poverty and child mortality. Several donors commended the Government's ongoing restructuring of priorities in the budget aimed at increasing resource allocation for health and education, while reducing that for defense. But donors also stressed that this was but a first step which needed to be followed by further inter-sectoral shifts. Improving social services and providing social safety net for those most directly affected by adjustment were important in their own right and essential for retaining popular support for adjustment. As one donor put it, public support for tough measures would only last if something positive and visible happened soon to satisfy the public that the pain was worth enduring.

8. Many donors expressed concern about the Government's declaration of a **state of emergency** in March 1993. They viewed this drastic measure as undermining the democratization process initiated in 1991. Several speakers acknowledged that their concern and disappointment partly reflected the high standards set by the Zambian Government and the corresponding high expectations raised in the international community. Zambia had been regarded as a model for Africa, and disappointment over shortcomings was all the greater because of these high expectations. The extraordinary efforts donors had made on behalf of Zambia had been based on its model of good government and a reform program of considerable courage and exceptional promise. Friends of Zambia wanted that model and the program to succeed. This extraordinary effort would disappear if Zambia no longer seemed extraordinary. Donors urged the Government to lift the state of emergency as soon as possible. They also asked that Zambia take action to help dispel rumors of corruption, for corruption undermined donor support, discouraged foreign investors and other business activity, and eroded public confidence in Government. The Government delegation assured the donors that recourse to the state of emergency was dictated by national security considerations and that it would be lifted as soon as possible.

9. Another area in which some donors perceived the need to strengthen implementation was **privatization and parastatal reform**. Some donors felt that the pace of privatization had been too slow and that cross-subsidization of loss-making parastatals through holding companies still existed. Government replied that ZIMCO had been restructured and

INDECO and other sub-holding companies had been dissolved, and that in the future there would be direct transfer of profits to the Treasury. Moreover, compensation schemes were being developed for retrenched workers to speed up enterprise restructuring.

10. **Foreign exchange management and disbursement procedures** have been a long-standing concern of donors. In order to evaluate the implications of proposed changes in foreign exchange procedures for managing balance of payments assistance, donors agreed to join the World Bank in a Joint Evaluation Mission to Zambia this month. The Mission is in Zambia right now.

11. A key to improving implementation is to enhance longer-term administrative capacity. The single most important measure to build capacity is **civil service reform**. Some problems of macroeconomic stabilization could be traced to inadequate capacity within the Government. Donors could help improve implementation and enhance capacity by reducing demands on overworked key officials through an integrated strategy for sector support. The existing plethora of donor-financed projects -- over two hundred in agriculture alone -- fragments Government efforts and imposes a heavy cost on Zambia's administrative capacity. Consolidation and rationalization was an obvious but daunting objective which required involvement of Government in formulating a comprehensive sector policy and prioritizing sector expenditures and investments. Donors would have to agree on a workable mechanism for sector coordination in which donor interests and priorities could be reconciled and integrated with Government policies and priorities. Progress toward this approach had been initiated in agriculture and health and would need to be extended to other sectors.

12. With respect to **external financing requirements**, a financing gap of US$156 million had been identified out of a total financing need of US$1.3 billion. At the end of the meeting, pledges made left a gap of US$115 million. Still, this represented an exceptional level of support for the Zambian program. Nonetheless, additional efforts were required to close the gap. Without these efforts, the Zambian program was in jeopardy of being derailed. Donors were urged to consider making the additional efforts required to close the gap. It was agreed that a further review of the financing requirements would be made at the SPA meetings in June.

ZAMBIA : EXTERNAL FINANCING

Zambia External Financing

(US Million)

	1991	1992	1993
Gross Financing Need	1920	1439	1253
Debt Relief	1158	567	338
Aid Needed	762	872	915
Of which Pledges			
BOP	466	491	508
Commodity	76	246	103
Project	244	191	240
Suppliers	- 23	- 55	- 50
GAP	0	0	115

Percentage Grants	79%
Percentage Loans	21%

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION MIGA

Office Memorandum

cc: EC file Zambia: CSP

DATE: January 8, 1992

TO: Enzo Grilli, Director, ~~EAS~~ DPG

FROM: John D. Shilling,

EXT.: 81943

SUBJECT: **Zambia: Arrears Clearance, Economic Recovery Credit 2nd Tranche Release**

I attended John Todd's meeting yesterday to discuss the next steps for arrears clearance and second tranche release on the ERC. The initial major arrears clearance for Zambia was achieved in March, 1991 when the first tranche of this loan was disbursed. Second tranche disbursement was planned by late summer, which, along with other official disbursements, was expected to be sufficient to cover Zambia's foreign exchange needs. Unfortunately, the adjustment efforts lagged, in part due to the political situation surrounding the election in October. Our second tranche release has been delayed because the government did not meet the IMF conditions on budget deficits, which were necessary for IDA to certify that the macro economic situation was acceptable, and on reducing the corn subsidies, which was an explicit condition for the ERC. Performance slippage also led to delays in disbursements by other donors. Lack of foreign exchange prevented Zambia from staying current on its service to the Bank and IDA, which fell into arrears in September. Zambia will be placed on non-accrual status if the arrears are not cleared by mid January. Current arrears are about $40 million and will grow to $58 million on February 1, 1992.

Bank staff have been working with the government and other donors, first to avoid this situation and then to try to rectify it. A new government was elected in October, and has been trying to restore the adjustment program. Although it is no longer possible to meet the corn conditionality, which was expressed as a maximum subsidy on corn in 1991, the government has recently raised the prices on corn by 100-165% and agreed to further monthly price increases until the subsidy is phased out in mid 1993. Staff estimate this is sufficient to achieve the objectives of the original condition and will recommend a waiver of this condition for second tranche release. The government is in the process of reaching an agreement with the IMF on the budget. Once that is achieved, all the remaining tranche release conditions will have been met. The region intends to recommend release of the tranche once the arrears are cleared.

Arrears clearance will require orchestration of donor contributions once the government has satisfied conditions for tranche release, and this is in train. The script is first to receive a letter of no objection from the IMF indicating that the new budget (due to parliament end January) and the arrears situation vis a vis the IMF are satisfactory. Then Mr Jaycox will submit the second tranche release memo to the Board. In the meanwhile, donors will process their own disbursements in the following expected order of availability and approximate USD equivalents:

Canada	$4 million
Norway	$5 million
Germany	$20 million
USA	$10 million
UK	$18 million

It is likely that the first four disbursements will be available by the end of January, so Zambia will have to use $10-20 million of its own resources to bridge to the IDA disbursement. Staff consider this feasible. There will be the usual ballet of getting the payments, converting them to the appropriate currency, etc., But that should not pose an insurmountable hurdle. Once the arrears are cleared, the second tranche can be released. It is for SDR 57 million, but the amount that can be drawn immediately depends on the availability of valid withdrawal applications.

The question of timing is critical, as Zambia probably will not be able to bridge beyond the February 1 payment, and the UK contribution may be late. The IMF letter is on the critical path, since most of the activity cannot begin until that arrives, though the donors are preparing their disbursements in anticipation. The IMF letter is expected in one to three weeks. Obviously the earlier the better, but if it is delayed beyond the end of the month, it may not be possible to orchestrate enough resources to pay all the arrears in time.

Summers, Walton, Kilby, DPG

Ms Shilling,

Jan 2, 1992

A L L - I N - 1 N O T E

DATE: 02-Jan-1992 03:09pm

TO: See Distribution Below

FROM: John Todd, AF6CO (JOHN TODD)

EXT.: 35056

SUBJECT: Zambia: Clearance of Arrears

CSP file

I know we just did this, but it is time again to plan for the clearance of Zambia's debt service arrears to the Bank and for the resumption of disbursements. As before, donor trust funds for debt service are involved and as before, we are proceeding with the processing of our disbursement in anticipation of the arears being cleared. This time, we are planning to use only donor funds and Zambia's own resources without a bridge loan.

We are hoping to accomplish the clearance and disbursement somewhere in the January 15-30 range. A meeting to discuss all of the necessary arrangements will be held on Tuesday, January 7, 1992, in room J 11 270, at 2:30 PM. Please come or send a representative. The meeting should only take one hour.

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CC:	Roger Grawe	(ROGER GRAWE)
CC:	Praful Patel	(PRAFUL PATEL)

Jed,
could you please attend this meeting, as Fateh Chaudhri is away - thanks

Enzo

CSP file

ZAMBIA: Adjustment Challenge Updated On:Thursday, December 17, 1992

12/17/92

EVENT: Government officials met donor representatives in Paris last week.

SIGNIFICANCE: Zambia still urgently requires foreign finance to push ahead with its programme of structural adjustment.

ANALYSIS: At the informal Paris meeting on December 11, Zambian officials were canvassing support for their plans for continued economic reform and to obtain external financial aid worth 1.4 billion dollars. The donors are impressed by the achievements of the Chiluba administration since it won elections in November 1991 (see OADB, November 4, 1991, V), and are well disposed to provide support.

Frederic Chiluba inherited a potentially rich but run-down economy, dependent on copper for almost all its foreign exchange, using only a small fraction of the available land for agriculture. Inflation was running at 400%, GDP had been falling each year since 1988, and relations with foreign banks and the multilateral lending agencies had effectively broken down. Furthermore, mired in a debt totalling 7.2 billion dollars, the country had been unable to maintain its commitments to the IMF.

The new government, committed to a package of donor-supported reforms, adopted a strikingly different set of economic policies to that of its predecessor. Business interests came to the fore, and with them a programme of privatisation, subsidy elimination, lower taxes, fiscal austerity and inducements to foreign investment (see OADB, April 3, 1992, IV).

Key policies have included:

1. Elimination of food subsidies. This has led to a five-fold increase in the price of maizemeal, the staple food.

2. Removal of most price controls. The ending of petrol price control has caused prices to increase by 140% during the course of the year.

3. Liberalisation of the banking system. Officially pegged interest rates have been abolished. The only exception is the rate for Treasury bills, but this will also be deregulated before the end of the year.

4. Deregulation of the foreign exchange market. This includes allowing exporters of 'non-traditional' (non-mining) goods 100% retentions; allowing nationals to change up to 6,000 dollars per transaction on a 'no-questions-asked' basis; and the merging of

the official and free-market rate for the dollar. Just ahead of the donor meeting, the kwacha was devalued by 22% to 320 to the dollar. At the beginning of the year the rate of exchange was 87 to the dollar.

5. Privatisation of state companies. A programme to sell 150 state companies (which account for 80% of GDP) has been announced. The first 19 firms are now on the market. Of the companies to be privatised, by far the most important is Zambia Consolidated Copper Mines (ZCCM). Although there is some residual opposition to the sale of this key national asset, failure to push ahead would harm Zambia's new-found standing with the multilateral institutions and prejudice future aid flows. The World Bank is involved in the design of a plan for privatisation, which may lead to Anglo-American regaining control.

6. Improvement in investment facilities. A one-stop investment centre has been launched, to boost both foreign and domestic investment. The centre has so far approved 500 new investment projects.

7. Reduction of the fiscal deficit. Government finances have been radically improved, in part because of better performance this year at ZCCM; the deficit is running at around 2.5% of GDP -- compared with 7.5% a year ago -- of which over half represents spending on drought relief.

These policies have led to a marked improvement in relations with the international financial community. Two key debt relief agreements have been accomplished with the IMF and the Paris Club. Zambia has agreed to a plan to pay off its arrears to the IMF -- which last year were second only to Sudan's in size -- by the accumulation of 'rights' over three years. These are equivalent to 83.7 million SDRs a quarter, and are conditional on compliance with tough performance requirements.

In the first two quarters Zambia fulfilled these targets, but in the third it failed to meet the criteria relating to the money supply and credit creation. Officials are confident that the end-of-year targets will be attained. In response, the Paris Club has agreed to provide more than 400 million dollars in debt relief this year. The so-called 'enhanced Toronto terms' which it received from official government creditors in July are among the most generous yet awarded to an African country.

However, in spite of these accomplishments, the economy still faces grave problems:

-- GDP will fall as much as 10% in 1992, in large part because of the drought;

ZAMBIA: Adjustment Challenge

-- inflation is still running at an annual rate of 100%;

-- the money suppply, which increased 130% this year, is proving very difficult to bring under control; and

-- balancing the budget by 1993, part of the pledge to the IMF and donors, and ending government borrowing from the Central Bank, will prove hard to achieve.

Zambia's difficulties in achieving economic recovery are increased by the fact that of the three key variables affecting performance, two -- the drought and the international price of copper -- are outside the government's control. Unless there is an improvement in these two, the third -- fiscal austerity -- will not alone bring the desired results. Finance Minister Emanuel Kasonde will present his budget on January 29. Its main aim will be to eliminate deficit financing and thereby stem growth in the money supply.

...e government is keen to push ahead with fiscal and other reforms, and thereby gain access to much-needed financial assistance. Its room for political manoeuvre is increased by having won a handsome victory in recent local government elections; it need not face the electorate again until October 1996.

CONCLUSION: Even with the forebearance of the international financial community, it is likely to take another decade for the economy to recover to the levels attained in the early 1970s.

Keywords: AF, Zambia, IMF-World Bank, economy, industry, policy, growth, debt, deregulation, aid, fiscal, investment, metals

Mr. Chaudhri

Zambia CSP

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: August 8, 1991

TO: Mr. Praful Patel, AF6CO

FROM: John C. O'Connor, IECSE

EXT: 33805

SUBJECT: Zambia: FY92 Operational Guidelines--Conversion Factors for Calculating GNP per Capita in US$

1. The estimation of 1990 GNP per capita estimates for operational purposes began with my July 22 memo which requested review of the basic GNP, conversion factor, population data and the resulting Atlas method GNP per capita in US$. I would like to bring your attention to Zambia, which may warrant the use of an alternative conversion factor in the calculation of the Atlas GNP per capita for 1990, based on the figures already sent to us.

2. For Zambia, the effective real exchange rate shows a sharp increase in 1989 (200) and 1990 (170) with 1987=100. If the nominal market exchange rate (line rf in the IFS) differs "egregiously" from an effective transactions rate, and is maintained by severe import controls or export subsidies, an alternative conversion factor may be used for operational guidelines (and **Atlas**) purposes if there is evidence that the overvaluation of the national currency was achieved by heightened exchange and trade restrictions.

3. Attached is a questionnaire on trade and exchange practices that we have used in the past to clarify the evolution of apparent overvaluations. If you think there is a case to be made for an "egregious" exchange rate adjustment, I would appreciate having comments couched in terms of the questionnaire, Fund write-ups for its Annual Report on Exchange Arrangements and Exchange Restrictions and the attached Board paper **Per Capita Income: Estimating Internationally Comparable Numbers** (especially pages 6-8). We would use supporting documentation on the recent trade and exchange situation to consider whether an alternative conversion factor should be used to produce a revised GNP per capita in US$ for operational guideline purposes.

4. Please contact me (ext. 33805) or Boris Blazic-Metzner (ext. 33806) by August 15 if you have any questions on this issue.

Attachment

cc: Messrs. L. Summers (VPDEC); E. Grilli (EAS); D.C. Rao (IECDR); B. Blazic-Metzner, D. Cieslikowski (IECSE)

DCieslikowski/JOconnor/ez

cc: Mr. Levy

The World Bank/IFC/MIGA
OFFICE MEMORANDUM

DATE: September 4, 1991 12:00pm

TO: Enzo Grilli (ENZO GRILLI)

FROM: Stephen Denning, AF6DR (STEPHEN DENNING)

EXT.: 34035

SUBJECT: Zambia status

Enzo,

Just to let you know that the deal we thought we had with the Minister of Finance Chongo has come undone, and essentially we are back to where we were in May, with the Government saying that they cannot act on the consumer price of maize until after the election. As this involves a reneging even on the meager package that the Government brought to the Paris donor meeting in late July, where they promised a 30% increase in early August, it involves a serious reversal of stance. The Cabinet had authorized the 30% increase but Minister Chongo declined to implement it. The Government is also considering a very substantial increase in civil service salaries which would reverse the apparent progress made on reducing the fiscal deficit.

A Bank-Fund mission in the field met with the Minister of Finance on Monday and Tuesday and it appears that there is no possibility of any deal with this Minister before the election.

As you may also know, arrears in service payments reached the 45 day limit last Thursday and a notice was issued on Friday. The Bank of Zambia had requested deferring the issuance of the notice in order for it make payment of $10.7 million early this week, but the Region decided that there was no basis for deferring the issuance of the notice. We understand from the Bank of Zambia that they are not now making the payment.

With $20.9 million now due, and no donor flows, it seems inevitable that Zambia will go into general suspension on September 13.

Two weeks agon, we had briefed the Part 1 EDs on the stance that we were taking on Zambia and had received no objection from them to it. We plan to brief the EDs later this week and explain what has happened since.

The Bank-Fund mission in the field is endeavoring to see President Kaunda to make one last-ditch effort to avert the collapse of the program, but it seems unlikely that this effort will be successful, and attention will probably shift to damage

control and preparation of the post-election situation in November.

Steve

CC: Ishrat Husain (ISHRAT HUSAIN)
CC: John Todd (JOHN TODD)
CC: James Karuga (JAMES KARUGA)
CC: Chang-Po Yang (CHANG-PO YANG)
CC: Roger Grawe (ROGER GRAWE)
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Zambia - CSP . copy to Fateh

Zambia C-G

World Bank/IFC/MIGA
F I C E M E M O R A N D U M

DATE: 24-Jul-1991 00:16am

TO: EDWARD V.K. JAYCOX (EDWARD V.K. JAYCOX @A1@VAX12)

FROM: Stephen Denning, (STEPHEN DENNING (PARIS) AT A1 AT PARIS)

EXT.:

SUBJECT: Zambia donors' consultation

Kim,

The Zambia donors' consultation meeting took place yesterday.

MAIN POINTS

In a nutshell, the meeting started well, and ended well, though in-between there was almost a total rupture. Just another day's work on the Zambia program.

At the end of the day, the Government had agreed to return to Lusaka to work out a more robust policy package and report back to a donors' meeting in early September, and at least one donor (with possibly two more) with interim assistance to keep the OGL going.

THE MEETING

The Zambia delegation came to Paris with the idea that they had taken all the policy measures that were feasible in the circumstances, and it was up to donors to support the program. They seemed undeterred at our indication that we did not see a basis for releasing the second tranche of the ERC.

We briefed the donors at a dinner on Monday night, though as Government decisions had only been announced in Lusaka last Thursday, they were still in the process of trying to understand the implications of what happened.

My opening statement (attached) was a fairly upbeat account of the positive accomplishments of the program and the Government's recent steps to get the program back on track, though contained within it is the clear statement the problems on both Government (subsidies, commitment) and donors (no flows). It noted that what the Government had come to Paris with, was not in itself enough to lead to release of the second tranche of the ERC or launch the appraisal of the PIRC.

Our suggestion was that some donors should be willing to continue supporting the program while discussions with the

Government continued. However the Government continued with its "we've solved the problem" stance, and presented the package as the most it could do in difficult circumstances.

As the discussion evolved, and the hard edge of the Bank message eventually sank in, it became apparent that no donor was willing to continue financing the program on this basis. There was some bitterness that those dnors who might have been willing to pitch in (the Nordics, Netherlands), had given in extraordinary assistance in the first quarter, and had been counting on others (UK, Germany, Japan, AfDB) to deliver on their pledges later in the year, and essentially accused this latter group of donors of reneging on pledges, since even before the disagreement over consumer maize prices, flows to Zambia since the clearance of arrears had been zero. The hard-liners however wanted the Bank/IMF to declare the program officially off-track so as to justify their unwillingness to furnish assistance. The Government felt let down by everyone, and pointed to the risk to total collapse of the OGL.

By lunchtime, the meeting seemed to be heading for a fairly nasty rupture.

We used an extension of the lunch break to persuade Government that they had to go back to Lusaka and work out a better policy package.

When the afternoon session resumed, I made a fairly long intervention evaluating the status of the Zambia program, describing where it had come from and what remained to be done (this is recapitulated in my closing statement, attached).

The Minister of Finance then announced his intention of returning to Lusaka to get Cabinet agreement to get additional policy measures to get release of the second tranche of the ERC, with the object of reporting back to a follow-up donor meeting in the first half of September. This had an immensely positive impact on the meeting.

The Minister agreed to include increase in fertilizer subsidies, reduced borrowing for the fiscal deficit, and a the handling of next year's maize crop. In response to a question, the Minister said that he could not promise that there would be further action on the consumer maize price, but at least one donor stressed that this issue should be kept on the agenda, and this exchange is incorporated in my summary of the meeting.

We then used the opportunity to have an open discussion about the tensions between those donors who had already contributed extraordinary amounts in the first quarter, and those hardliners who were still holding back, and implicitly adding new conditions to their assistance (e.g. release of the second tranche of the ERC).

AfDB then announced that it would be willing to make its quick-disbursing assistance available to help out while the policy discussions continued. UK and Germany said that they would consider making assistance available if they program was "getting back on track". Japan who pledged large amounts earlier but have disbursed nothing yet, remained silent.

My closing statement (attached) summed up the meeting, particularly "second" to the effect that more is needed, and "eighth" on the agreed next steps of further policy negotations to be completed by early September, and was well received by both Government and donors.

BOTTOM LINE

It will be a hard slog in Lusaka reaching agreement on a enhanced policy package, but the Government economic team has received a crystal clear message that this is the task if it wants external funding of the program to continue, and is approaching the challenge in a constructive frame of mind. The question now is whether the politicians will listen.

There seemed to be general satisfaction among donors that the meeting had come out where it should have.

Steve

CC: DAVID M. DE FERRANTI (DAVID M. DE FERRANTI @A1@V
CC: SVEN SANDSTROM (SVEN SANDSTROM @A1@VAX12)
CC: NGOZI OKONJO-IWEALA (NGOZI OKONJO-IWEALA @A1@VA
CC: ENZO GRILLI (ENZO GRILLI @A1@VAX12)

INFORMAL DONORS' CONSULTATION MEETING FOR ZAMBIA
PARIS, TUESDAY JULY 23, 1991

CHAIRMAN'S OPENING STATEMENT

Distinguished guests, ladies and gentlemen:

I am very pleased to welcome all of you to this meeting of this informal donors' meeting for Zambia. First, I would like to extend an especially warm welcome to Honorable Rabbison Chongo, the Minister of Finance and the National Commission for Development Planning, and the other members of the Zambia delegation. As I understand that this is Minister Chongo's first meeting with this group, I would like to offer you a particular welcome. The donor community offers its sincere condolences for the sad passing away of your predecessor, the Honorable Gibson Chigaga, and I am sure that I speak on behalf of the whole donor community when I pay tribute to his outstanding contributions made to development in Zambia. His example will be an inspiration to us all to continue the fine work that he so capably began.

I know this meeting comes at a very busy time for you, as you are in the middle of a critical parliamentary session, Your presence here is a clear evidence of the importance which you and your Government attach to this meeting. In welcoming the representatives of the many donor governments and agencies and international organizations, let me say how grateful we are for your participation. It is an indication of the depth and strength of the international commitment to support Zambia's economic recovery.

I would like to stress that this is an informal meeting. Some of the subjects that we will be discussing involve decisions which were announced in Lusaka last Thursday, and you will understand therefore that the Bank and the Fund were not in a position to prepare reports or analyses of these matters in advance of the meeting. We have been in discussion with the Zambian authorities these last two days, and will be distributing some tables and graphs indicating some of the principal elements of the situation. Obviously, further clarifications and elaborations will also be made by the Zambian delegation during the meeting. The meeting will thus be much more informal than a regular consultative group, and I am hoping that we can benefit from this by preserving a frank and informal working atmosphere to the meeting.

I should also say a word about timing of the meeting. At the time of the last Consultative Group meeting, we agreed that we would meet on July 15-17, 1991. Two weeks ago, however, we had a specific request from the Zambian Government at the highest level to postpone this donors'

ting. We acceded to the Government's request because we thought that the meeting was more likely to be constructive to the extent that important decisions had already been taken. The Government would have preferred, I believe, an even longer deferral, but we settled on today's date, feeling that with any further delay that there was a risk of running into the August season when some delegations might not be able to attend at all.

At our last Consultative Group meeting in March, we noted the successful clearing of arrears with the multilateral agencies, and the official endorsement of Zambia's Economic Recovery Program by the Bank. We also pointed to the very great challenges ahead.

For the Government, the challenge involved keeping the economic recovery program on course, and continuing the very impressive record of achievement. Specific milestones were spelt out in the conditions for the release of the second tranche of the Economic Recovery Credit, expected around September, and in the understandings with the IMF. A particularly pressing problem involved the shipment of maize from Zimbabwe, to deal with an expected shortfall in supplies in the period around June.

For the donors, the challenge involved expediting ance of payments support in the second quarter. Thus although donor pledges for the year were satisfactory in aggregate, the fact that some donors had front-loaded their assistance in the first quarter to meet the requirements to clear the arrears, meant that there was a gap in the second quarter, which could only be filled by other donors advancing their assistance from the third quarter into the second quarter.

PROGRESS SINCE THE LAST CG

Since the last CG, there were many positive achievements on the Government side. I know that there has been considerable concern in the donor community about the Zambian program since the decisions concerning the consumer price of maize in late May, and the various discussions that have taken place since then.

I would like to start off here in reviewing Government performance by drawing attention to the mainly positive accomplishments of the Zambia program since we last met. Let me enumerate the highlights.

- The fiscal deficit was meant to drop under the program from 4.3% of GDP in 1990 to 0.7% of GDP in 1991. (When I say "fiscal defiicit", I mean excluding grants, interest and arrears.) With the

measures decided on last week, the deficit would decline to 1.2% of GDP, which is quite close to the program target.

- On the critical issue of consumer maize prices, we understand that the Government delegation will be announcing a 30% in prices as of early August, and we all recognize that this has been an extremely difficult decision.

- For most other commodities, prices remain uncontrolled, and serious problems in some areas (e.g. sugar, cooking oil) that arose in the first half of 1991 are in the process of being resolved.

- The OGL has moved to cover more than 90% of imports and is now unified with the official exchange rate. The real exchange rate has been steady.

- Most trade restrictions have been eliminated or reduced.

- On tariff reform, there is good progress.

- In the realm of public expenditure, cross-sectoral allocations have improved. Measures for improved budgetary control are starting.

- On privatization, there is generally good early progress, and parastatal reform is on the right track.

- The Investment Code has been submitted to parliament.

- The first sales of parastatals are ready and the announcement for bidding is expected to be advertized very shortly.

- Subject to the macro-economic issues that I will discuss below, the Bank's next adjustment credit -- the Privatization and Industrial Restructuring Credit -- is essentially ready for appraisal.

- Civil service reform is proceeding, with the program for the elimination of ghost workers doing well, though the elimination of redundant workers is only just under way.

- On the Social Action Program, the IDA-assisted Social Recovery Project is ready to be signed, and budget priorities are shifting to reflect the social dimension, albeit slowly.

- A solution was found to the issue of maize imports from Zimbabwe with the help of the US, Canada and Finland.

- The systemic process of economic decision has been bolstered considerably.

  - If Minister Chongo will permit me to say so, his appointment as Minister of Finance has been universally welcomed in Zambia as well as in the international community, and continues the distinguished tradition set by the late Minister Chigaga.

  - The National Economic Monitoring and Implementation Committee (NEMIC) is functioning with renewed vigor under the chairmanship of Minister Chongo.

  - A strong technical assistance team is currently in place.

- If one takes the conditions of the second tranche of the Bank's adjustment credit as a barometer of performance, one would have to note that six, or possibly seven, of the eight conditions for the release of the second tranche of the Bank's Economic Recovery Credit have been met, or are well on the way to being met.

This would be an extremely impressive record of accomplishments at any time. The fact that it was achieved in the midst of a process of political liberalization is indeed remarkable.

SUBSIDIES

Nevertheless, I would not be speaking frankly if I did not also draw attention to two important issues that we will need to discuss here at our meeting today.

One issue is that of subsidies. When the Government informed the donor community in late May that it could not raise the consumer price of maize until the end of the year for reasons of political stability and the continuation of the political liberalization process, the donor community, including the Bank and IMF, were deeply disturbed at the macro-economic implications of the decision.

For this meeting, I have already foreshadowed the welcome announcement by the Government that there has been a reversal of the consumer maize pricing decision, in addition a whole array of compensatory measures identified so as to reduce the fiscal deficit to something close to the original

gram. This is a major achievement, and the Government deserves to be congratulated for the progress.

Nevertheless, the particular route chosen to achieve this result does involve a considerable increase in a subsidy bill as the tables and graphs circulated have indicated.

This shortfall is significant, not only for itself since it is a critical condition for the release of the second tranche of the Bank's Economic Recovery Credit, but also because of the implications that it has for the rest of the economy, in terms of inflation, monetary performance, and the agriculture sector. The level of subsidies also implies that in the public sector, functional allocations are deteriorating as subsidies and personnel take a larger share of expenditures. Also, because it is not evident that the benefits of the subsidies are being directed to the poorest of the poor, the subsidies are difficult to justify on the grounds of alleviating the impact of adjustment. Therefore, donors will be very interested in obtaining any clarification from the Government on the constraints that it undoubtedly faces in dealing with these difficult issues, but also how it sees the perspective of dealing with it over the coming 3, 6, or 12 months. Donors are well aware that an ongoing election campaign does indeed limit the options available to any government, not just the Government of Zambia which is undergoing a courageous process of political liberalization. But donors are also aware that decisions deferred or statements made during election campaigns can come back to haunt governments after the elections are over, and donors are interested in hearing from the Zambian Government how it is planning to cope with this very real dilemma.

COMMITMENT TO THE PROGRAM

There is another issue on which I think donors are expecting to hear more about, and it is related to the previous issue. This concerns the on-going efforts of the Zambian Government to explain to the Zambian people in an open and realistic fashion the constraints now facing the Zambian economy and the real options available for dealing with these constraints. Donors have been impressed in the past with the ability of the Government to make such explanations, and I think would welcome any information that the Government can share with us as to how it is handling this issue, for instance, in relation to the upcoming announcement on the increase in maize prices.

IMPROVED PERFORMANCE BY DONORS

The third issue concerns a matter on which the Government is expecting to hear some clarifications from

ors, and this is the level of donor support, particularly balance of payments support. After an outstanding performance in the first quarter, donor flows in the second quarter were disappointing. Despite pleas made at the March CG, balance of payments support even prior to the maize decision on May 22 was minimal. Against a target of some US$60 million, and pledges at the March CG of around US$35 million, actual flows were in the order of US$1 million, plus US$4 million for maize imports.

Admittedly good progress was being made by several donors when news of decisions on maize at the end of May intervened. The overall result, however, was that quick-disbursing disbursements by donors in the second quarter were practically zero.

Unfortunately, the disappointing performance of donor flows was accompanied by extraordinarily low copper receipts due to the railway strike. As a result there is now extreme pressure on the external reserve position of the Bank of Zambia, so that there is considerable difficulty in maintaining the second window, which is of course critical to the ultimate success of the program.

The question that we will be exploring in the second half of the meeting therefore concerns future actions by ors, and in particular, the response that donors can make to encourage the very remarkable progress that has been made in the past week in getting the program back on track.

In the same way that Government of Zambia is facing constraints, I am sure donors will be quick to point out constraints that they face. Some donors heavily front-loaded their assistance in the first quarter and have little or no funds left in their allocations for Zambia to help at this point. Other donors face various technical constraints in making available money at this time.

This then puts a particular burden on two specific groups of donors to do what they can to respond to the critical situation of Zambia in terms of quick disbursing assistance.

One group comprises donors who had earlier indicated the availability in principle of funding for the second or third quarter, but on which processing was halted as a result of the decisions on maize. The question for this group is whether they can now resume processing of these urgently needed funds, in the light of the substantial progress made in dealing with the issue that originally stopped the processing of these funds.

The other group comprise those donors which have funds committed to investment projects of various kinds that

not currently being drawn down. The question for these donors is whether they can find ways to reallocate some or all of these moneys as quick-disbursing assistance as a way of responding to the urgent needs of the recovery program.

Both of these sets of actions would involve measures that are "extraordinary" in some sense, but I would also like to point out that the Zambian program would not be where it is today if donors had limited themselves to "ordinary" actions, or actions according "to the book". We as a consortium of donors have been able to respond to difficult challenges in the past, and one question before us now is whether, we can, collectively, respond to this new challenge.

In considering these issues, donors are urged to give particular consideration to the down-side risks of the program coming further off track through lack of funding. The Zambian program is one that is ambitious, and one in which there has been remarkable progress made in quite a short period of time. Nevertheless, as we have seen in the past, these gains could be lost if there is inadequate funding available. There is also a risk that if there is no response from the donor community to the very significant decisions taken over the last week, the Government may begin to question whether the international community has the necessary long-term commitment to support the Zambian recovery program at the levels and with the perseverance required for ultimate success.

Those are the issues that this meeting was called to address.

Let me now turn to the administrative arrangements for the meeting. I propose that this morning, we begin our discussion of the current economic situation and policies and programs for accelerating the implementation of the reform program, with a statement from Minister Chongo. This would be followed by comments from the Bank and the IMF. We will continue on these issues for morning session, interspersed with a coffee break, and as needed into the afternoon.

Lunch will be offered for all participants on the premises at 1 p.m..

We will resume at 2.30 p.m. and conclude the discussion on the Government's recovery program, and then move into a discussion of financing requirements.

After this item, closing statements will be delivered by the Minister Chongo on behalf of the Zambian Government and by myself on behalf of the Bank. Owing to the truncated schedule of the meeting, we do not expect to be able to issue a printed version of the closing statement at the meeting, but we will do our best to have this made available

soon as possible. We are not envisaging any press statement after the meeting.

If these arrangement are satisfactory to you, I propose to begin the discussion by calling on the Honorable Minister Chongo for his statement.

July 23, 1991 9.10am

INFORMAL DONORS CONSULTATION MEETING FOR ZAMBIA

PARIS, JULY 23, 1991

CHAIRMAN'S CLOSING STATEMENT

Ladies and Gentlemen,

Thank you, Minister Chongo, and as we bring our deliberations to a close, I would like to highlight some key themes that have emerged during the meeting. But at the outset, let me express my sincere appreciation for to Minister Chongo and his colleagues for maintaining the momentum of the current economic program in Zambia. We recognize the difficulties that the tight schedule of this meeting has presented, we appreciate the Government's considerable efforts to provide documentation and detailed explanations so soon after decisions were taken. The fact that we are dealing with decisions that were taken last Thursday in Lusaka, and it is now only the subsequent Tuesday, and we are here in Paris discussing the implications, shows how tight a schedule we are on, and how we have had to grapple with decisions in a rapidly evolving situation. I had warned Minister Chongo that this would not an easy meeting, and I have to say that you as participants have fulfilled my prediction. At the same time, I think it has been a very productive meeting, and I am grateful for the participation of everyone who made it possible, including the donor community for adjusting their schedules at short notice and for the excellent turnout for this informal meeting.

There have been a number of points and conclusions that have emerged from the meeting. Let me now try to summarize them. I will speak ex tempore, and will do my best to have a written version circulated to participants as soon as practicable.

First, there was a widespread recognition that genuine progress has been made in advancing the various elements of the economic reform program. Given the emphasis on the shortfalls in performance in some areas, there was appreciation expressed for the efforts to provide a more balanced picture in which the very significant accomplishments also figured. This included the considerable efforts in recent weeks to restore an appropriate fiscal balance and at least to begin the process of reducing maize subsidies. Mention was also made of the progress in the areas of privatization and the Social Action Program. Speakers also drew attention to the fact that bia's performance was good when compared with a number of other countries in adjustment.

Second, the general sense of the meeting was that despite the progress, more was needed. Participants welcomed the measures announced by Government to help get the program back on track. These developments were very positive, but nevertheless only a first step. In effect, donors said that the Government had commenced a process that needed to be continued, rather than a one-time set of actions that resolved the problem.

Third, there was a recognition at the meeting that the compact between Zambia and its partners was starting to unravel. It was noted that the spirit of collaboration, the social contract, that had characterized the assistance program in the first quarter of 1991 was starting to fall apart. This was true, both in terms of actions by Zambia, where the maize pricing decisions at the end of May, possibly aggravated by communications misunderstanding, had seriously shaken donor confidence, and in terms of actions by donors, where donors which had made extraordinary contributions early in the year on the understanding that other donors would do more later, felt let down that these other donors now appeared to be backing from their pledges. The compact was thus unravelling, and although this fact was obviously negative, the diagnosis of the disease was the first step to curing it, and was positive in this sense.

Fourth, the meeting drew a distinction between "a program that is off track" and "a program in which the conditions for releasing a second tranche were not yet fulfilled". It had never been envisaged that the second tranche of the Economic Recovery Credit would be met by July 23, 1991. The timing had been envisaged around September, and it should not be a surprise that the conditions were not met. Moreover, there were many instances where the conditions of second tranche release were not met, and where the Bank encouraged bilateral donors to continue funding the program so that the funding of the OGL window was continued while work was continuing on the substantive policy conditions. There were also instances of donors' responding positively to such calls. The case of Zambia was perhaps a little different from these other instances in that until last week, it had appeared to donors that the program was heading off track; however, with the decisions taken last week, and the continuation of the process announced during the meeting, it now appeared that the program was heading back on track. The questions as to whether the program was heading off track or getting back on track were separate from the question as to whether the conditions for the release of the second tranche of the adjustment credit was being met.

Fifth, there was a difference between being "on track" and "getting back on track". "Being on track" was a

tuation where benchmarks and targets were being met, and .e guidelines agreed under the program were being met. "Getting back on track" involved correcting errors and deviations made earlier in terms of policy performance. The Zambia program was "getting back on track", i.e. it was one that had been on track through March and April, but which had started to go off track in May with the decisions on maize, but that the Government was taken some decisions, and was envisaging continuing the policy discussion, so that the Zambia program was now getting back on track. Although considerable time was spent on these semantic distinctions, they had considerable practical importance, since some donors had indicated that their assistance depended on the program "getting back on track". It would not be at all anomalous for donors in such a situation to be making financial assistance available to a country, for instance to maintain OGL flows, in the expectation that the policy issues would be sorted out in due course.

Sixth, we also had some discussion in the plenary session about the distinction between the specific legal content of the agreement and the underlying substance of the agreement, particularly in relation to the conditions for release of the second tranche of the Economic Recovery Credit. The fact that this discussion had take place indicated that more needed to be done to ensure that all ties had a common understanding both of the explicit legal obligations, and the underlying substance. The Bank would do what it could, on its side to ensure that this common understanding was enhanced. Where the letter of the agreement was being respected, then one did not need to worry so much about the underlying policy objective for the purposes of interpretation, but where the letter of the agreement was not being met, then one had to give particular attention to the underlying policy objective in order to ascertain what might constitute equivalent performance.

Seventh, participants at the meeting pledged to rebuild the spirit of collaboration that had been successful earlier. The World Bank on its part pledged to do what it could do to accomplish this.

Eighth, the meeting agreed on a process or mechanism by which Zambia would work together, with the Bank towards meeting the remaining condition for the release of the second tranche of the Economic Recovery Credit, and with the IMF towards reaching detailed agreement on what was involved in meeting macro-economic benchmarks. It was envisaged that this process would begin immediately and that a further donors' consultation meeting would be called in the first half of September (subject to confirmation, Thursday September 12) in Paris. The object of the meeting would be to review the status of the Bank's discussions with Zambia on the release of the second tranche of the Economic

covery Credit; (ii) to review the viewpoint of the IMF nagement on the macro-economic performance; and (iii) to consider the progress made by donors in disbursing funds to meet urgent external resource needs in the Bank of Zambia.

As to what issues would be included to the ongoing policy discussion, it was agreed that the discussion would include further steps to control the subsidy budget specifically on fertilizer, reduced borrowing for the fiscal deficit, and a clearer statement as to how next year's maize crop would be handled. The Government was asked whether maize pricing discussions, either in terms of amount or mechanisms, would be included in the discussion; the Government replied that such issues would not be included, but some donors suggested that this issue continue to be kept in the picture. It was noted that this exchange of divergent views had taken place between the Government and donors on this difficult issue.

At the meeting, it had not proved possible to reach agreement on the specifics of what would be entailed in reaching agreement on the release of the second tranche of the Economic Recovery Credit, except to the extent that strict compliance with the letter of the agreement would obviously lead to a release. However, where was one arguing either for waiver or for the substitution of some ternative performance in lieu of strict compliance with the condition, and it became a matter of judgement for the senior management of the Bank and its Board of Directors involving broad assessments of the overall performance under adjustment, and the matter did not permit of any precise answer at this stage. It was also noted that the Bank's Board of Directors had become more stringent on the issue of waiver or modification of second tranche release conditions, and this also reflected the viewpoint of some cofinanciers who had participated in the funding of the Economic Recovery Credit on the understanding that there would be performance of the second tranche conditions, and would be put out if they found out that such conditions had been waived without good reason. The meeting noted, rather, that the process by which such a resolution would be reached had been set up, and that a report would be made to donors at the meeting envisaged in September.

Ninth, donors welcomed the continuation of the dialogue to rebuild confidence in the future of Zambia and its program. Many donors noted that they regarded the outcome of such discussions as having a very important bearing on the levels of assistance that their agencies would be envisaging for the coming year, given that such decisions would be likely to be made over the coming months.

Tenth, participants suggested that the sustainability of the process that had been set up to deal with the Zambian

tuation should be reviewed. The heavy burden of debt rvice and the limited room for error or deviation by the Government or donors meant that the program was extremely fragile and the possibility of more robust mechanisms needed to be explored. Other issues should also be looked at, including: were the benchmarks too ambitious? Were the levels of financing sustainable? Was the balance between debt servicing and productive investments right? It was noted that the program had been living very much on a hand-to-mouth, day-to-day kind of existence. When Minister Chongo had met me, he said he knew me: I was the person that he could contact by phone any time of day or night if there was a problem. I had told him that this was fine and that the arrangement could continue, but obviously it was no way to run my life, or to manage the financing of the Zambia program. We had to move towards a more robust, sustainable approach to financing that did not have these perpetual last minute crises.

Eleventh, the meeting concluded that donor support had to continue, even before agreement was reached on the release of the second tranche of the Economic Recovery Credit, if a major shortfall in the foreign exchange budget for the third quarter was to be avoided. We discussed many scenarios under various assumptions, but the bottom line was that a continued absence of donor support would precipitate ıajor breakdown in the program either through the collapse ɔf the OGL, or through unacceptable arrears in debt service, formally precluding future disbursements by the agencies so affected. Concerns over the need for additional measures did not warrant a total breakdown of the program, while constructive discussions were still under way to resolve the remaining issues. The announcement by one donor that it could make available assistance to meet the immediate need was therefore strongly welcomed, and the announcements by two other donors that they could consider making assistance available once the program was considered "getting back on track". As I indicated earlier, we believe that the program is indeed getting back on track, and we hope that these donors can make good very speedily on these welcome declarations of intent.

I realize that this has been a difficult meeting, because of the complexity of the issues, and the short time for preparation. Your good humor and close attention have been very much appreciated. A more leisurely pace would have made for a more orderly meeting, but we lack the time for such a schedule. It seemed to me that the need for quick action on all sides was an overriding concern.

In closing, let me express my gratitude to Honorable Minister Chongo and his staff for accommodating their .edules to this meeting, and for the major policy accomplishments of the past week, and the pledge to make

'em only a first step in a continuing process. Let me also .press my thanks to the support staff who, as always, have made our time here so pleasant and efficient.

I hope that on the basis of today's very productive discussions, the flow of donor funds can resume and we can all work together towards further improvement in policies and donor flows for the rest of this year.

Thank you all, and I wish you a safe journey home.

The meeting is closed.

July 23, 1991

INTERNATIONAL MONETARY FUND

C.S.P file

PRESS RELEASE NO 92/57

FOR IMMEDIATE RELEASE
July 17, 1992

The International Monetary Fund has endorsed Zambia's economic and financial program and approved the accumulation of "rights" for Zambia for up to a maximum of SDR 836.9 million (about US$1,211 million), the level of its arrears to the IMF as of July 1, 1990. Upon successful implementation of this program, which runs through March 1995, and prior clearance of its arrears to the IMF, as well as meeting all other requirements for using IMF resources, Zambia would be eligible to "encash" the accumulated rights under a successor IMF arrangement.

Today's decision was taken under the rights approach endorsed by the Interim Committee at its May 1990 meeting. Through this procedure, a member with protracted arrears to the IMF at the end of 1989 can earn rights based on its performance under an IMF-monitored economic program. The accumulated rights would then be encashed as part of the first disbursement under a successor IMF-supported program financed from the IMF's general resources or, for eligible members such as Zambia, from a blend of general resources and concessional SAF and ESAF 1/ resources.

Zambia may--based on program performance during 1992--accumulate rights up to the equivalent of SDR 251.1 million (about US$363 million). Further rights would be phased over the remaining period of the program. Zambia has met all financial obligations falling due to the IMF this year. It eliminated its arrears to the World Bank on January 31, 1992 and has since met its financial obligations falling due to the Bank. Zambia intends to continue to meet such obligations to the IMF and World Bank as they fall due, as well as to reduce its arrears to the IMF by SDR 84 million (about US$121.6 million) by the end of 1993.

The IMF previously endorsed a rights accumulation program for Zambia in April 1991. However, there were slippages in policy implementation in the run-up to the multiparty elections at the end of October 1991 and Zambia failed to accumulate any rights under that program. The Government which took office following the elections requested that the previous program be canceled and replaced with the present one.

- over -

1/ The Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) are IMF lending windows under which loans are made to eligible low-income members that carry an interest rate of 0.5 percent and are repayable over 10 years, with a five and a half year grace period.

In early 1992 Zambia and most of Southern Africa were hit by a very severe drought. Despite this difficult situation, the new Government has implemented a series of key measures necessary to reestablish economic stability and set the stage for economic recovery. Subsidies will no longer place a major burden on the budget; fertilizer subsidies have been eliminated and maize meal prices increased. A fundamental reform of personal taxation has been implemented, an essential step to establishing a viable tax system; and important actions have been taken to liberalize the exchange system and encourage non-copper exports.

In view of Zambia's extremely heavy external debt-servicing burden and the expected longer-term downturn in copper production, the Government regards the diversification of sources of foreign exchange earnings as crucial to the adjustment effort. Policies that are expected to contribute to this objective, and to a more effective use of foreign exchange, include further liberalization of exchange and trade policies; the establishment of a unified exchange system with a market-determined exchange rate; and the creation of an environment conducive to domestic and foreign private investment in both mining and nontraditional export industries.

Reform of the state enterprise sector is a further major effort designed to transform the economy. Most state-owned enterprises will be privatized or liquidated over the next five years. A few, mostly public utilities, will be retained in the public sector, but restructured and strengthened. A Privatization Act has been approved by Parliament, and a new privatization agency will be responsible for undertaking all activities relating to privatization. Ten enterprises, out of the 140 that are to be divested, will be completely privatized by the end of 1992, and a further 10 are being prepared for offer for sale by the end of the year.

The implementation of Zambia's program can be expected to have a positive impact in the coming years on employment and income generation by increasing overall economic activity, labor intensity, nontraditional exports, and the role of the private sector. In the short run, however, the impact of the drought and the reduction of subsidies will affect the rural and urban poor. To address this, the Government has devised an approach that will, with the assistance of donors, temporarily provide free or reduced-cost maize to the most vulnerable groups; channel part of the savings from the abolition of subsidies into programs to aid the poorest of the poor; advise and retrain retrenched workers; and implement, with World Bank and donor assistance, a program of small-scale labor intensive public works in water, sanitation, health and education. Also, the Government intends to steadily increase the share of budgetary expenditures going to health and education over the medium term, particularly for the neediest groups.

Zambia joined the IMF on September 23, 1965, and its quota 1/ is SDR 270.3 million (about US$391 million). Zambia's outstanding financial obligations to the IMF, including overdue obligations, currently total SDR 920.7 million, (about US$1,332 million).

1/ A member's quota in the IMF determines, in particular, its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

0024-1

Grilli, Enzo R.
S 9-055

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr Crilli
1. ~~EG~~
2. ~~FC~~

DATE: May 30, 1991

TO: Mr. Moeen Qureshi, OPNSV

THROUGH: Edward V.K. Jaycox, AFRVP

FROM: 3-4000

EXTENSION: Stephen Denning, AF6DR

SUBJECT: **ZAMBIA: Meeting with Minister Mibenge**

CSP file

1. You are scheduled to meet Zambia's Minister of Foreign Affairs, Lt. Gen. B. Mibenge, tomorrow at 11:15. He will be carrying a letter from President Kaunda to President Conable explaining the President's recent decision to defer all increases in the consumer prices of maize meal until 1992. This decision was a big disappointment to us. We believe it will result in unacceptably high fiscal deficits, monetary expansion, and hence domestic inflation. We expect a sharp reduction in external support which will make full servicing of international debt impossible. Without remedial actions, we would expect the Fund benchmarks to be dramatically exceeded, and the release of our second tranche would be impossible. This note provides some background and suggests some key points to emphasize in your meeting with the Minister.

Background

2. Consumer prices of maize meal have long been a sore spot in our evaluation of Zambia'a economic policy. Government has often promised to raise them to market-based levels, but only gradually and only in the future. Actual increases have been few and consequently have been rather large. Such large and sudden increases in these prices led to serious riots in 1986 and 1990. There have been no increases since June 1990. In fact, there was a decrease last September (justified by the savings anticipated by permitting direct private trading in maize). Since there has been nearly a doubling in the CPI since last June, the relative price of maize has fallen 50 percent since the last increase.

3. The government's economic program (consumer prices and the Bank's Economic Recovery Credit) call for decontrol of maize meal this June, with subsidies limited to the amount in the 1991 budget, and a revised producer price system that will provide sufficient incentives to farmers and that will permit geographical and seasonal variations. The final proposal to Cabinet from NEMIC provided for most of these elements. Consumer prices would not have been fully decontrolled, but rather would be gradually increased to reach cost-based pricing by the end of the year. This would have entailed some increase in the subsidy budget. We did not explicitly endorse this proposal, but we felt we could probably accept, it since many of the structural reforms on the producer price were included, and the increase in the subsidy budget was potentially manageable.

4. It appears President Kaunda and a few close advisors rejected this proposal and adopted a consumer price freeze through 1991. Ministers have been dispatched to the major capitals to sell this idea. Donors in Lusaka have been informed, but no public announcements have been made.

5. The IMF and the USAID technical team have been trying to estimate the additional budget consequences of this freeze. It appears to be about K400-500 million per month. Even for just six months, this would be 2 percent of GDP. The fiscal program already had a problem of at least 1 percent of GDP. It is unlikely that feasible offsetting policies can be found. When we learned of these developments, we sent a brief EM to Kim Jaycox. We felt a quick reaction from the Bank was important to emphasize the seriousness of these issues, to urge Kaunda to avoid public statements, and to serve as spokesman for the donors and thus perhaps to forestall irreversible statements or actions on their part. A telex was sent today from Jaycox to Kaunda. Copies of the EM and the telex are attached.

Government Argument

6. Minister Mibenge met with Mr. Camdessus at 12:30 today. The Minister made the following points:

(a) The President and the Government remain fully committed to the economic reform program and to multi-party democracy.

(b) These two difficult transitions will only be successful in a peaceful atmosphere of civic stability.

(c) Any significant increase in the maize price would result in riots and other disturbances that could threaten that stability.

(d) The Government has identified measures to offset the fiscal impact.

(e) The Government is in the best position to judge these sensitive issues of political feasibility.

7. The Managing Director responded that he was very, very concerned, that unless this decision is reversed or credible measures are taken to restore fiscal balance, he would regard the program as "off-track". They will still be sending their mission in June, and they will carefully examine the net fiscal impact of the proposed new measures, but from what he had seen so far, he was skeptical that they would be sufficient. The Minister seemed disappointed when he left.

Related Issues

8. The Government has also been resisting needed price increases by several major parastatals. This is causing in reduced tax payments and

non-payment of suppliers (often farmers) by these increasingly insolvent parastatals. The result is increasing shortages and black markets, in short a return to the unsuccessful policies of pre-reform. The Government denies there is an explicit policy to do this, but the evidence is overwhelming that it is happening.

9. The foreign exchange cash flow problem is critical. We had foreseen even at the Paris CG in March a shortfall of $15-25 million in the second quarter. In addition, copper receipts have been $50 million below the budget, and donor flows have been even less than expected. The result is that free reserves are down to about $7 million. Some donor money is held up by processing timetables (Germany and AfDB). At best it could start mid-June. Some is held up because of problems at the Bank of Zambia in accounting for past disbursements (UK and Sweden). Japan's co-financing of the ERC is held up in the dispute over Trinidad terms. The Government unwillingness to provide even "half a loaf" on maize prices will make speeding up these funds even more difficult.

Major Points

(i) A generalized subsidy of food prices for the entire population is very expensive, distorts relative prices, and cannot be maintained.

(ii) While we and the Fund will examine the proposed offsetting measures carefully, our preliminary analysis suggests this decision will result in a much bigger fiscal deficit and higher domestic inflation.

(iii) Without a reversal or credible offsetting measures, and in light of performance shortfalls in other areas, release of the second tranche would be most unlikely.

(iv) We are sending a mission in June to find a way out of this problem. We will urge the donors to avoid irreversible statements or actions for the next month to give the Government a chance to consider its program carefully and to await the outcome of the Bank and Fund missions.

(v) By July 1, we will decide whether or not to proceed with the Consultative Group meeting scheduled for July 17.

cc: Messrs. Grilli (EASDR); Armstrong (AFRCE); Denning, Singh (AF6DR); Patel, Grawe, (AF6CO); Ali (AF6AG); Cook (AF6IE); De Ferranti (AF6PH); Sam (AF6IN)

JTodd:lim

The World Bank/IFC/MIGA
O F F I C E M E M O R A N D U M

DATE: 29-May-1991 07:19am

TO: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)

FROM: Stephen Denning, AF6DR (STEPHEN DENNING)

EXT.: 34035

SUBJECT: Zambia: bad news

Kim,

Unfortunately, this is to report that there are several negative developments that threaten the entire reform program in Zambia. We have had false alarms before in Zambia, but this one looks worrying.

1. The most worrying development is that the President apparently decided last Wednesday night that there will be no consumer maize price increases until 1992, and he has instructed his ambassadors to present the arguments for that position to the donor governments. Four non-economic ministers have been despatched to key donor capitals to explain this decision. The decision was apparently reached by the President Kaunda without the advice of his full cabinet or key economic advisers. The decision, if confirmed, would be disastrous as it would be a very negative signal domestically and internationally and because the fiscal consequences (and hence the general inflationary consequences) would be very serious. The donor community appears to be mobilizing in Lusaka to send this message to the government.

2. At the same time, there is now increasing evidence that the the government is in fact doing on parastatal pricing what it has for some months denied doing, i.e. that it has been resisting consumer price increases by ZIMCO parastatals. This has resulted in decreases in the taxes paid by ZIMCO and in the re-emergence of direct subsidies to many parastatals in the form of Bank of Zambia overdrafts. The parastatals themselves are becoming increasingly insolvent and delivering fewer goods, and those goods that are available are starting to sell for well above official prices on the black market.

3. These decisions risk signalling a return to the policies of 1987 and of the early 1980s which were such a dramatic failure.

4. No formal replacement has been named for the late Finance Minister Chigaga. Up till now, we have been reassuring donors that Mr. Mwanza's role as head of the economic monitoring committee was providing substantive leadership. Mr. Camdessus was personally involved in getting Mr. Mwanza reassigned from

Sierra Leone to play this role. It now appears that President Kaunda has bypassed normal cabinet procedures and his economic advisers. While no institutional arrangements can protect againt a President intent on committing economic suicide, it does appear that even if we can reverse the decisions apparently taken, we would also have to ask for some strengthening of the institutional arrangements.

President Kaunda has called a meeting of the donor community for Friday apparently to explain his decisions. We have had scares before on Zambia, and we all expected some faltering on economic reform in the pre-election period. Nevertheless, this looks worse than anyone expected. If confirmed, the above decisions will result in the disappearance of international support for the Zambia program.

We are drafting a cable from you to President Kaunda to add our voice to the warnings coming from other donors.

Steve

CC: Praful Patel (PRAFUL PATEL)
CC: John Todd (JOHN TODD)
CC: Roger Grawe (ROGER GRAWE)
CC: David Cook (DAVID COOK)

THE WORLD BANK/IFC/M.I.G.A.
WASHINGTON, D.C. 20433
U.S.A.
TELEX TRANSMITTAL

WDIAL
.AF6CO
OINFO

-SUBJECT: ZAMBIA - KAUNDA'S TELEX
-DOCUMENT NAME: KAUNDA.TLX
-DRAFTED BY: JTODD:LIM
-EXTENSION: 3-5056
-AUTHORIZED BY: STEPHEN DENNING, DIRECTOR, AF6
-CC: MESSRS. PATEL, GRAWE, KARUGA
-CC:

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965 260317 =
-FOR H.E. DR. KENNETH KAUNDA, PRESIDENT
-STATE HOUSE
-LUSAKA, ZAMBIA
IBRDLUS
-INTBAFRAD
-LUSAKA, ZAMBIA
-COPY TO MR. JOHN INNES, WORLD BANK RESREP
BT
WASHINGTON DC May 30, 1991
FOR H.E. DR. KENNETH KAUNDA, PRESIDENT, STATE HOUSE, LUSAKA. COPY TO MR. JOHN INNES, WORLD BANK RESREP. RE. INCREASE IN MAIZE CONSUMER PRICES. WE HAVE BEEN INFORMED THAT YOU HAVE DECIDED TO POSTPONE ANY INCREASES IN CONSUMER PRICES OF MAIZE MEAL UNTIL 1992. I WANTED TO EXPRESS THE CONCERN OF THE WORLD BANK WITH REGARD TO THIS DECISION. FIRST, IN OUR ASSESSMENT, THIS DECISION WILL HAVE DISASTROUS FISCAL CONSEQUENCES AS IT WILL CLEARLY BE VERY DIFFICULT IN THE PRESENT ENVIRONMENT TO IMPLEMENT A SET OF REALISTIC MEASURES TO OFFSET THE INCREASED COSTS OF THE MAIZE SUBSIDY. THE RESULT WILL BE A MUCH HIGHER THAN EXPECTED FISCAL DEFICIT, MONETARY EXPANSION, AND RATE OF DOMESTIC INFLATION. THESE RESULTS WOULD UNDERCUT THE MACROECONOMIC STABILITY OF THE ENTIRE ADJUSTMENT PROGRAM. SECOND, THIS DEVIATION FROM THE GOVERNMENT'S ECONOMIC POLICY AND THE ADVICE OF YOUR ECONOMIC TEAM, ESPECIALLY IN LIGHT OF THE GOVERNMENT'S CONTINUED PRESSURE ON PARASTATALS TO DEFER NEEDED PRICE INCREASES, SENDS A SIGNAL TO DOMESTIC AND FOREIGN INVESTORS THAT THE GOVERNMENT IS NOT YET WILLING TO TRUST IN MARKET FORCES. THIRD, FAILURE TO KEEP TO THE AGREED PROGRAM WILL LEAD TO WITHDRAWAL OF SUPPORT FROM THE INTERNATIONAL DONOR COMMUNITY. THE RELEASE OF THE SECOND TRANCHE OF OUR ECONOMIC RECOVERY CREDIT WILL BE IMPERILLED UNLESS THIS DECISION CAN BE REVERSED OR UNLESS CREDIBLE POLICY MEASURES CAN BE QUICKLY PUT IN PLACE TO PRESERVE THE INTEGRITY OF THE ECONOMIC PROGRAM.

AS WE LEARNED FROM PREVIOUS POLICIES, INFLATION CANNOT BE STOPPED BY DECREE; IT CAN ONLY BE STOPPED BY FISCAL AND MONETARY

RESTRAINT. WITHOUT SUCH RESTRAINT, KEEPING OFFICIAL PRICES LOW WILL ONLY RESULT IN INCREASED BUDGET DEFICITS, HIGHER INFLATION, DISTORTED RELATIVE PRICES, AND BLACK MARKETS WHERE PEOPLE HAVE TO QUEUE AND THE PRICE TO FINAL CONSUMERS ENDS UP BEING EVEN HIGHER THAN IT WOULD HAVE BEEN USING MARKET FORCES. THE FINAL RESULT IS A REDUCED STANDARD OF LIVING FOR ALL ZAMBIANS.

THEREFORE, WE URGE YOU, AS YOU CONSIDER YOUR FISCAL PROGRAM FOR 1991, TO KEEP THE OPTION OPEN FOR CONSUMER PRICE INCREASES THIS YEAR. ECONOMIC MISSIONS FROM THE BANK AND THE FUND WILL BE IN ZAMBIA IN JUNE. WE WILL MAKE EVERY EFFORT TO WORK WITH YOUR ECONOMIC TEAM TO DEVISE SPECIFIC MEASURES FOR THIS YEAR THAT WILL KEEP THE ECONOMIC PROGRAM ON TRACK. IF SUCH MEASURES CANNOT BE DEVISED OR IF YOUR GOVERNMENT IS UNWILLING TO KEEP TO THE PROGRAM, I AM CONCERNED THAT THE CONSEQUENCES FOR THE DOMESTIC ECONOMY, AND HENCE FOR CONTINUED INTERNATIONAL SUPPORT, COULD BE VERY SERIOUS. AFTER MAKING SUCH COMMENDABLE EFFORTS TO RESTRUCTURE YOUR ECONOMY AND TO REJOIN THE INTERNATIONAL FINANCIAL COMMUNITY, IT WOULD BE VERY SAD FOR THE PROGRAM TO COME APART SO SOON. WE WILL WORK WITH YOU TO KEEP THE PROGRAM GOING, BUT OUR CONTINUED SUPPORT WILL ONLY BE FORTHCOMING IF WE BELIEVE THE POLICIES IN PLACE CAN LEAD TO SUSTAINABLE ECONOMIC GROWTH. MY WARMEST REGARDS AND BEST WISHES. EDWARD V.K. JAYCOX, VICE PRESIDENT, AFRICA REGION.

CC: ~~FC~~

Zambia CSP file

Moeen:

Re: Zambia

You may be interested in the enclosed. Things do not look good in Zambia

Ewan

Sent to MIGA
for information
5/29

World Bank/IFC/MIGA
I C E M E M O R A N D U M

DATE: 29-May-1991 07:22am

TO: Enzo Grilli (ENZO GRILLI)
TO: Fateh Chaudhri (FATEH CHAUDHRI)

FROM: Stephen Denning, AF6DR (STEPHEN DENNING)

EXT.: 34035

SUBJECT: Zambia -- fyi

Enzo,

This may be another false alarm -- we have had them before on Zambia -- but right now, it doesn't look good. Will keep you posted.

Steve

World Bank/IFC/MIGA
T C E M E M O R A N D U M

DATE: EST

TO: Edward V.K. Jaycox (EDWARD V.K. JAYCOX)

FROM: Stephen Denning, AF6DR (STEPHEN DENNING)

EXT.: 34035

SUBJECT: Zambia: bad news

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Unfortunately, this is to report that there are several negative developments that threaten the entire reform program in Zambia. We have had false alarms before in Zambia, but this one looks worrying.

1. The most worrying development is that the President apparently decided last Wednesday night that there will be no consumer maize price increases until 1992, and he has instructed his ambassadors to present the arguments for that position to the donor governments. Four non-economic ministers have been despatched to key donor capitals to explain this decision. The decision was apparently reached by the President Kaunda without the advice of his full cabinet or key economic advisers. The decision, if confirmed, would be disastrous as it would be a very negative signal domestically and internationally and because the fiscal consequences (and hence the general inflationary consequences) would be very serious. The donor community appears to be mobilizing in Lusaka to send this message to the government.

2. At the same time, there is now increasing evidence that the the government is in fact doing on parastatal pricing what it has for some months denied doing, i.e. that it has been resisting consumer price increases by ZIMCO parastatals. This has resulted in decreases in the taxes paid by ZIMCO and in the re-emergence of direct subsidies to many parastatals in the form of Bank of Zambia overdrafts. The parastatals themselves are becoming increasingly insolvent and delivering fewer goods, and those goods that are available are starting to sell for well above official prices on the black market.

3. These decisions risk signalling a return to the policies of 1987 and of the early 1980s which were such a dramatic failure.

4. No formal replacement has been named for the late Finance Minister Chigaga. Up till now, we have been reassuring donors that Mr. Mwanza's role as head of the economic monitoring committee was providing substantive leadership. Mr. Camdessus was personally involved in getting Mr. Mwanza reassigned from

Sierra Leone to play this role. It now appears that President Kaunda has bypassed normal cabinet procedures and his economic advisers. While no institutional arrangements can protect againt a President intent on committing economic suicide, it does appear that even if we can reverse the decisions apparently taken, we would also have to ask for some strengthening of the institutional arrangements.

President Kaunda has called a meeting of the donor community for Friday apparently to explain his decisions. We have had scares before on Zambia, and we all expected some faltering on economic reform in the pre-election period. Nevertheless, this looks worse than anyone expected. If confirmed, the above decisions will result in the disappearance of international support for the Zambia program.

We are drafting a cable from you to President Kaunda to add our voice to the warnings coming from other donors.

Steve

CC: Praful Patel (PRAFUL PATEL)
CC: John Todd (JOHN TODD)
CC: Roger Grawe (ROGER GRAWE)
CC: David Cook (DAVID COOK)

OFFICE MEMORANDUM

9104050161

DATE: April 2, 1991

TO: Mr. Moeen A. Qureshi, OPNSV

THROUGH: Edward V.K. Jaycox, AFRVP

FROM: Stephen Denning, AF6DR

EXTENSION: 3-4035

SUBJECT: **ZAMBIA: Consultative Group Meeting**

1. A Consultative Group Meeting on Zambia was held in Paris March 18-19, 1991. My Statement to the Board is attached. The main points are:

- financing needed is achievable but will require continued effort to ensure;
- atmosphere was largely positive and congratulatory, although concerns over the government's implementation capacity, especially in an election year, were voiced; and
- there is a serious shortfall of balance of payments assistance of US$25 million in the second quarter which could be exacerbated by a possible need for $18 million in maize imports. It will be essential to avoid any shortfalls in the availability of maize as this could seriously jeopardize the political viability of the entire program. Accelerating the co-financing of the ERC by Germany (likely), Japan (questionable), and the ADB (unlikely) will be critical to solving the second quarter problem.

2. Let me also note two important post-CG developments:

(a) As I told you, Minister Chigaga died suddenly on his return to Lusaka after the CG. His commitment to reform and influence with the President will be very hard to replace.

(b) Some controversy is developing over the agreement by the Zambians with the Bank and the Fund to limit debt service net of disbursements to non-multilateral, non-Paris Club creditors (mostly commercial banks) to $65 million. Much of this is owed by ZCCM. They have notified all creditors (including for example the IFC) that they won't be able to pay them because the Bank and the Fund won't let them. This has caused predictable reactions from all parties. A meeting in London on March 20 with some of the banks concerned, attended by the IMF Division Director, helped but failed to settle the issue. We need to clarify that we are not mandating rescheduling (we would be happy to have new

money instead), that the requirement doesn't apply to other multilateral and Paris Club debt, and that we expected a more flexible, low key approach on Zambia's part to convince the major banks involved to reduce the net outflows in the short-term because of the country's foreign exchange position. We believe this can be done without crippling the credit worthiness of ZCCM if handled properly, and we and the Fund are communicating this to the relevant Zambian authorities.

cc: Messrs. Patel, Grawe, Karuga, Yang (AF6CO)

JTodd:lim

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Zambia - Country Program-Strategy Papers [CSP]	1454510

Document Date	Document Type	
02 February, 1991	Board Record	

Correspondents / Participants
From: Vice President and Secretary
To: Executive Directors and Alternates

Subject / Title
Zambia Consultative Group March 18-19 Statement to the Board of Executive Directors

Exception(s)

Additional Comments
Declassification review of this record may be initiated upon request.

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by	Date
Salma Berrada	June 13, 2025

ZAMBIA Consultative Group March 18-19

Statement to the Board of Executive Directors

Stephen Denning, Director, Southern Africa Department

April 2, 1991

The Consultative Group meeting on Zambia which took place in Paris from March 18-19, was characterized both by satisfaction at the progress made in the preceding eighteen months, particularly the clearing Bank arrears by Zambia and the reduction of IMF arrears to the targeted level, and by caution at the daunting adjustment agenda still lying ahead. The positive results of the meeting were overshadowed by the death of Zambia's Minister of Finance, Gibson Chigaga, after a heart attack immediately on his return to Lusaka on March 24. Minister Chigaga had been a pivotal figure in the launching of Zambia's adjustment program and in the process of clearing of the arrears: his tragic death is a severe blow to Zambia's implementation capacity, which was already fragile.

"Implementation" was in fact the principal theme of the Consultative Group meeting. On the positive side, it was noted that the adjustment program had gained broad acceptance in the country, and that the Government had undertaken a process of political liberalization, including the establishment of a multi-party framework. Donors stressed the link betweeen the continuation of both economic and political liberalization on the one hand, and the continuation of high levels of financial support They emphasized the need for consensus building on adjustment across the political spectrum.

The meeting concluded that the principal implementation challenges for the Government were in three broad areas: restoring and maintaining macroeconomic balance, integrating the social action program with the adjustment effort and restructuring the role of the public sector. For the donors, the challenges concerned the adequacy and timeliness of funding and donor coordination.

First, in terms of restoring the macroeconomic balance, the meeting stressed the importance of meeting the fiscal targets of the program which leave little room for slippage.

Second, the poor and vulnerable groups need to be better protected and integrated into the process of adjustment. This called for a better focus on targeting specific interventions on the truly vulnerable groups, while at the same time explicitly recognizing the intersectoral linkages in the overall Government programs for poverty-reduction.

Thirdly, the range of reforms related to the restructuring of the public sector and the corresponding promotion of the private sector needed to move forward. The first sales of parastatals and finalizing the new investment code were seen as key benchmarks.

The meeting also took note of several short-run challenges facing the management of the Zambian economy, including the timely importation of maize to meet an expected mid-year shortfall in stocks, and containing the net outflows to non-official creditors to the agreed limits.

With regard to financing of the program, the meeting confirmed the potential availability of financial support from donors of about US$650 million for 1991 on a disbursement basis. However the overall commitments for 1991 remained tight, and still below the level that could provide an absolute assurance that programmed disbursements would actually be achieved. Donors were alerted that the anticipated cash flow during the second quarter remained particularly tight, with a possible shortfall in balance of payments assistance needed to maintain the second window for foreign exchange. Donors were urged to continue the extraordinary efforts at flexibility and responsiveness that had characterized donor performance in the first quarter of the year. Of particular importance were those donors whose potential contributions to 1991 financing requirements had yet to materialize.

Continuing improvements in donor coordination were also seen as important. The meeting agreed that the effectiveness that had characterized donor collaboration at the macro level needed to be extended to the sectoral and implementation issues, including simplification and harmonization of procurement procedures, the coordination of technical assistance and the harmonization of donor priorities in line with the Government's restructuring of public expenditure. The early return of the Bank's resident mission in Lusaka to full staffing complement was seen as important to ensuring adequate donor coordination, and steps to assure this expeditiously are under way.

Close monitoring of the Zambia program was agreed to be essential over the coming months. The next Consultative Group meeting will be held on July 16-17, 1991. This will however be supplemented by further briefings and informal meetings as necessary, the next of which is scheduled for mid-April in connection with the upcoming SPA meeting in Paris.

Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Zambia - Country Program-Strategy Papers [CSP]	1454510

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02 February, 1991	Board Record	

Correspondents / Participants
From: Vice President and Secretary
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Zambia Consultative Group March 18-19 Statement to the Board of Executive Directors

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Additional Comments
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Withdrawn by	Date
Salma Berrada	June 13, 2025

cc: F. Levy
E. G (OIV)
Zambia File

International Bank for Reconstruction and Development
International Development Association

FOR OFFICIAL USE ONLY

SecM91-310
IDA/SecM91-81

FROM: Vice President and Secretary

March 13, 1991

DECLASSIFIED

JUN 04 2025

WBG ARCHIVES

REPUBLIC OF ZAMBIA

Restoration of Accrual Status

The Republic of Zambia has now settled its overdue service payments to the Bank and the Association (Reference No. SecM87-922). Consequently, the Republic of Zambia has been restored to accrual status and, the country's eligibility for disbursements under existing Loans and IDA Credits and for new operations has been reinstated as of March 13, 1991.

Distribution:

Executive Directors and Alternates
President
President's Council
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC, and MIGA

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

Mr. Grilli

DATE: December 19, 1990

TO: Distribution

FROM: John E. Todd, Senior Economist, AF6CO

EXTENSION: 35056

SUBJECT: ZAMBIA: Meeting on Friday, December 21, 1990, 10:30 am
Room D3-070

The attached material will be discussed in a meeting on Friday at 10:30 am, Room D3-070. Our focus will be on the short-term BOP issues.

cc: Messrs./Mmes. Grilli (EAS); McPheeters, de Nevers (FRSCR); Obidegwu (PRDRA); Armstrong (AFRCE); Gebhart, Karuga, Yang (AF6CO)

JTodd:mg

Office Memorandum

December 18, 1990

To: Mr. Moeen Qureshi,

Through: Mr. Edward V.K. Jaycox,

Zambia

I am attaching two memoranda on Zambia, one reporting on last week's donor meeting in Paris, and the other requesting approval for an unusually high level of retroactive financing on the Economic Recovery Credit.

I would appreciate the opportunity to discuss the options available to us to try to clear the arrears over the next two months.

Among the options that may need to be considered to fill the financing gap of around $70 million in the first quarter of 1991 would be an increase of the IDA credit (say, by $25 million) as a partial response to the increase in oil prices that have certainly contributed to the gap. It is possible that my blunt assessment of the current critical situation to the donors last week will generate enough money, but if it doesn't we will need to consider other possibilities.

Stephen Denning
Director
Southern Africa Department

OFFICE MEMORANDUM

DATE: December 18, 1990

TO: Mr. Moeen Qureshi, SVPOP

THROUGH: Mr. Edward V.K. Jaycox, AFRVP

FROM: Stephen Denning, AF6DR

EXTENSION: 34035

SUBJECT: ZAMBIA: Economic Recovery Credit - Retroactive Financing

1. As suggested at the O.C. meeting on the I.M. for the Economic Recovery Credit (ERC), the Region and Legal have searched for ways of disbursing the amount required in the first tranche of this Credit (to assist Zambia's cash flow upon repayment of the bridge financing), while at the same time keeping the amount of retroactive financing consistent with Bank policy. There seem to be no easy solutions, however, and it appears necessary for the entire first tranche, representing about 74 percent of the total credit of $175 million, to be retroactive financing. It is not possible to utilize the initial deposit (for which documentation would be gathered later) in the Special Account to offset the bridging finance, since this deposit must be used for imports. Nor is it possible to cover any current payments with this initial deposit, since the lag between the signing of the Credit, when items become eligible as current expenditures, and the time we need to make the disbursement, is too short for the payment to be made and the documentation gathered. Consequently, we can find no way to disburse against anything other than retroactive expenditures.

2. If this percentage of retroactive financing would set too much of a precedent, we might consider other ways of reducing it. We could increase the amount of the ERC, either by adding additional resources to the Zambia program or by further frontloading the current lending program. We could, for instance, combine the second adjustment credit (Industry and Trade Adjustment Credit, FY92) with the ERC. This option would raise the amount of the Credit to $275 million and thereby reduce the share of retroactive financing to 47 percent. If we were to do this, the second tranche would increase to $145 million, from $45 million. We would need to disburse about $125 million of this in the second half of 1991 in order to meet the disbursements from IDA required by the financing plan. This option would solve the additional problem of having two adjustment credits going to the Board in a short timeframe, i.e., in one calendar year, although it would be two fiscal years. On the other hand, it would substantially increase our leverage for continuance of the reforms in Zambia.

3. The possibility of adding resources to the ERC would mean less frontloading in FY91, but we would still have to do the second adjustment operation on the current timetable to be able to reach the level of disbursements required from IDA in the financing plan for CY91. The amount of the second operation could be reduced, however, to maintain the same per capita commitment level.

4. There are various other issues on the Zambia program that are about to come to a boil.

a. Although they have picked up somewhat, donor flows to Zambia are still far below the indications given at the CG meetings last April and July. Of the BOP support of $450 million, the short fall is likely to be about $160 million. We have been in almost constant contact with the donors and Government trying to facilitate the flow of assistance. In some cases (US, UK), the donors are deliberately going slow. In other cases (Sweden), failure to follow up by Zambia appears to be the cause.

b. The financing requirements for 1991 are very large. A current account deficit of $155 million is forecast, (weak copper prices), and obligations to the Bank and Fund total about $673 million, including $168 million in carryover of unpaid 1990 obligations. Total obligations to the Bank in 1991 are about $400 million, against which we would expect to disburse $379 million, while those to the IMF are $273 million. There are also payments to the Paris Club resulting from last year's rescheduling that will have to be made, as well as payments to other multilaterals.

Assuming the Bank is able to disburse in 1991 the full amount that it had programmed in the previous financing plan for both 1990 and 1991 (i.e., $379 million), the donor community would still need to provide about $575 million, of which $375 million would need to be balance of payments support.

At the informal donors meeting this past week (see attached back-to-office report), the donors pledged roughly the $375 million required. However, there is no cushion in this amount and given the experience with disbursing the pledged amounts for 1990, there is some question whether disbursements would reach the desired amounts.

Although there is some indication that the overall amounts required for next year might be available, there is also a serious cash flow problem that must be addressed. The 1991 payments are heavily loaded into the first quarter because that is when most of the obligations to the Bank and Fund fall due. The informal donors meeting fell short by about $70 million in pledges for the first quarter of the year and the donors were asked to go back to their capitals and see if they could secure added flexibility to close this gap. In turn, they asked the Bank and Fund to see if something could be done in delaying receipt of payments, etc.

c. There is the added issue of the large payments to private creditors, at a time when the preferred creditors, including the Bank and Fund, were not being paid. These amounted to about $150 million net in 1990, some two-thirds of which were ZCCM payments. The IMF are proposing a limit of net $50 million to private creditors in 1991. We understand that the Fund management have reluctantly accepted this.

d. The IMF are still pressing for cross-conditionality in the ERC. At present, other than the general stipulation that Zambia must "stay on the program", there is nothing on this matter included in the documentation.

cc: Dubey, Grilli (EAS); O'Brien, Armstrong (AFRCE); AF6 DMT; Zambia Country Team; Zambia Acting Resident Representative

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: December 18, 1990

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations
Thru: Edward V. K. Jaycox, Vice President, Africa Region
FROM: Stephen M. Denning, Director, AF6

EXTENSION: 34035

SUBJECT: ZAMBIA: Donors Meeting in Paris - Back to Office Report

1. We met in Paris on Thursday, December 13, 1990, with the major donors to discuss Zambia's economic reform program. There were two main themes of the discussions:

(a) Donors generally accepted that the program is back on track. There were significant slippages in fiscal and monetary performance in the third quarter, but corrective measures have been taken. The Government has made progress in a number of important policy areas. The 1991 Budget is a good one. There is agreement at the staff level on a PFP and on the main elements of Bank and Fund programs. Donors noted the need for continuing progress in these areas: (i) the implementation of the Social Action Program; (ii) the monitoring and control of public spending; and (iii) the political support for the program and the need to continue the process of broadening participation in the political process.

(b) There are some serious problems in filling the 1991 external financing gap, particularly in the first quarter. The donor funds pledged for the year as a whole are adequate, but only barely, to meet the requirements for the year. Some sort of cushion would be desirable. More importantly, we estimated at the outset of the meeting that there is a gap in the first quarter of $124 million, due primarily to the very high debt service to the Bank and Fund in that quarter. If we try to fill this by front-loading donor support, most of this will have to be some sort of cash (e.g., retroactive financing) and not just financing of current imports.

2. I stressed the critical nature of the situation we were facing. Donors were canvassed on the amount, timing, and flexibility of their assistance for next year. Not all could give firm answers, but our preliminary assessment was that overall support remains barely adequate and that, while some front loading is possible, the amount would fall

some $70 million short in the first quarter (though there is still some uncertainty as to donor flexibility and availability of reserves).

3. On the financing front, several donors (Sweden, Norway) pressed for more IDA on our part and for further deferral of debt service on the part of the IMF. We responded that their Governments through our respective ED's had so far determined that this would not be appropriate and that changing the timing and flexibility of donor support would be a more appropriate response to what is primarily a timing problem. However, we agreed to convey the donors' comments to our management.

4. The attached telex was sent to all donors immediately after the meeting to summarize the conclusions of the discussion and to reiterate the questions to which we need more complete answers. These concerned the amount, timing, and flexibility of the 1991 assistance. Responses have been requested by December 20, 1990.

5. Filling the external financing gap for 1991 and particularly for the first quarter will be essential for the final processing of the Economic Recovery Credit. Further high level discussions among the Bank, the Fund, and the major donors may be necessary. We have tentatively set aside January 15, 1991, for further consultation with the donors, if responses received as a result of last week's meeting do not close the gap.

Attachment:

cc: Messrs. Grilli, Chaudhri (EAS); Bock (OPNSV); Singh (AF6DR); Messenger, Grawe (AF6CO); Ali (AF6AG); Cook (AF6IE); Sam (AF6IN); De Ferranti (AF6PH); Armstrong (AFRCE)

SMDenning:mg

OUTGOING MESSAGE FOR ELECTRONIC COMMUNICATION

C:\WP50\DOC\ZAMBIA\

TEXTNAME: CG1-POST.TLX

PAGE 1 OF 5

WDIAL
.AF6CO
OINFO

-SUBJECT: ZAMBIA'S CONSULTATIVE GROUP MEETING
-DRAFTED BY: SDENNING/EG
-EXT.: 34421
-AUTHORIZED BY: STEPHEN DENNING, DIRECTOR, AF6 R. Ali (fax)
-CC: EDS FOR AUSTRIA, BELGIUM, CANADA, DENMARK, FINLAND,
- FRANCE, GERMANY, IRELAND, ITALY, JAPAN, LUXEMBOURG,
- NETHERLANDS, NORWAY, SWEDEN, ZAMBIA, UNITED KINGDOM,
- UNITED STATES
- CC: EMBASSY OF SWITZERLAND
- CC: MESSRS. SANDSTROM (EXC); JAYCOX (AFRVP); GRILLI (EAS); DENNING
- (AFRVP), SINGH (AF6DR), MESSENGER, GRAWE, GEBHART, KARUGA,
- TODD, YANG (AF6CO)
-DOCUMENT NAME: C:\WP50\DOC\ZAMBIA\CG1-POST.TLX
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847 111688 =
-FEDERAL MINISTRY OF FINANCE
-VIENNA, AUSTRIA
-DR. HERBERT LUST, DIRECTOR, INTERNATIONAL FINANCE
-INSTITUTIONS
847 131734 =
-OPEC FUND FOR INTERNATIONAL DEVELOPMENT
-VIENNA, AUSTRIA
-MR. Y. SEYYID ABDULAI, DIRECTOR GENERAL
846 21877 =
-COMMISSION OF THE EUROPEAN COMMUNITIES
-BRUSSELS, BELGIUM
-MR. DIETER FRISCH, DIRECTOR GENERAL FOR DEVELOPMENT
846 26701 =
-MINISTRY OF FINANCE
-BRUSSELS, BELGIUM
-MR. JAN. VANORMELINGEN, INSPECTOR GENERAL
846 21376 =
-DE LA COOPERATION AU DEVELOPMENT
-1050 BRUXELLES, BELGIUM
-MRS. SONJA GERLO, DIRECTOR GENERAL
BT

SIGNATURES:

READY FOR TRANSMISSION: Evelyn G. (Inputter's Initials)

DRAFTED BY: S. Denning (in A-1)

AUTHORIZED BY: Mr. Ali (sig. above)

TRANSMITTED BY: eg

DATE: 12/14/90

DELIVERY NOTICES RECEIVED? _____

OUTGOING MESSAGE FOR ELECTRONIC COMMUNICATION

TEXTNAME: _____

WASHINGTON, DC December 14, 1990
RE ZAMBIA INFORMAL DONORS' MEETING. THANK YOU FOR YOUR ATTENDANCE AT THE INFORMAL DONORS' MEETING ON DECEMBER 13 IN PARIS. AS PROMISED AT THE CONCLUSION OF THAT MEETING, I AM SENDING YOU THIS BRIEF SUMMARY OF THE MAIN CONCLUSIONS REACHED AND ISSUES RAISED DURING THAT MEETING, AS WELL AS A REITERATION OF THE POINTS ON WHICH WE WOULD LIKE TO HAVE CONFIRMATION FROM ALL OF YOU BY TELEX BY THURSDAY DECEMBER 20, AS ELABORATED IN MY CLOSING STATEMENT.

FIRST, ON THE STATUS OF THE OVERALL MACROECONOMIC PROGRAM, THE MEETING CONFIRMED WHILE PROBLEMS HAD ARISEN DURING THE THIRD QUARTER OF 1990, THESE PROBLEMS WERE IN THE NATURE OF A TEMPORARY SETBACK, AND HAD NOT DERAILED THE PROGRAM. WITH THE REMEDIAL MEASURES TAKEN BY THE GOVERNMENT SINCE THESE PROBLEMS WERE IDENTIFIED, AND THE AGREEMENT ON A 1991 PROGRAM WITH THE IMF, THE GOVERNMENT'S PROGRAM SHOULD BE REGARDED AS BACK ON TRACK. WHILE SOME DONORS EXPRESSED CONCERNS AS TO THE POSSIBILITY OF A RECURRENCE OF THE PROBLEMS EXPERIENCED IN THE THIRD QUARTER, IT WAS NOTED THAT THE GOVERNMENT HAD TAKEN STEPS TO AVERT SUCH PROBLEMS IN FUTURE.

THE MEETING EXPRESSED SUPPORT FOR THE GENERAL DIRECTIONS OF THE AGREED PROGRAM FOR 1991 WHICH WAS COMPREHENSIVE IN ITS MACROECONOMIC FRAME AND STRUCTURAL COMPONENTS. CONCERN WAS EXPRESSED AS TO THE SCOPE FOR GROWTH UNDER THE PROGRAM, AND IT WAS AGREED THAT THE PROGRAM HAD TO BE AN ADJUSTMENT PROGRAM NOT JUST A STABILIZATION EFFORT. BUT FOLLOWING A DECADE OF FRUSTRATED REFORM EFFORTS, EFFECTIVE STABILIZATION IS A PREREQUISITE IF ECONOMIC AGENTS, PARTICULARLY IN THE PRIVATE SECTOR, ARE TO GAIN CONFIDENCE TO MAKE THE INVESTMENTS AND OTHER DECISIONS NECESSARY FOR ECONOMIC RESTRUCTURING.

SECONDLY THREE AREAS RECEIVED PARTICULAR ATTENTION AS NEEDING CONTINUING WORK TO STRENGTHEN AND IMPROVE THE PROGRAM COLON (A) THE SOCIAL ACTION PROGRAM, WHERE THERE WAS A CRITICAL NEED TO ACCELERATE IMPLEMENTATION; (B) PUBLIC EXPENDITURE CONTROL, AND IN A BROADER SENSE PUBLIC EXPENDITURE MANAGEMENT, WHICH MUST CONTINUE TO BE IMPROVED. THE OBJECTIVES MUST GO BEYOND MERELY PREVENTING UNPLANNED OVERRUNS AND MOVE TOWARDS REALIGNING PUBLIC EXPENDITURES TO BETTER MEET ZAMBIA'S LONG TERM DEVELOPMENT OBJECTIVES; (C) THE CRITICAL NEED TO CONTINUE AND STRENGTHEN PROGRESS TOWARDS INCREASED PARTICIPATION IN THE POLITICAL PROCESS IN ZAMBIA. DONORS WELCOMED THE INITIAL

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TRANSMISSION: _____
(Inputter's Initials)

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DRAFTED BY: _____

AUTHORIZED BY: _____

TRANSMITTED BY: _____

DATE: _____

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STEPS TAKEN BY THE GOVERNMENT TO INTRODUCE MULTI PARTY DEMOCRACY AND STRESSED THE VITAL IMPORTANCE OF THIS PROCESS AS AN ESSENTIAL UNDERPINNING OF THE DEVELOPMENT EFFORT.

THIRDLY, WE REVIEWED THE 1991 FINANCING PLAN AND REACHED FOUR TENTATIVE CONCLUSIONS COLON (A) THE OVERALL LEVEL OF DONOR BOP SUPPORT NEEDED IS ABOUT $375 MILLION OF WHICH $125 MILLION WOULD BE COVERED FROM THE $160 MILLION SHORTFALL OF DONOR BOP SUPPORT ORIGINALLY PROGRAMMED FOR 1990. TENTATIVE DONOR PLEDGES ADDED TO ABOUT $300 MILLION. ADDING IN THE PROBABLE 1991 PLEDGES BRINGS THE TOTAL ABOUT $375 MILLION. THIS DOES NOT LEAVE ANY MARGIN FOR SHORTFALLS IN PERFORMANCE OR DISBURSEMENT, BUT IT DOES BRING US CLOSE TO FILLING THE OVERALL GAP FOR 1991; (B) THERE IS A SERIOUS CASH FLOW PROBLEM IN THE FIRST QUARTER OF 1991, EVEN IF THE TOTAL LEVEL OF SUPPORT IS OBTAINED. AT THE OUTSET OF THE MEETING, WE SAID THAT PRELIMINARY ESTIMATES SHOWED A FIRST QUARTER GAP OF $124 MILLION, REQUIRING EITHER MORE FRONT LOADING OF DONOR SUPPORT OR SOME KIND OF BRIDGE FINANCING; (C) THERE IS ALSO A SERIOUS PROBLEM OF FLEXIBILITY ARISING FROM AN IMBALANCE BETWEEN THE LEVEL OF DONOR FINANCING NEEDED AND THE LEVEL OF IMPORTS WHICH THOSE DONOR FUNDS MIGHT FINANCE. THIS WOULD BE PARTICULARLY SERIOUS IN THE FIRST QUARTER IF THE LIQUIDITY PROBLEM IS TO BE SOLVED BY FRONTLOADING DONOR SUPPORT. IT WILL REQUIRE THAT ABOUT HALF OF THE DONOR SUPPORT IN THE FIRST QUARTER WOULD HAVE TO BE IN CASH, E.G. RETROACTIVE FINANCING OR DIRECT FINANCING OF WORLD BANK ARREARS. THE EXACT AMOUNT WOULD DEPEND ON HOW THE LIQUIDITY PROBLEM IS TO BE ADDRESSED; (D) AS A RESULT OF INDICATIONS RECEIVED FROM DONORS AT THE MEETING, THE FINANCING GAP IN THE FIRST QUARTER LOOKED AS THOUGH IT COULD BE REDUCED TO SOME $70 MILLION. THIS STILL LEFT A SIGNIFICANT PROBLEM TO BE SOLVED, AND FURTHER ANALYSIS WOULD BE NEEDED TO ENSURE THAT THE VARIOUS RESTRICTIONS AND LIMITATIONS ON DONOR ASSISTANCE (E.G. ON RETROACTIVITY, TYPE OF GOODS FINANCED AND SOURCE OF SUPPLY) WERE MUTUALLY COMPATIBLE.

FOURTHLY, SEVERAL DONORS EXPRESSED CONSIDERABLE FRUSTRATION THAT EFFORTS MADE EARLIER TO EXPEDITE FLOWS HAD MET WITH THE LITTLE ACTION ON THE GOVERNMENT SIDE TO TAKE ADVANTAGE OF MONEYS THAT WERE CURRENTLY AVAILABLE BUT UNDISBURSED.

FIFTHLY, GIVEN THE URGENCY AND SERIOUSNESS OF THE PROBLEM, DONORS AGREED TO CONSIDER FURTHER EFFORTS TO EXPEDITE DISBURSEMENTS IN THE

SIGNATURES:

DRAFTED BY: _____

AUTHORIZED BY: _____

READY FOR TRANSMISSION: _____ (Inputter's Initials)

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

FIRST QUARTER, BY ACCELERATING DISBURSEMENTS UNDER EXISTING AGREEMENTS, FURTHER FRONTLOADING OF 1991 ASSISTANCE AND INCREASED FLEXIBILITY IN DISBURSEMENT. SPECIFICALLY, DONORS AGREED TO INFORM THE BANK BY TELEX BY DECEMBER 20 ON THE FOLLOWING FIVE ISSUES COLON (A) BEST ESTIMATES OF ANTICIPATED 1991 DISBURSEMENTS BY PROGRAM TYPE; (B) CONFIRMATION OF RESTRICTIONS AND CONDITIONS ON DISBURSEMENTS UNDER THESE PROGRAMS (C) BEST ESTIMATES OF FLOWS IN THE FIRST QUARTER OF 1991; (D) INDICATIONS OF ANY POSSIBILITY, EVEN IF NOT CONFIRMED, FOR INCREASING FUNDING LEVELS OR REMOVING THOSE CONDITIONS OR RESTRICTIONS, E.G. RETROACTIVE FINANCING OR FINANCING BANK ARREARS DIRECTLY; (E) INDICATIONS OF ANY ACTIONS THAT THE BANK OR THE FUND COULD TAKE TO HELP YOU INCREASE FLEXIBILITY OR FIND SOLUTIONS TO THE PROBLEM.

SIXTHLY, DONORS MADE SEVERAL INITIAL SUGGESTIONS AS TO POSSIBLE AVENUES TO EXPLORE, INCLUDING GREATER USE OF ZAMBIA'S RESERVES, GIVEN THAT THE NEED TO BE OF A TEMPORARY NATURE; AND THE ESTABLISHMENT OF SOME COORDINATION MECHANISM ENABLING DONORS WISHING TO CONTRIBUTE TO A SOLUTION TO DO SO JOINTLY WITH OTHER DONORS; REEMPHASIZING TO THE GOVERNMENT THE CRITICAL IMPORTANCE OF EXPEDITING DISBURSEMENTS UNDER EXISTING AGREEMENTS. BANK AND FUND STAFF EXPLAINED WHY THEIR RESPECTIVE MANAGEMENTS HAD NOT CONSIDERED POSSIBLE THE DEFERRING OF IMF DEBT SERVICE IN THE FIRST QUARTER OR INCREASING IDA ALLOCATIONS TO SOLVE THE FINANCING PROBLEM OF THE FIRST QUARTER, BUT AT THE REQUEST OF SEVERAL DONORS AGREED TO RAISE THIS ISSUE AGAIN WITH THEIR MANAGEMENTS.

IN THE LIGHT OF THE RESPONSES RECEIVED FROM THE DONORS AND OTHER ACTIONS THAT COULD BE TAKEN, THE BANK WOULD PROPOSE APPROPRIATE NEXT STEPS TO THE DONORS. IF THE PROBLEM WAS NOT SOLVED BY THE VARIOUS RESPONSES AND ACTIONS PROPOSED, A FURTHER MEETING IN PARIS IN EARLY TO MID JANUARY MIGHT BE REQUIRED.

FINALLY, THE BANK AGREED THAT ITS RESIDENT MISSION WOULD ACT TO IMPLEMENT SEVERAL SUGGESTIONS MADE DURING THE MEETING COLON (A) WORKING GROUP TO STRENGTHEN INFORMATION FLOWS TO DONORS; (B) A SHARING OF INFORMATION ON TECHNICAL ASSISTANCE BEING PROVIDED BY DONORS; (C) A FOLLOW UP TO THE JOINT DONOR PROCUREMENT MISSION.

ONCE AGAIN LET ME THANK YOU FOR YOUR PARTICIPATION IN THE MEETING, AND I LOOK FORWARD TO RECEIVING YOUR RESPONSES TO THE QUESTIONS

SIGNATURES:

DRAFTED BY: _____

AUTHORIZED BY: _____

READY FOR TRANSMISSION: _____ (Inputter's Initials)

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

OUTGOING MESSAGE FOR ELECTRONIC COMMUNICATION

TEXTNAME: _____

PAGE 5 OF 5

POSED.

BEST REGARDS, STEPHEN DENNING, DIRECTOR, SOUTHERN AFRICA DEPARTMENT.

SIGNATURES:

READY FOR TRANSMISSION: _____ (Inputter's Initials)

DRAFTED BY: _____

AUTHORIZED BY: _____

TRANSMITTED BY: _____

DATE: _____

DELIVERY NOTICES RECEIVED? _____

IMF Table.

Table 1. Zambia: Balance of Payments and Financing, 1990-91

(In millions of U.S. dollars)

	1990	1991
Exports of goods (f.o.b.) and services	1,377	1,242
Metal sector	1,155	980
Other	222	262
Imports (c.i.f.)	-1,112	-1,119
Metal sector	-357	-350
Fertilizer	-48	-56
Petroleum	-141	-130
Other	-565	-583
Nonfactor service payments	-256	-250
Private transfers	-44	-28
Current account (excluding interest and official transfers)	-35	-155
Debt service payments (cash basis)	-277	-901
Multilaterals	-106	-764
World Bank	(-13)	(-400)
IMF	(-37)	(-273)
Other multilaterals	(-56)	(-91)
Paris Club	-16	-87
Other creditors (net)	-155	-50
Metal sector	-100	...
Bank of Zambia	-55	...
Oil credit	—	...
Financing requirement	-312	-1,057
Donor assistance	294	575
Private flows	-14	38
World Bank	—	379
World Bank arrears financing	—	65
Gap	—	--
Errors and omissions	--	--
Change in reserves (increase =-)	32	--

Table 2. ZAMBIA: External Financial Requirements, 1991
(In million USDollars)

	1991	1992	1993
CURRENT ACCOUNT (excluding interest and official transfers)	-155	-162	-166
DEBT SERVICE	-1316	-830	-739
Non-multilaterals	-552	-567	-475
Scheduled ogligations	-366	-355	-301
Arrears reduction	0	0	0
Interest on arrears and service on rescheduled debt	-186	-212	-174
Multilaterals	-764	-263	-264
World Bank	-400	-88	-91
Scheduled obligations	-88	-88	-91
Arrears reduction	-312	0	0
IMF	-273	-122	-119
Repurchases	-60	-6	-3
Charges	-121	-116	-116
Arrears reduction	-92	0	0
Other multilaterals	-91	-53	-54
GROSS FINANCING REQUIREMENTS	-1471	-992	-905
Debt relief, non-multilaterals	415	434	392
Arrears	0	0	0
Scheduled obligations	415	434	392
FINANCING REQUIREMENTS (after debt relief, non-multilaterals)	-1056	-558	-513
FINANCING	1057	569	545
Private flows	38	28	28
Donor flows	640	444	422
Normal flows	203	224	217
SPA flows	372	220	205
World Bank arrears	65	0	0
World Bank	379	97	95
IDA	332	74	74
IDA reflows	47	23	21
IMF	0	0	0
Financing gap	0	-11	-32

December 13, 1990

Table 3. Bank of Zambia
Foreign Exchange Budget - 1991
(US$ millions)

	Qtr. 1	Qtr. 2	Qrt. 3	Qtr. 4
Sources				
Metal receipts	258.8	258.8	258.8	258.8
Non-Traditional Exports	58.8	58.8	58.8	58.8
Donor BOP support	94.5	50.0	50.0	50.0
IDA disbursements	265.0		70.0	70.0
Other	2.5	2.5	2.5	2.5
Total sources	679.6	370.1	440.1	440.1
Uses				
ZCCM	88.9	88.9	88.9	88.9
Petroleum	32.5	32.5	32.5	32.5
Non-trad. exp. retention	22.0	22.0	22.0	22.0
Other, non debt service	126.3	126.3	126.3	112.6
IMF	161.0	33.9	43.2	34.3
World Bank	339.0	17.0	23.5	30.5
Other multilateral	23.6	23.6	23.6	23.6
Paris club	10.0	10.0	10.0	57.0
Total uses	803.3	354.2	370.0	401.4
Surplus/Deficit	-123.7	15.9	70.1	38.7

≈ $125 million

December 13, 1990

— 55 —

How to cover this.

If already factored in WB Learning Adjustment more for IMF what Co-Zambia do

44
39
125

Zambia Informal Donors Meeting

Paris, December 13, 1990

Chairman's Opening Statement

Ladies and Gentlemen,

I am pleased to welcome you to this informal meeting on Zambia. Despite what the sign says outside, it is an informal meeting -- a working meeting, with coats off, sleeves rolled up and certainly no gloves. When we met in Washington during the SPA gathering, it was agreed that we should convene again in mid-December to review the 1991 program and to discuss the main elements of the updated PFP. We had originally hoped that by now the program would be well underway, and that we would be near the point of clearing the Bank arrears and embarking on the "rights" approach to the IMF arrears. However, there were shortfalls in external financing and the process of formulating and agreeing on budget and monetary measures to correct for slippage in the 1990 program took more time than anticipated.

The good news is that we now have agreement at the staff level on the PFP and the main elements of the 1991 program, and we plan to take both the PFP and the Economic Recovery Credit to our Board in late February. We believe it is a good program and are confident that the Boards of both the Bank and Fund will approve it. It has a firm macroeconomic program and significant progress on the structural aspects, including maize and fertilizer pricing and marketing, privatization and parastatal reform, trade liberalization, civil service reform, and the social action program. My colleagues in the Bank delegation, and our friend from the IMF, Ms.

Dillon, will summarize the agreements for you later in this meeting.

For the rest of these introductory remarks, I would like to focus on the critical financial aspects of the program. If the program is to work, we must have a much more flexible financing plan and more discipline in implementing the plan than we have had in 1990. On Zambia's part, they will need to avoid making payments outside the program and increase their efficiency in meeting the procedural requirements of the donor financing. On our part, we must work together and with the Zambian authorities to assure that the support that we pledge is in fact delivered in a timely and flexible manner. We must find ways to simplify our procedures and not add additional requirements on top of an already administratively complex web of procedures. Together, we should work through lapses in program implementation. Most of these lapses can be fixed, but excessive caution on the part of too many donors can quickly become a self-fulfilling prophecy.

As we shall see in detail later, Zambia's financial requirements for 1991 are large, in part because of the carryover of obligations from 1990. This carryover includes the arrears and most of the scheduled 1990 obligations owed to the Bank and most of the second-half 1990 payments that were to be made to the Fund. On the other side, export revenues are expected to be substantially lower than in 1990 due to declining copper prices. Every cent per pound fall in the copper price costs Zambia about $10 million per year. The spot price of copper has already fallen to around $1.10 per pound, and the average futures price for 1991 is about

$1.04 per pound, compared with an average price of nearly $1.20 for 1990. Also, there are good reasons to think that average copper prices in 1991 could actually be lower than $1.04. It seems clear that Zambia is not going to have the potential foreign exchange cushion that was built into the financing plan for this year, and thus the amount and particularly the timeliness of donor support are even more crucial.

The amount of financing required in 1991 will call for another extraordinary effort from all of us. The total amount of money needed for 1990 and 1991 combined is no larger than before, but the timing and flexibility will need to be much different. Provided that most of the funds unspent from last years' pledges can be brought into 1991, the level of disbursements from new funding needed for next year will be essentially the same as was pledged in 1990, i.e., about $450 million. We very much need from you today a firm and realistic estimate of the amount of last year's financing that is likely to be carried over and disbursed in early 1991, and any constraints that may weigh upon that financing, e.g., if it has to be disbursed by a certain date.

Even if this overall funding level is achieved, however, there are two further problems in the 1991 financing plan that will have to be solved for the program to move forward. First, there is a large bunching of payment obligations in the first quarter of 1991, which creates a serious cash flow problem. The cash deficit in that quarter is estimated at about $124 million. If donor non-project assistance were to be moved forward to cover this deficit, total donor assistance in the quarter would need to be

in the order of $220 million, compared with our present estimate that about $95 million would be available in donor BOP support in that quarter. A large part of the latter is assumed to result from the carryover of funds from 1990 which should help, but cannot provide the full answer. Either we will have to frontload our 1991 programs even more, or we will need to work with you and your Governments to arrange for some sort of bridge financing. We are asking you, in your interventions this afternoon in the financing plan session, to give us an estimate of the amount you expect to be able to disburse in the first quarter of 1991, both from your carry forward from 1990 and your new funding.

The second critical aspect is that there is a serious fungibility problem in this financing plan, as there was in late 1990. This problem arises from an imbalance between the amount of total donor financing and the amount of imports that donors might be able to finance. This problem would be particularly serious in the first quarter if the liquidity problem were to be met by a frontloading of donor assistance. In that case, total donor financing would be $220 million in that quarter while the maximum level of imports for which donor financing might be used would be only $110 million, of which only about $40 million would be OGL second window. Thus, even with maximum flexibility within import financing, the other $110 million of donor financing in that quarter would have to be available effectively as cash, e.g., retroactive financing. If all donor support were tied to current imports, Zambia would not have the flexibility it needs to meet its other payment obligations. This problem is compounded by the fact that most donors will not finance imports from South Africa, from

which Zambia, for economic reasons, obtains a large percentage of its OGL imports. What we have then is a lot of donor money trying to finance certain types of imports that don't sum to that amount, and the donor money could go undisbursed as a result. We very much need your thoughts and assistance in finding ways of solving this problem.

Closer monitoring of the financing program is required as well, so that slippage is detected earlier and corrective actions taken sooner. The appointment of the External Aid Coordinator, who is now in place, should help considerably in this regard. The remaining components of the Economic Management Program are expected to be in place early in the new year.

My personal view is that this is Zambia's last, best chance to adjust the economy and achieve sustainable growth for the future. Time is running out for any significant diversification to occur prior to the decline of the copper industry at the end of this century. If diversification does not happen, if the structural changes do not occur, the effects on the average Zambian's standard of living in the next century could well be devastating.

To summarize, I believe that we have a comprehensive high quality adjustment program in Zambia. There were shortfalls in macro performance in the third quarter, but remedial actions have been taken in relevant areas, and we have an agreed macro program for 1991. We believe that the Economic Recovery Credit includes the appropriate policy measures to get the Zambian economy back on a sustainable growth path. But while we have a strong

adjustment program in substance, there is a major practical problem in financing it, particularly in the first quarter of 1991. As I have indicated, this is not so much a question of the total amount of the pledges, but rather the question of getting timely flows from those pledges in large part to compensate for the shortfalls in donor flows to date. A principal objective of this meeting is in a sense to sound the alarm on the seriousness and urgency of this financing issue, and to ask whether you can find ways to help us solve it. My personal view is that if the financing problem is not solved quickly, the Bank and the Fund will be unable to clear their arrears, and hence unable to participate in financing the program, bilaterals will lose confidence in it, the Government will eventually despair of getting international support for its recovery program, and the impetus for economic reform will be lost, with all of the long run cost and suffering that this will entail for the Zambian people. The stakes are very high. I think we are on the brink.

Let me say a few words about risk. I think we all realize that this is a risky program. I think we were all terribly disappointed by Government fiscal performance in the third quarter, after two quarters of fairly good performance. We have been working with the Government to put in place systemic measures to strengthen budget monitoring and control.

We think these measures are appropriate, and the President and the Minister of Finance have publicly and privately expressed their commitment to make them effective and to avoid a recurrence of the errors of the third quarter. Nevetheless, with a political campaign coming up in 1991, the

system will remain vulnerable to political pressures to spend. I think we all recognize this risk.

However, as we consider this risk, i.e. of shortfalls in performance, I would also like us to keep in mind the even higher risk of the program coming off track because it never gets funding in the first place and, as a result, the even higher cost of trying to solve a very much bigger arrears problem at a later point in time.

Let me also speak frankly about how we see things from where we sit. One of the questions we have asked ourselves over the last few months is this: are the bilateral donors sending us an indirect signal? Are you telling us that they don't want the program to proceed? Do they have such doubts about the program, or about the content of the program, that they are introducing conditions and limitations on their assistance in such a way that the funds won't flow fast enough and so that the program doesn't get funded?

I have talked with most of you, and my personal view is that this is not the case. As I have talked to you and your colleagues over the past months, I don't have the sense that anyone is deliberately dragging their feet to cause the program to fail. I know that you share our concerns about the risks of shortfalls in performance, but I also sense that you have faced those risks squarely and are willing to proceed, because the risk -- and the cost -- of the alternative is higher. We are all uneasy, but we have decided to proceed.

However if we stand back and look at our actions over the past months and the likely implications of what we have in place for the next few months, we are not collectively acting as though we want the program to proceed. Individually I think we are all taking actions that are rational and make sense from the perspective of our own organizations and fit our sense of what the situation requires. But when we add up all these individually rational decisions, collectively we are not acting rationally if we want this program to get funded. In effect, we are organizing our funding and the flows of our funding in such a way that Zambia's problem will not be solved in a timely fashion.

Let me put this another way. At the end of October in Washington, we asked for your indicative pledges for 1991. We received those indications, and they were very generous, i.e. in aggregate they were adequate to meet the external financing requirement. Now if those indications had been meager, we might have had to go back to our managements and gone back to the Zambian Government, and said: the bilateral support is not there to fund the program we have developed.

I am glad to say that didn't happen. The pledges were generous, and I believe that they reflect a genuine effort to get the Zambian adjustment program funded. But to make those generous pledges meaningful, we do need faster flows of what I would call "fungible money", especially in the first quarter of 1991. In effect, after allowing for optimistic assumptions on what will flow in the next three months, assuming both we and the Zambians

take all the adminstrative steps needed to make existing agreements flow, and assuming we are able to carry forward the bulk of existing commitments from 1990 into 1991, there needs to be an additional $ 125 million in "fungible money" available to Zambia in the first quarter.

So when we get to the funding discussion later in the day, I want to emphasize that we are not principally asking for additional pledges. That might eventually help, but it's not going to solve today's problem. We are not asking for additional pledges tied to future imports. That won't solve today's problem.

This additional $125 million fungible money that is needed in the first quarter could come in a variety of ways. It could come in the form of a decision to undertake retroactive financing, including ZCCM imports. It could come in the form of a bridge loan. It could come in the form of retroactive financing of petroleum imports. It needs to be combined with administrative actions that will make the money actually available in the hands of the Zambian authorities in the first quarter. And it needs to be in addition to flows that might reasonably be expected from what is already "in the pipeline". Unless we can get this additional $125 million fungible money into the system in the first quarter, my belief is that this program is not going to be financed, despite what I believe are the genuine intentions and generous intentions to make it work.

I hope the proposed agenda that we have passed out is satisfactory. We plan to start by asking Ms. Dillon to give us a report on recent macroeconomic developments and on the outcome of the discussions with the Government on the macro program; and then turn to John Todd, of the Bank Delegation, to report to us on the ERC discussions and recent structural policy changes. After these statements, we would open the floor to a general discussion of these matters, interrupted at a convenient time for a coffee break. Following the discussion, I will ask George Gebhart, also of the Bank Delegation, to take us through the financing plan, which we can then discuss. George's intervention would occur just before or just after lunch, depending upon how long the earlier discussion lasts. As you know, we are providing lunch on the premises for everyone.

We would then like you to indicate once again the levels of disbursements for 1991, including separately the amounts that you expect to carryover from your 1990 programs and disbursements from new 1991 pledges. Also, we would appreciate your indicating quarterly disbursements and any plans you might have to simplify procedures and increase the fungibility of your financing. We will be approaching each of your individually during the day to discuss the details of your programs.

Does anyone have any comments or questions? If not, I will call upon Ms. Dillon. Thank you.

Donors Meeting on Zambia

December 13, 1990

Statement by the IMF Staff Representative

It has been almost 18 months since Zambia began implementing the adjustment strategy set out in its policy framework paper and since donors first met here in Paris to discuss Zambia's economic policies and financing requirements. Although there have been some slippages during that time, much has been accomplished.

A revised policy framework paper for 1991-93 has been agreed ad referendum with the Zambian authorities. We would hope to issue that paper early in the new year, after internal clearance within the Bank and the Fund. Before describing the program for 1991, I would like to take this opportunity to review some of the main developments since June 1989.

As set out in the original PFP, the initial stage of the adjustment strategy focused on dismantling widespread controls and eliminating distortions in order to let market signals play a much greater role in the economy. At the same time, macroeconomic policy aimed at reducing the government deficit, money supply growth, and inflation. Taken together, these policies were intended to set the stage for economic restructuring and a resumption of growth.

Substantial progress has been made in liberalizing the economy. The extensive system of direct and indirect price controls has been dismantled. Agricultural commodities are trading above floor prices and, in general, buyers and sellers are free to set and negotiate prices. As a result, black marketeering has virtually disappeared and

higher profitability has buoyed government tax revenues. Moreover, parastatals are now required to pay a mandatory dividend to the Government on its investment. This measure is intended both to raise revenue and to force parastatals to behave more like private firms.

With respect to the exchange and trade system, the progress made over the past 18 months has been truly impressive. At the start of the program the kwacha was substantially overvalued and all uses of foreign exchange for any purpose were subject to administrative allocation. After a large initial devaluation, the official exchange rate has been adjusted regularly. In February 1990 a second exchange window was introduced and the first steps were taken toward putting imports on an open general license basis. Within just ten months, sufficient progress had been made in liberalizing the system to permit the Foreign Exchange Management Committee (FEMAC) to be dissolved. By early December 1990, about 80 percent of base-period imports had been transferred to an OGL basis. Also, early this month the Bank of Zambia completed the transfer of services from the first to the second-window exchange rate. At present the only transactions that take place at the first-window rate are imports of oil, fertilizer, and medical supplies and the transactions of the copper company. In the meantime, the exchange rate has been adjusted from a unified rate of K 10 per U.S. dollar in June 1989 to the present rates of K 45 per U.S. dollar in the second window and K 40 in the first, representing real depreciations of about 85 percent and 66 percent, respectively. Substantial progress has also been made in liberalizing the export system. The export licensing process has been completely streamlined and licenses can now be obtained directly from the exporter's bank, provided documents are in order. In

addition, the list of banned exports has been reduced from 48 to 4.

With respect to the pricing and marketing of maize and fertilizer, prices have been raised substantially in real terms, a coupon system has been introduced to protect low-income consumers, and in September of this year important steps were taken to liberalize maize marketing.

On the macroeconomic front, performance has been mixed. Major progress was made through June of this year. All monetary and fiscal benchmarks for March and June were either met or missed by very small margins, and both money supply growth and inflation were brought down sharply. There were, however, important domestic policy slippages after midyear. Large, tax-free housing allowances were granted to civil servants which, in addition to the immediate budgetary impact, led to widespread labor unrest and large pay settlements in other sectors. Also, higher world oil prices were not initially passed through fully to the consumer; problems in crop financing resurfaced; and major weaknesses emerged with respect to government expenditure control at the commitment level. The Government has now taken action in each of these areas to bring the adjustment effort back on track for 1991, but the December program benchmarks will not be met.

While the 1990 outturn will fall short of program objectives, this still represents a major improvement compared with 1989.

-- the 1990 fiscal deficit, excluding foreign grants and interest, is estimated at 4 percent of GDP, down from 6 percent in 1989;

-- money supply growth, which was running at annual rates of almost 100 percent in the first part of 1989, has been brought down to about 50 percent for 1990; and

-- inflation is currently projected at 75-80 percent for this year, compared with 154 percent in 1989.

While Zambia still has a long way to go in the battle against inflation, progress has definitely been made.

The macroeconomic program for 1991 aims to bring Zambia's adjustment effort fully back in line with the original 1989 PFP objectives. Indeed, in some ways it is more ambitious. The 1991 program now targets 25 percent growth in the money supply, compared with the original PFP objective for 1991 of 35 percent. However inflation has proved more intractable than we or the Zambian authorities expected. Therefore, despite this tighter monetary program, the inflation target of 40 percent has been retained. Fiscal adjustment to date, while falling short of 1990 program objectives, has been faster than envisioned in the first PFP. The 1991 program now targets a fiscal deficit, again excluding foreign grants and interest, of less than 1 percent of GDP; this is 4 percent of GDP lower than envisioned in the original PFP and will be consistent with minimal government recourse to domestic bank credit next year.

The Zambian authorities have recently taken, or announced in the budget speech, a range of measures. Some of the more important of these are:

-- The domestic pre-tax price of oil has now been raised to the equivalent of US$41 per barrel, or well above world market prices. This should enable ZIMOIL to recoup its 1990 losses and repay its borrowing from the Bank of Zambia.

-- Maize and fertilizer marketing reform, begun in 1990 and to be continued in 1991, should permit reduced recourse to budgetary and Bank of Zambia support.

-- The maximum bank lending rate is now at 48 percent, on a compounded annual basis, and the Bank of Zambia intends to review rates again shortly in light of recent monetary and price developments.

-- The Government has announced its intention to hold firmly to the recent public service wage contract, which runs for two years and provides for no increases other than individual promotions. Housing allowances are to be taxed, and a civil service reform has been initiated.

-- New, much tighter budgetary control procedures are being put in place with technical assistance from the Fund.

These policies, combined with the wide range of other measures announced in the budget, should--if firmly adhered to--permit the program objectives to be achieved.

I would like to underscore the need for firm adherence to policies. This will not be easy--given both the political environment and the need to strengthen administrative capacity--but it will be essential. It will be necessary to watch performance closely and greater attention is

being paid in the 1991 program to improving control mechanisms and developing early warning systems. We will all need to sound an alarm with the authorities if we see slippages. At the same time, the difficulty of the situation makes it all the more important that support be provided on a timely and continuing basis. "On-again, off-again" will not work in a financing situation as tight as that for 1991.

My World Bank colleagues will be outlining Zambia's structural reform program and describing in detail the balance of payments outlook and financing requirements for 1991. I would, however, like to summarize the 1990 balance of payments outturn and draw certain implications for next year.

Reflecting price developments, copper export receipts are now expected to be about US$210 million higher in 1990 than envisioned in the program. While this should have provided a comfortable cushion under the contingency mechanism, these higher copper receipts were more than offset by (1) an estimated shortfall in donor assistance of almost US$160 million, (2) about US$150 million in net debt service payments to creditors other than the multilaterals and the Paris Club, (3) about US$100 million in higher payments for oil and nonfactor services. The net impact of higher copper earnings, and the foregoing factors was a resource shortfall of US$200 million. In the end, Zambia did not stabilize its arrears to the Fund at the July 1, 1990 level as programmed, Bank arrears were not cleared, and Zambia's foreign reserves are projected to have declined by about US$30 million. I might note

that the large payments to private creditors were not envisioned in the program and specific understandings in this area are to be incorporated in the 1991 program.

We expect therefore to be entering 1991 with a carryover in payments that were supposed to have been made in 1990 of about US$90 million to the Fund and US$310 million to the Bank. At the same time, the initial Bank disbursement of US$200 million has been carried into 1991 and there is also about US$160 million in donor assistance that was supposed to have been disbursed in 1990. It will be crucial to the success of the financing effort that these amounts that donors did not disburse in 1990 be in fact carried over into 1991 and be additional to disbursements against new 1991 commitments. Apart from the high level of disbursements needed for 1990 as a whole, there is a major cash flow problem in the first quarter, when a large part of the 1991 financing would need to be disbursed to clear Bank arrears and bring Fund arrears back to the July 1, 1990 level. It will also be crucial for the 1991 program, particularly during the first months of the year, that donors be as flexible as possible in disbursing their assistance. In particular, an important part of donor balance of payments support will need to finance oil, fertilizer, and ZCCM's imports if sufficient cash is to be made available to enable Zambia to meet its payments to the multilaterals as provided under the program, thereby permitting the Bank's recovery credit and a Fund rights arrangement to go forward.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: December 21, 1990

TO: Mr. V. Corbo, CECMG

FROM: Chang-Po Yang, Economist, AF6CO

EXTENSION: 34411

SUBJECT: ZAMBIA: Projection Assumption for the Unified Survey

1. The public policy scenario underlying Zambia's 1989-99 growth prospect is that the country's Bank-Fund supported adjustment program will stay on track throughout the projection period: Zambia's arrears to the Bank will be cleared by early 1991 and IDA lending will subsequently resume.

2. On GDP growth, it is assumed that investment will continue to rise in 1991 and at a steady rate for much of the period beyond. This is to be supported by sustained level of donor support for the initial period, by restructuring public investment program and by giving a greater role to the private sector. The metal sector will continue to experience decline in output level as a result of production and transport bottlenecks. But with the major rehabilitation projects underway and completion expected by 1993, metal output may stabilize from then on to 1995. However during 1996-99, some of the main mines would have exhausted their deposits, and sharp decline in output level would follow. Therefore, overall GDP growth would be driven by growth of the non-metal sectors.

3. In agriculture, crop output is expected to be good in 1991 after two year's unfavorable climate. With the agriculture pricing and marketing reforms underway and with continued development priorities assigned to this sector by the government, we expect the sector to grow at 3.5 percent during 1991-94 and at somewhat lower rate during 1995-99. In manufacturing, the on-going programs to reform and or privatize the parastatals is expected to improve the growth prospects with their effects on growth more obvious from 1992 onward.

4. On balance of payments, traditional exports are determined by Bank/Fund projection of copper prices and export volume is a function of the Bank assessment of ZCCM's future productive and transport capacity as well as availability of mineral deposits; nontraditional exports are expected to continue its bullish trend, thanks to the current reform of trade and foreign exchange incentive regimes. The projected level of exports have obvious constraints on the country's capacity to import. Import elasticity for the initial period will be negative, since the levels of imports in 1989-90 are unusually higher, and therefore cannot be sustained, and import intensity in domestic consumption and investment is also expected to be gradually reduced. Furthermore, donor assistance (in terms of commitment) is projected to maintain at the 1990-91 level up to 1999 in nominal terms, and gradual erosion would take place as a result of foreign inflation.

cc: Mr. Todd, Ms. Azad (AF6CO)

TABLE 1: ZAMBIA -- KEY ECONOMIC INDICATORS

	1985 Actual	1986 Actual	1987 Actual	1988 Actual	1989 Actual	1990 Estimate	1991 Proj.	1992 Proj.	1993 Proj.
GDPGR	1.9	0.7	2.7	6.3	0.1	0.9	3.2	3.7	4.2
MINING	..	..	..	-9.4	0.5	-0.9	-0.5	-1.2	0.0
NON-MINING	..	..	..	8.8	0.1	1.2	3.7	4.3	4.7
GDY	..	..	..	25.5	7.1	-11.5	-3.6	2.3	3.6
GDY/CAPITA GR	..	..	..	21.2	3.4	-14.5	-6.8	-1.2	0.1
TOTAL CONSUMP./CAPITA GR	..	..	..	-8.5	-0.2	-2.5	-3.4	1.8	-2.8
DEBT SERVICE									
MLT (IN US$ M) /1	..	..	..	..	..	381.0	740.0	241.0	238.0
DEBT SERVICE/XGS									
(ACCRUAL BASIS)	74.9	109.9	99.7	79.0	56.1	66.2	68.3	67.0	57.2
DEBT SERVICE/GDP									
(ACCRUAL BASIS)	27.5	46.9	41.5	25.6	18.0	21.3	39.6	28.5	25.1
GROSS INVESTMENT/GDP	14.9	23.8	13.9	12.3	8.7	14.8	18.6	20.7	21.7
DOMESTIC SAVINGS/GDP	14.7	27.8	18.5	18.8	14.1	15.2	16.0	17.7	19.8
NATIONAL SAVINGS/GDP	4.5	10.5	3.0	8.0	5.5	0.8	2.1	4.3	7.3
MAR. NAT.L SAV.S RATIO	..	..	..	0.5	0.0	0.6	-0.4	0.9	0.8
GOV.T REVENUES/GDP /2	22.3	24.7	22.1	18.3	17.7	21.7	25.5	25.5	25.9
GOV.T EXPENDITURE/GDP /3	36.7	53.3	33.0	30.4	27.3	28.7	31.4	30.4	29.8
DEFICIT(-) SURPLUS(+)/GDP	-14.4	-28.6	-10.9	-12.1	-9.6	-7.0	-5.9	-4.9	-3.8
EXPORT GROWTH RATE /4	..	-19.9	24.3	33.2	22.1	-11.5	-11.9	-3.4	2.7
NONMETAL EXPORT GR	..	-16.7	9.8	24.7	-13.9	33.5	26.5	13.8	14.2
EXPORTS/GDP	33.4	39.3	39.0	30.5	29.8	29.1	33.3	37.0	37.8
IMPORT GROWTH RATE /5	..	-18.2	13.3	15.2	15.1	8.7	5.6	2.2	3.8
REAL IMPORT GROWTH RATE /6	..	..	..	..	..	6.7	-8.9	-2.5	-1.8
REAL IMPORT OF NONMETAL SECTORS						10.2	5.3	0.2	-0.4
IMPORTS/GDP	32.0	38.4	34.7	23.5	21.6	25.9	35.6	41.8	43.1
CUR.T ACC.T (IN US$M)	-271.0	-237.0	-242.0	-164.0	-149.0	-346.5	-435.4	-424.3	-428.8
CURRENT ACCOUNT/GDP	-10.4	-13.4	-10.9	-4.3	-3.1	-8.1	-13.2	-14.8	-14.8
MEMORANDUM ITEM:									
ICOR	..	..	..	..	..	9.2	4.6	5.1	4.9
IMPORT ELASTICITY	..	..	..	..	..	7.1	-2.8	-0.7	-0.4

NOTES:
1/ DEBT SERVICE DOES NOT INCLUDE ARREARS TO THE BANK AND THE FUND.
2/ IT INCLUDES BOTH REVENUE AND GRANTS.
3/ IT INCLUDES INTEREST PAYMENT AND NET LENDING.
4/ EXPORTS, F.O.B. IN CURRENT US$.
5/ IMPORTS, C.I.F. IN CURRENT US$.
6/ IMPORTS OF GOODS AND NONFACTOR SERVICES DEFLATED BY MUV.

Table 2. Zambia: Balance of Payments, 1985-93

	1985	1986	1987	1988	1989	1990	1991	1992	1993
						Projections			
				(In millions of US$)					
Trade Balance	37.2	16.9	95.5	266.8	388.1	137.2	-19.4	-47.9	-65.1
Exports, f.o.b.	870.8	698.3	867.5	1155.7	1410.7	1249.2	1099.9	1062.1	1090.6
Of which: copper	677.7	573.7	735.7	982.7	1233.3	1059.8	852.6	803.9	802.7
other metals	120.1	64.6	65.8	90.8	106.7	94.9	127.7	122.1	132.5
nonmetal	73.0	60.0	65.9	82.2	70.8	94.5	119.5	136.0	155.4
Imports, c.i.f.	-833.7	-681.4	-772.0	-888.9	-1022.6	-1112.1	-1119.3	-1110.0	-1155.8
Metal sector	-172.6	-291.3	-233.1	-279.0	-372.8	-356.7	-350.2	-345.9	-364.7
Fertilizer	-39.8	-29.2	-44.7	-47.1	-72.6	-49.0	-56.1	-54.8	-54.0
Petroleum	-121.8	-71.6	-67.2	-61.6	-103.1	-141.1	-130.1	-133.2	-137.3
Other	-499.4	-289.4	-426.9	-501.3	-474.2	-565.3	-583.0	-576.0	-599.9
Services (net)	-323.0	-353.7	-412.5	-495.5	-580.8	-583.9	-521.7	-498.1	-490.1
Interest	-268.1	-308.2	-341.6	-409.0	-402.8	-427.1	-387.1	-382.0	-383.1
Interest payments	-274.7	-316.4	-349.1	-423.7	-427.7	-456.7	-414.2	-408.9	-410.3
Metal sector	-83.8	-36.5	-36.2	-34.4	-31.1	-28.3	-44.6	-41.1	-36.4
Other	-191.0	-279.9	-312.9	-389.3	-396.6	-428.4	-369.6	-367.8	-373.9
Interest receipts	6.6	8.2	7.5	14.7	24.9	29.6	26.9	26.9	27.1
Other factor	1.5	1.4	-2.3	-2.0	0.1	0.1	0.1	0.1	0.1
Metal sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.5	1.4	-2.3	-2.0	0.1	0.1	0.1	0.1	0.1
Nonfactor (net)	-56.5	-46.9	-68.5	-84.5	-178.1	-156.9	-134.6	-116.2	-107.1
Receipts	79.3	50.1	51.1	59.0	83.3	98.3	115.5	131.4	150.2
Payments	-135.7	-97.0	-119.6	-143.5	-261.4	-255.2	-250.1	-247.6	-257.4
Metal sector	-12.2	-10.0	-22.0	-15.1	-31.0	-28.1	-26.1	-26.9	-28.0
Other	-123.6	-87.1	-97.6	-128.4	-230.4	-227.1	-224.0	-220.7	-229.3
Unrequited transfers	15.1	100.0	75.3	65.0	44.2	100.3	105.6	121.7	126.5
Private	-38.3	-45.3	-30.0	-35.0	-27.8	-44.7	-27.8	-25.0	-20.9
Metal sector	-23.4	-28.0	-30.0	-35.0	-27.8	-38.0	-27.8	-25.0	-20.9
Other	-14.9	-17.2	0.0	0.0	0.0	-6.7	0.0	0.0	0.0
Official	53.4	145.2	105.3	99.9	72.0	145.0	133.4	146.7	147.5
Current account	-270.7	-236.8	-241.7	-163.7	-148.5	-346.5	-435.4	-424.3	-428.8
Metal sector	505.9	272.6	480.2	710.1	877.3	703.7	531.7	487.0	485.2
Other	-776.7	-509.4	-721.9	-873.9	-1025.8	-1050.1	-967.2	-911.4	-914.0
Nonmonetary capital	-100.3	-54.7	-204.6	-141.2	-71.3	-247.3	-317.2	-343.7	-247.2
Public sector (net)	-158.2	-68.6	-137.2	-91.0	-163.6	-201.9	-216.7	-245.3	-181.2
Disbursements	108.8	219.9	103.1	154.1	49.2	61.2	73.2	72.5	72.1
Amortization	-267.0	-288.5	-240.3	-245.2	-212.8	-263.1	-289.9	-317.7	-253.2
Metal sector (net)	130.0	29.8	-73.6	-56.2	-45.0	-60.7	-100.5	-98.4	-66.0
Disbursements	192.5	82.9	27.2	42.1	47.3	20.4	0.0	0.0	0.0
Amortization	-62.5	-53.1	-100.7	-98.3	-92.3	-81.2	-100.5	-98.4	-66.0
Other (including short-term)	-72.1	-15.8	6.2	6.1	137.2	15.3	0.0	0.0	0.0
Errors and omissions	-85.3	-181.9	-17.0	-66.5	-55.9	-45.8	0.0	0.0	0.0
Overall balance	-456.4	-473.4	-463.2	-371.5	-275.7	-639.6	-752.7	-768.0	-676.0

Sources: Zambian authorities; and IMF staff estimates.

Table 3. ZAMBIA: External Financial Requirements, 1991
(In million USDollars)

	1991	1992	1993
CURRENT ACCOUNT (excluding interest and official transfers)	-155	-162	-166
DEBT SERVICE	-1316	-830	-739
Non-multilaterals	-552	-567	-475
Scheduled ogligations	-366	-355	-301
Arrears reduction	0	0	0
Interest on arrears and service on rescheduled debt	-186	-212	-174
Multilaterals	-764	-263	-264
World Bank	-400	-88	-91
Scheduled obligations	-88	-88	-91
Arrears reduction	-312	0	0
IMF	-273	-122	-119
Repurchases	-60	-6	-3
Charges	-121	-116	-116
Arrears reduction	-92	0	0
Other multilaterals	-91	-53	-54
GROSS FINANCING REQUIREMENTS	-1471	-992	-905
Debt relief, non-multilaterals	415	434	392
Arrears	0	0	0
Scheduled obligations	415	434	392
FINANCING REQUIREMENTS (after debt relief, non-multilaterals)	-1056	-558	-513
FINANCING	1057	569	545
Private flows	38	28	28
Donor flows	640	444	422
Normal flows	203	224	217
SPA flows	372	220	205
World Bank arrears	65	0	0
World Bank	379	97	95
IDA	332	74	74
IDA reflows	47	23	21
IMF	0	0	0
Financing gap	0	-11	-32

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Table 1. Zambia: Key Indicators for Policy Framework Paper, 1985-93

	1985	1986	1987	1988	1989	1990 Est.	1991 Projections	1992 Projections	1993 Projections
					(In percent change)				
Real GDP	1.9	0.7	2.7	6.3	0.1	0.9	3.1	3.7	4.3
Real nonmining GDP	2.6	1.3	2.5	8.1	-0.6	1.2	4.7	4.1	4.6
Real per capita GDP	-1.7	-2.9	-1.0	2.5	-3.4	-2.7	-0.6	--	0.6
Terms of trade	-5.9	-24.3	3.1	30.5	19.5	-15.3	-23.7	-6.7	-3.4
Consumer prices (end period)	58.3	34.6	50.4	64.1	154.3	75.0	40.0	20.0	10.0
Export volume	-4.0	-8.3	7.9	-11.2	6.7	4.0	8.3	0.1	2.3
Copper	-14.2	-6.0	8.9	-16.2	8.4	4.3	-4.4	-1.2	--
Nonmetal	39.2	-31.3	-3.0	16.1	-13.1	22.6	21.2	10.0	10.0
Import volume	6.5	-27.7	1.1	7.3	16.0	-0.2	-5.9	-4.1	0.2
Metal sector	...	-19.8	-6.1	11.5	34.8	-12.2	-8.2	-4.5	1.4
Nonmetal sector	...	-33.0	5.4	5.5	7.4	6.7	-4.8	-3.9	-0.4
Real exchange rate (depreciation -)	-7.5	-51.8	5.5	55.1	13.2	-17.1	...	...	...
Money supply (M2)	23.5	93.1	54.3	61.6	65.3	50.0	25.0	15.0	10.0
					(In percent of GDP)				
Gross domestic savings	14.7	27.8	18.5	18.8	14.1	17.3	18.8	19.4	20.4
Gross national savings	4.5	10.5	3.0	8.0	5.6	3.6	5.7	6.6	8.4
Central Government	-10.8	-21.0	-7.5	-7.1	-5.2	-2.8	1.5	2.9	4.6
Nongovernment	15.3	31.5	10.5	15.1	10.7	6.4	4.2	3.7	3.9
Gross domestic investment	14.9	23.8	13.9	12.3	8.7	14.7	18.7	20.7	21.7
Central Government	2.6	3.9	2.8	4.6	4.3	5.5	5.7	5.7	5.7
Nongovernment	12.3	19.9	11.0	7.7	4.4	9.2	13.0	15.0	17.0
Consumption	85.9	77.9	84.9	82.9	86.9	85.9	86.3	84.5	83.4
Central Government	18.3	16.2	15.4	12.4	12.9	11.0	9.6	10.1	10.5
Nongovernment	67.6	61.7	69.5	70.5	74.0	74.9	76.7	74.5	72.9
External current account	-10.4	-13.3	-10.9	-4.3	-3.1	-11.1	-13.0	-14.1	-13.3
Nonmetal sector	...	-28.7	-32.4	-23.1	-21.6	-33.8	-30.5	-29.9	-28.0
Metal sector	...	15.4	21.5	18.8	18.5	22.7	17.5	15.8	14.7
Unrequited transfers and net factor income	-9.6	-11.7	-12.1	-9.1	-7.6	-10.5	-7.9	-8.8	-8.1
Government revenue and grants	22.3	24.7	22.1	18.3	17.6	21.7	25.8	25.0	24.5
Government expenditure	36.7	53.2	32.9	30.4	27.0	30.0	30.0	27.8	25.6
Government deficit									
Accrual basis	-14.4	-28.5	-10.8	-12.1	-9.4	-8.3	-4.2	-2.8	-1.1
Excluding foreign interest	-8.3	-15.6	-5.3	-8.4	-6.3	-2.1	3.5	4.9	4.9
Excluding grants and interest	-5.2	-11.8	-2.7	-7.1	-6.1	-4.1	-0.7	0.4	0.4
Domestic financing of government deficit (net)	6.3	6.6	1.8	5.1	5.8	3.4	0.2	-2.5	-2.7
					(In percent of exports of goods and services)				
Debt service (accrual)	74.9	109.9	99.7	79.2	56.5	66.2	68.3	67.0	57.2
External interest (accrual)	28.7	41.8	37.7	34.5	28.2	33.1	33.3	33.4	32.3
					(In percent)				
Commercial bank lending rate (end of period)	29.7	33.5	18.4	25.0	35.0	40.0	...	...	...

Sources: Zambian authorities; and staff estimates.

Table 2. Zambia: External Financing Requirements, 1990-93

(In millions of U.S. dollars)

	1990 Est.	1991	1992	1993
		Projections		
Current account (excluding interest and official transfers)	-35	-155	-162	-166
Debt service	-2,960	-1,316	-831	-739
Nonmultilaterals	-2,577	-552	-568	-476
Scheduled obligations	-394	-366	-355	-301
Interest on arrears and service and rescheduled obligations	-135	-186	-212	-174
Reduction of arrears to nonmultilaterals 1/	-2,049	--	--	--
Multilaterals	-383	-763	-263	-263
World Bank	-89	-400	-88	-91
Debt service IDA	-2	-2	-4	-6
Debt service IBRD	-87	-86	-84	-85
Reduction of arrears	--	-312	--	--
IMF	-238	-273	-122	-119
Repurchases	-121	-60	-6	-3
Charges	-117	-121	-116	-116
Reduction of arrears	--	-92	--	--
Other multilaterals	-56 2/	-91	-53	-54
Gross financing requirements	-2,995	-1,471	-993	-905
Use of reserves	32	--	--	--
IBRD, increase in arrears	76			
IMF, increase in arrears	201			
Debt relief of nonmultilateral debt service 1/	2,392	415	434	392
Arrears	2,034			
Current debt service	358	415	434	392
Requirements after debt relief and arrears accumulated to multilaterals	-292	-1,056	-559	-513
Identified financing	292	1,056	568	546
Normal flows	205 3/	203	224	217
Private inflows	-1	38	28	28
SPA cofinancing	89 3/	372	220	205
World Bank arrears financing	--	65		
World Bank	--	379	97	96
IDA	--	332	74	75
Fifth Dimension	--	47	23	21
IMF	--	--	--	--
Financing gap after rescheduling	--	--	-9	-33

Sources: Zambian authorities; and staff estimates.

1/ Includes any further accumulation of arrears to nonmultilateral creditors pending rescheduling.

2/ Assumes Zambia has stayed current with other multilaterals in 1990.

3/ The distribution between SPA and normal flows has yet to be settled.

December 18, 1990

ERC SCHEDULE

1.	Bridge loan mission	Dec. 3
2.	Informal Donors Meeting	Dec. 13
3.	Send Green PR and PFP to Working Level	Dec. 21
4.	Working Level review meeting	Dec. 28
5.	Redraft Green PR and PFP	Dec. 29 - Jan. 2
6.	Send Green PR and PFP to Director	Jan. 3
7.	Director's review of PF and PFP	Jan. 4 - 5
8.	Send Green PR and PFP to RVP	Jan. 6
9.	Send Green PR and PFP to OC	Jan. 10
10.	Informal Donors Meeting	Jan. 15
11.	OC meeting	Jan. 17
12.	Redraft legal documents	Jan. 18
13.	Negotiations	Jan. 21 - 22
14.	IMF agreement at staff level	Jan. 21
15.	Send Grey PR and PFP to Director	Jan. 24
16.	Director's review	Jan. 25 - 28
17.	Send Grey PR and PFP to RVP	Jan. 29
18.	Send Grey PR and PFP to SVPOP	Jan. 30
19.	SVPOP decision to by-pass OC	Jan. 31
20.	Send Grey PR and PFP to EDs	Feb. 1
21.	Bridge loan arrangements finalized	Feb. 12
22.	Disbursement documents reviewed	Feb. 14
23.	Board/COW meeting	Feb. 26
24.	Comfort letter for bridge loan	Feb. 27
25.	Sign bridge loan	Feb. 28
26.	Disburse bridge loan	Mar. 1
27.	World Bank arrears cleared	Mar. 6
28.	Legal opinion(s)	Mar. 7
29.	ERC effectiveness and signing	Mar. 8
30.	Disburse ERC and other components	Mar. 11

ZAMBIA

MAB → Retroactive financing
→ Borrowing towards the second Adjustment Loan
→ ↑ amount?

What Gap?
- Why use only the gaps filler?
- What respective roles of all involved
- To what Zambians have to give up

Zambia is an extreme case how far and can stretch one rupee

Steve Denning: IMF for Kenya, R.C. — had proposed a third tranche of Retroactive financing
(Shilale - we cannot use the revolving fund — objection: could not use to pay us —
only to finance goods/services)

Kim → Retroactive perhaps only way. ✱

GAP → Donor flows shrunk (FACTORS)
→ Transfer (Payment) to the private Sector

Esti Q (1991) cash flow gaps of $120 reduced to $55 million
→ Swedes
→ Af Dev. Bank a disappointment
→ British touched approach should be

Lenzu → How about projections?

MAB → Is Zambia doing all that can? — Idea of repaying arrears not the best case
S.D — Limited records
MAB → That is precisely the problem

SUMMARY TABLE - EGYPT

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	5-yr. OLS Gr. Rate 1989-94	5-yr. OLS Gr. Rate 1994-99
REAL GROWTH RATES (%)													
GDP at market prices		0.5%	-2.1%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	0.2%	4.0%
Agriculture		1.5%	2.0%	2.7%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	2.6%	4.0%
Industry		-2.4%	-3.8%	-1.5%	1.8%	3.6%	3.7%	3.7%	3.8%	3.9%	3.9%	-0.7%	3.8%
Imports of GNFS		-3.1%	-15.5%	0.6%	1.9%	2.9%	3.1%	3.3%	3.3%	3.2%	3.2%	-3.3%	3.2%
Exports of GNFS		2.5%	-7.6%	15.6%	7.8%	5.2%	5.4%	4.4%	4.4%	4.6%	4.7%	4.8%	4.6%
Gross domestic investment		-1.0%	-24.2%	-17.9%	15.6%	28.5%	4.0%	4.0%	4.0%	4.0%	4.0%	-4.5%	4.0%
Consumption		-0.8%	0.2%	-0.9%	-1.5%	-1.3%	3.4%	3.7%	3.7%	3.6%	3.6%	-0.8%	3.6%
Implicit GDP Deflator		30.0%	40.0%	22.0%	12.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0%	22.8%	7.0%
GDP per Capita		-1.9%	-4.3%	-3.7%	-0.3%	1.6%	1.6%	1.8%	1.8%	1.8%	1.8%	-2.1%	1.8%
Consumption per Capita		-3.1%	-2.1%	-3.1%	-3.8%	-3.6%	1.0%	1.5%	1.5%	1.4%	1.4%	-3.1%	1.4%
Private Consumption per Capita		-0.1%	-1.9%	-2.9%	-3.6%	-3.4%	1.7%	2.2%	2.2%	1.7%	1.7%	-2.5%	1.9%
TRADE PRICE INDICATORS													
Terms of Trade (NA)	100.0	101.7	117.6	105.6	103.7	101.0	100.0	99.4	99.5	99.6	99.5		
Terms of Trade ($ goods)	100.0	103.5	140.0	116.3	108.8	102.5	100.7	99.7	100.5	101.2	101.7		
Nominal Exch. Rate Index (a)	100.0	77.2	54.6	38.3	35.0	32.4	31.1	29.9	29.1	28.2	27.2		
Real Effective Exch. Rate (b)	100.0	91.8	82.8	70.2	72.5	72.4	71.2	70.6	70.6	70.6	70.1		
SHARES of GDP (c)													
Agriculture	17.5%	17.7%	18.5%	19.2%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%		
Industry	27.9%	27.1%	26.6%	26.6%	26.6%	26.5%	26.4%	26.3%	26.3%	26.2%	26.2%		
Exports of GNFS	17.9%	18.3%	17.2%	20.2%	21.4%	21.6%	21.9%	22.0%	22.1%	22.2%	22.4%		
Imports of GNFS	32.0%	30.9%	26.7%	27.2%	27.2%	26.9%	26.7%	26.5%	26.3%	26.1%	25.9%		
Total consumption	90.5%	89.4%	91.4%	92.0%	88.8%	84.3%	83.7%	83.5%	83.2%	82.9%	82.5%		
Gross domestic investment	23.6%	23.3%	18.0%	15.0%	17.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%		
Gross domestic savings	9.5%	10.9%	11.6%	9.2%	12.0%	16.0%	16.3%	16.4%	16.7%	17.0%	17.3%		
Gross national savings	18.2%	17.1%	13.9%	11.2%	12.6%	16.3%	16.9%	17.0%	17.0%	17.3%	17.9%		
ICOR (annual)		48.2	-11.2	-12.1	7.5	4.3	5.3	5.3	5.3	5.3	5.3		
ICOR (5-year period)						33.8	14.5	7.3	5.3	5.1	5.3		
Import Elasticity		-6.4	7.5	-0.4	0.9	0.7	0.8	0.8	0.8	0.8	0.8		
SHARES of GDP (Current US$):													
Resource Balance	-14.1%	-12.6%	-7.1%	-8.4%	-7.0%	-7.1%	-6.7%	-6.5%	-6.2%	-5.7%	-5.3%		
Total Interest Payments **	3.8%	6.3%	4.8%	6.5%	7.9%	8.0%	7.5%	7.4%	7.4%	7.2%	6.7%		
Cur Acct Bal (bef. off. cap. tr.)	-5.4%	-6.5%	-4.8%	-6.3%	-6.4%	-6.7%	-6.0%	-5.9%	-5.9%	-5.4%	-4.7%		
Cur Acct Bal (after off. cap. tr.)	-3.8%	-4.1%	-2.6%	-3.8%	-3.8%	-4.2%	-3.6%	-3.6%	-3.7%	-3.3%	-2.7%		
Net LT Capital Inflow **	4.8%	6.5%	4.6%	7.2%	6.8%	6.4%	5.7%	5.7%	5.8%	5.3%	4.6%		
Net Credit from the IMF **	0.0%	-0.1%	-0.2%	-0.1%	-0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Debt Outstanding (total) **	130.7%	133.8%	116.8%	150.3%	148.6%	144.2%	138.7%	133.3%	127.0%	120.8%	115.3%		
Current Account Balance (US$ mill.) (after official capital transfers)	-1441	-1583	-978	-1192	-1247	-1469	-1344	-1449	-1577	-1531	-1346		
Gross Res.in Months Imports (d)**	1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
DEBT SERVICE RATIOS (e)													
Debt Service/Exports **	23.4%	49.4%	33.2%	30.5%	39.0%	41.7%	49.2%	45.1%	42.3%	39.4%	38.7%		
Unpaid Debt Service/Exports **	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Interest/Exports **	12.4%	20.1%	16.3%	16.8%	19.9%	20.5%	19.3%	19.0%	19.0%	18.4%	17.1%		
Interest/Debt Out. (total) **		4.9%	3.5%	4.7%	5.5%	5.7%	5.6%	5.7%	6.0%	6.1%	6.0%		

** Preliminary (subject to review by IECDI)
(a) US$ per Unit of Local Currency
(b) Index of Nominal Exchange Rate (E) adjusted by country's GDP Deflator Index (P) and MUV Index (P*), i.e. EP/P*.
(c) At constant prices if current prices are not available
(d) Gross Reserves including Gold; Imports of Goods and Services
(e) " rts" defined as exports of goods and services plus workers' remittances; debt service, interest,
  bt outstanding all include ST, LT and IMF (scheduled basis)

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EGYPT
STANDARD TABLE 1:
National Accounts Summary at Current Prices
(In millions of current Egyptian Pounds)

CTY: EGY STAFF: KNguyen
NA,KP 6 EXT.: 32987
NA,CP 6
BOP,CP $ 6
IFSGFS,CP 6

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
GDP at market prices	64688	84506	115857	139249	159082	181987	202470	225229	250632	278901	3.
GDP at factor cost	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..	..	..	..
Mining and quarrying	..	..	..	..	..	..	..	..	..	..	..
Manufacturing	..	..	..	..	..	..	..	..	..	..	..
Services, etc.	..	..	..	..	..	..	..	..	..	..	..
Imports of GNFS	20728	26789	34343	54231	60629	68620	76005	84522	93827	104036	116080
Exports of GNFS	11590	16112	26119	42582	49445	55749	62530	69799	78339	88132	99677
Resource balance	-9138	-10677	-8223	-11649	-11184	-12871	-13474	-14723	-15488	-15904	-16403
Total Expenditures	..	..	..	..	..	..	..	..	..	..	..
Total consumption, etc	..	..	..	..	..	..	..	..	..	..	..
General government	..	..	..	..	..	..	..	..	..	..	..
Private, etc	..	..	..	..	..	..	..	..	..	..	..
Statistical discrepancy	..	..	..	..	..	..	..	..	..	..	..
Gross domestic investment	..	..	..	..	..	..	..	..	..	..	..
GDFI	..	..	..	..	..	..	..	..	..	..	..
Nonfinancial Pub. Sector											
General Government											
Central Govt.											
State and Local Govt.											
Nonfinancial Pub. Enterp.											
Private Sector											
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross domestic saving	..	..	..	..	..	..	..	..	..	..	..
Net factor income	..	..	..	..	..	..	..	..	..	..	..
Net current transfers	..	..	..	..	..	..	..	..	..	..	..
Gross national saving	..	..	..	..	..	..	..	..	..	..	..
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	
Indirect Taxes											
Subsidies											
Gross national product	..	..	..	..	..	..	..	..	..	..	..
IFS conversion factor	1.6892	2.1882	3.0960	4.4053	4.8309	5.2083	5.4348	5.6497	5.8140	5.9880	6.2112
IEC conversion factor	1.6892	2.1882	3.0960	4.4053	4.8309	5.2083	5.4348	5.6497	5.8140	5.9880	6.2112
GDP at mp (curr. mill. US$)	38295	38619	37422	31609	32930	34941	37254	39866	43109	46577	4996

EGYPT
STANDARD TABLE 2:
National Accounts Summary
(In millions of constant 1989 Egyptian Pounds)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
GDP at market prices	64688	65005	63658	62713	63969	66527	69187	71953	74831	77823	
Net Indirect Taxes	3530	3803	3319	3269	3335	3468	3607	3751	3901	4057	4219
GDP at factor cost	61158	61202	60339	59444	60635	63059	65580	68202	70929	73766	76716
Agriculture	11345	11515	11745	12062	12424	12921	13438	13976	14535	15116	15721
Industry	18053	17628	16953	16698	16998	17614	18263	18947	19666	20423	21221
Mining and quarrying	9534	9296	9110	9019	9242	9750	10286	10852	11449	12079	12743
Manufacturing	5111	5009	4934	4929	4924	4919	4914	4909	4904	4899	4895
Services, etc.	31760	32059	31641	30684	31213	32523	33878	35280	36729	38227	39775
Imports of GNFS	20728	20077	16966	17063	17387	17886	18444	19058	19693	20319	20965
Exports of GNFS	11590	11877	10972	12682	13675	14389	15167	15832	16529	17289	18100
Resource balance	-9138	-8200	-5994	-4380	-3712	-3497	-3277	-3227	-3164	-3030	-2865
Total Expenditures	73826	73204	69652	67094	67682	70024	72464	75180	77995	80853	83801
Total consumption, etc	58557	58087	58194	57687	56807	56053	57934	60070	62280	64510	66804
General government	8189	6551	6485	6291	6102	5919	5742	5569	5402	5402	5402
Private, etc	50368	51536	51708	51396	50705	50134	52193	54500	56878	59108	61402
Statistical discrepancy											
Gross domestic investment	15269	15117	11458	9407	10875	13971	14529	15110	15714	16343	16997
GDFI	15029	14924	11158	9107	10575	13671	14229	14810	15414	16043	16697
Nonfinancial Pub. Sector											
General Government											
Central Govt.											
State and Local Govt.											
Nonfinancial Pub. Enterp.											
Private Sector											
Changes in Stocks	240	193	300	300	300	300	300	300	300	300	300
Net factor income	-381	-2120	-980	-1707	-2636	-2863	-2693	-2739	-2929	-2939	-2755
Net current transfers	6004	6104	2449	2972	3028	3086	3130	3164	3164	3168	3194
Gross national product	64307	62884	62678	61007	61333	63664	66494	69214	71902	74884	78171
Gross domestic saving	6131	7115	7396	5742	7667	10616	11260	11790	12464	13237	
Gross national saving	11754	11099	8865	7007	8059	10839	11697	12215	12699	13465	
Capacity to import	11590	12075	12904	13398	14180	14531	15174	15739	16443	17212	
Terms of trade adjustment	-0	198	1932	715	505	142	7	-93	-87	-76	-98
Gross domestic income	64688	65202	65589	63429	64475	66669	69194	71860	74744	77747	80833
Gross national income	64307	63082	64609	61722	61839	63806	66501	69121	71815	74808	78080

EGYPT
STANDARD TABLE 1:
National Accounts Summary at Current Prices
(In millions of current Egyptian Pounds)

CTY: EGY STAFF: KNguyen
NA,KP 6 EXT.: 32987
NA,CP 6
BOP,CP $ 6
IFSGFS,CP 6

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
GDP at market prices	64688	84506	115857	139249	159082	181987	202470	225229	250632	278901	3
GDP at factor cost	..	..	..	..	..	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..	..	..	..	..	..
Industry	..	..	..	..	..	..	..	..	..	..	..
Mining and quarrying	..	..	..	..	..	..	..	..	..	..	..
Manufacturing	..	..	..	..	..	..	..	..	..	..	..
Services, etc.	..	..	..	..	..	..	..	..	..	..	..
Imports of GNFS	20728	26789	34343	54231	60629	68620	76005	84522	93827	104036	116080
Exports of GNFS	11590	16112	26119	42582	49445	55749	62530	69799	78339	88132	99677
Resource balance	-9138	-10677	-8223	-11649	-11184	-12871	-13474	-14723	-15488	-15904	-16403
Total Expenditures	..	..	..	..	..	..	..	..	..	..	..
Total consumption, etc	..	..	..	..	..	..	..	..	..	..	..
General government	..	..	..	..	..	..	..	..	..	..	..
Private, etc	..	..	..	..	..	..	..	..	..	..	..
Statistical discrepancy	..	..	..	..	..	..	..	..	..	..	..
Gross domestic investment	..	..	..	..	..	..	..	..	..	..	..
GDFI	..	..	..	..	..	..	..	..	..	..	..
Nonfinancial Pub. Sector											
General Government											
Central Govt.											
State and Local Govt.											
Nonfinancial Pub. Enterp.											
Private Sector											
Changes in Stocks	..	..	..	..	..	..	..	..	..	..	..
Gross domestic saving	..	..	..	..	..	..	..	..	..	..	..
Net factor income	..	..	..	..	..	..	..	..	..	..	..
Net current transfers	..	..	..	..	..	..	..	..	..	..	..
Gross national saving	..	..	..	..	..	..	..	..	..	..	..
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	
Indirect Taxes											
Subsidies											
Gross national product	..	..	..	..	..	..	..	..	..	..	..
IFS conversion factor	1.6892	2.1882	3.0960	4.4053	4.8309	5.2083	5.4348	5.6497	5.8140	5.9880	6.211
IEC conversion factor	1.6892	2.1882	3.0960	4.4053	4.8309	5.2083	5.4348	5.6497	5.8140	5.9880	6.211
GDP at mp (curr. mill. US$)	38295	38619	37422	31609	32930	34941	37254	39866	43109	46577	4996

EGYPT
STANDARD TABLE 2:
National Accounts Summary
(In millions of constant 1989 Egyptian Pounds)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
GDP at market prices	64688	65005	63658	62713	63969	66527	69187	71953	74831	77823	
Net Indirect Taxes	3530	3803	3319	3269	3335	3468	3607	3751	3901	4057	4219
GDP at factor cost	61158	61202	60339	59444	60635	63059	65580	68202	70929	73766	76716
Agriculture	11345	11515	11745	12062	12424	12921	13438	13976	14535	15116	15721
Industry	18053	17628	16953	16698	16998	17614	18263	18947	19666	20423	21221
Mining and quarrying	9534	9296	9110	9019	9242	9750	10286	10852	11449	12079	12743
Manufacturing	5111	5009	4934	4929	4924	4919	4914	4909	4904	4899	4895
Services, etc.	31760	32059	31641	30684	31213	32523	33878	35280	36729	38227	39775
Imports of GNFS	20728	20077	16966	17063	17387	17886	18444	19058	19693	20319	20965
Exports of GNFS	11590	11877	10972	12682	13675	14389	15167	15832	16529	17289	18100
Resource balance	-9138	-8200	-5994	-4380	-3712	-3497	-3277	-3227	-3164	-3030	-2865
Total Expenditures	73826	73204	69652	67094	67682	70024	72464	75180	77995	80853	83801
Total consumption, etc	58557	58087	58194	57687	56807	56053	57934	60070	62280	64510	66804
General government	8189	6551	6485	6291	6102	5919	5742	5569	5402	5402	5402
Private, etc	50368	51536	51708	51396	50705	50134	52193	54500	56878	59108	61402
Statistical discrepancy											
Gross domestic investment	15269	15117	11458	9407	10875	13971	14529	15110	15714	16343	16997
GDFI	15029	14924	11158	9107	10575	13671	14229	14810	15414	16043	16697
Nonfinancial Pub. Sector											
General Government											
Central Govt.											
State and Local Govt.											
Nonfinancial Pub. Enterp.											
Private Sector											
Changes in Stocks	240	193	300	300	300	300	300	300	300	300	300
Net factor income	-381	-2120	-980	-1707	-2636	-2863	-2693	-2739	-2929	-2939	-2758
Net current transfers	6004	6104	2449	2972	3028	3086	3130	3164	3164	3168	3194
Gross national product	64307	62884	62678	61007	61333	63664	66494	69214	71902	74884	78177
Gross domestic saving	6131	7115	7396	5742	7667	10616	11260	11790	12464	13237	
Gross national saving	11754	11099	8865	7007	8059	10839	11697	12215	12699	13465	
Capacity to import	11590	12075	12904	13398	14180	14531	15174	15739	16443	17212	
Terms of trade adjustment	-0	198	1932	715	505	142	7	-93	-87	-76	-98
Gross domestic income	64688	65202	65589	63429	64475	66669	69194	71860	74744	77747	80838
Gross national income	64307	63082	64609	61722	61839	63806	66501	69121	71815	74808	78080

EGYPT
STANDARD TABLE 4.1:
Balance of Payments Summary
(In millions of current US dollars)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Exports of GNFS	6861	7363	8437	9666	10235	10704	11506	12354	13474	14718	
Merchandise (FOB)	2546	2780	4164	4295	4335	4397	4709	5026	5511	6059	6607
Non-factor services	4316	4583	4272	5371	5900	6307	6797	7329	7964	8659	9391
Imports of GNFS	12271	12242	11093	12310	12550	13175	13985	14960	16138	17374	18689
Merchandise (FOB)	10079	10377	9094	10213	10372	10889	11557	12359	13328	14338	15417
Non-factor services	2192	1866	1999	2098	2178	2286	2428	2602	2810	3036	3272
Resource balance	-5410	-4879	-2656	-2644	-2315	-2471	-2479	-2606	-2664	-2656	-2641
Net factor income	-225	-1260	-576	-860	-1357	-1503	-1450	-1518	-1687	-1759	-1703
Factor receipts	1217	1174	1235	1208	1232	1282	1357	1424	1497	1575	1657
Factor payments	1442	2434	1811	2069	2589	2785	2807	2942	3184	3334	3359
Total interest	1442	2434	1811	2069	2589	2785	2807	2942	3184	3334	3359
Interest Arrears											
Other Factor Payments											
	1067	1797	1393	1661	2185	2381	2384	2498	2719	2847	2848
Net current transfers	3554	3626	1440	1498	1559	1621	1686	1753	1823	1896	1972
Current Receipts	3554	3626	1440	1498	1559	1621	1686	1753	1823	1896	1972
Workers remittances	3530	3601	1412	1469	1527	1588	1652	1718	1787	1858	1933
Other curr. transfers	24	26	28	29	31	32	34	35	36	38	39
Current Payments	0	0	0	0	0	0	0	0	0	0	0
	375	637	418	407	404	404	423	444	465	488	517
Curr.A/C Bal before Off. Grants	-2081	-2513	-1793	-2007	-2113	-2354	-2244	-2371	-2528	-2519	-2372
Off. Capital Grants 1/	640	930	815	815	866	885	900	922	951	988	1026
Curr.A/C Bal after Off. Grants	-1441	-1583	-978	-1192	-1247	-1469	-1344	-1449	-1577	-1531	-1346
LT Capital inflows n.e.i.	1181	1563	915	1475	1378	1363	1227	1365	1533	1467	1259
Direct investment	124	136	140	145	155	166	177	190	203	217	233
Net LT Borrowing (DRS)	1057	1426	774	1331	1223	1197	1050	1176	1330	1250	1027
disbursements	2335	4948	2567	2988	3703	4077	5387	5227	5232	5073	5270
repayments	1278	3522	1793	1657	2480	2880	4337	4051	3902	3823	4243
Other LT inflows (net)	0	0	0	0	0	0	0	0	0	0	0
Total Other Items (Net)	108	200	0	0	0	243	255	268	281	295	
Net short-term capital	579	200	0	0	0	243	255	268	281	295	
Interest Arrears											
Other Net ST Capital	579	200	0	0	0	243	255	268	281	295	310
Capital flows n.e.i.	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-471	0	0	0	0	0	0	0	0	0	0
Changes in net reserves	152	-180	63	-284	-131	-137	-139	-185	-237	-231	-222
Net credit from IMF	0	-38	-76	-38	-4	0	0	0	0	0	0
Reserve changes n.e.i.	152	-142	139	-246	-127	-137	-139	-185	-237	-231	-222
Escrow Account											
Gross Reserves (excld. Gold)	..	..	..	..	..	..	..	..	..	..	..
Gross Reserves (incl. Gold)	2057	2199	2136	2420	2551	2688	2826	3011	3248	3479	3702
Exchange Rates:											
Nom. Off. (Ann. avg.)(rf)	1.6892	2.1882	3.0960	4.4053	4.8309	5.2083	5.4348	5.6497	5.8140	5.9880	6.2112
Nom. Off. (End-of-year)(ae)											
MUV/PAC Estimate											
Index Real Eff.(IMF)	..	..	..	..	..	..	..	..	..	..	..

1/ Please indicate above if the indicator refers to All Off. Transf. OR

EGYPT
STANDARD TABLE 4.2
Optional Details for RMSM-X:
(In _____ of US dollars)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Total Factor Payments											
Government Interest											
Private Sector Interest											
Profits on Direct Frgn Inv.											
Official Capital Grants											
For Budgetary Financing											
To Extra Budgetary Entities											
Government Net LT Borrowing											
Disbursements											
Repayments											
Private Net LT Borrowing											
Disbursements											
Repayments											

EGYPT
STANDARD TABLE 5:
National Accounts Summary at Constant 1987 Prices
(In _____ of national curr.)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
GDP at market prices											
Net Indirect Taxes											
GDP at factor cost											
Agriculture											
Industry											
Mining and quarrying											
Manufacturing											
Services, etc.											
Imports of GNFS											
Exports of GNFS											
Resource balance											
Total Expenditures											
Total consumption, etc											
General government											
Private, etc											
Statistical discrepancy											
Gross domestic investment											
GDFI											
Nonfinancial Pub. Sector											
General Government											
Central Govt.											
State and Local Govt.											
Nonfinancial Pub. Enterp.											
Private Sector											
Changes in Stocks											
Net factor income											
Net current transfers											
Gross national product											
Gross domestic saving											
Gross national saving											
Capacity to import											
Terms of trade adjustment											
Gross domestic income											
Gross national income											
Population (in millions)	51.39	52.62	53.84	55.09	56.37	57.67	59.01	60.29	61.59	62.92	64.2
Labor Force (in millions)	12.61	..	..	..	..	..	..	..	..	..	.

EGYPT
STANDARD TABLE 7.1:
External Debt:
(US$ millions at Current Prices)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
DISBURSEMENTS											
Public & Publicly Guar. LT	2174	4677	2567	2988	3703	3860	5166	5001	4999	4840	
1. Official Creditors	1102	3557	1754	2471	3480	2846	1616	1720	1800	1811	159
a. Multilateral	309	313	530	568	655	799	905	981	1034	1056	837
Concessional,	71	100	196	170	179	218	267	296	317	328	23
of which IDA	17	17	18	44	85	135	186	208	223	234	14
Nonconcessional,	238	213	334	398	476	582	638	685	717	728	59
of which IBRD	108	114	334	398	476	508	536	557	569	580	45
b. Bilateral	793	3244	1225	1903	2825	2047	711	739	766	755	75
Concessional	623	530	499	442	507	543	568	593	616	605	60
Nonconcessional	170	2715	726	1462	2318	1504	143	146	150	150	15
2. Private Creditors	1072	1120	813	517	223	1014	3550	3281	3199	3029	345
a. Suppliers' Credits	166	200	171	36	16	218	219	226	233	233	23
b. Commercial Banks	80	94	0	0	0	91	2614	2320	2208	2038	246
c. Other Private	826	826	643	481	208	705	718	735	758	758	75
Private Non-Guaranteed LT	161	271	0	0	0	217	221	226	233	233	23
Total LT Disbursements	2335	4948	2567	2988	3703	4077	5387	5227	5232	5073	527
IMF Purchases	0	0	0	0	0	0	0	0	0	0	
Net Short-Term Capital	579	200	0	0	0	243	255	268	281	295	31
Total Disbursements	2914	5148	2567	2988	3703	4320	5642	5495	5513	5368	558
REPAYMENTS											
Public & Publicly Guar. LT	1109	3334	1617	1493	2277	2690	4160	3886	3764	3683	408
1. Official Creditors	677	2044	823	710	1329	1816	3396	3358	3293	3006	299
a. Multilateral	179	282	381	256	260	267	263	279	303	325	32
Concessional,	11	19	197	64	68	73	74	71	69	67	4
of which IDA	5	6	8	10	11	12	13	14	15	16	1
Nonconcessional,	168	263	184	192	192	194	190	208	235	259	28
of which IBRD	135	155	184	192	192	194	190	208	235	259	28
b. Bilateral	499	1761	442	455	1069	1550	3133	3080	2990	2681	267
Concessional	201	589	113	164	375	508	523	531	532	491	46
Nonconcessional	298	1173	329	291	694	1042	2610	2549	2459	2190	221
2. Private Creditors	431	1291	794	783	949	874	764	528	471	678	
a. Suppliers' Credits	86	400	89	144	422	559	600	401	201	231	
b. Commercial Banks	37	195	0	0	0	0	0	0	18	39	
c. Other Private	309	697	705	640	527	315	164	127	252	408	65
Private Non-Guranteed LT	170	188	177	164	203	190	178	165	138	140	16
Total LT Repayments	1278	3522	1793	1657	2480	2880	4337	4051	3902	3823	424
IMF Repurchases	0	38	76	38	4	0	0	0	0	0	
Total LT Repay + IMF Repur.	1278	3560	1869	1695	2484	2880	4337	4051	3902	3823	424
Memorandum Item:											
Arrears (Principal)	..	..	..	..	..	..	..	..	..	..	..
COMMITMENTS											
IBRD commitments	70	60	500	550	600	600	600	600	600	600	650
of which fast Disbursing	..	..	..	..	..	..	..	..	..	..	..
IDA commitments	0	0	2	37	84	135	186	208	223	234	145
of which fast Disbursing	..	..	..	..	..	..	..	..	..	..	..

EGYPT
STANDARD TABLE 7.2:
External Debt:
(US$ millions at Current Prices)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
INTEREST											
Public & Publicly Guar. LT	961	1699	1289	1573	2114	2331	2326	2430	2635	2746	
1. Official Creditors	764	1340	1040	1228	1705	1946	1899	1730	1671	1530	1311
a. Multilateral	184	189	169	176	190	207	230	257	286	317	347
Concessional,	11	15	43	40	39	36	32	28	25	21	20
of which IDA	7	7	7	7	7	8	9	10	11	13	14
Nonconcessional,	172	174	127	136	150	171	197	229	262	295	327
of which IBRD	130	120	127	136	150	171	193	218	244	268	291
b. Bilateral	581	1151	871	1052	1516	1739	1669	1473	1385	1214	964
Concessional	181	264	56	106	251	326	329	332	336	342	347
Nonconcessional	400	887	815	946	1264	1413	1340	1141	1049	872	617
2. Private Creditors	197	359	249	346	409	385	427	700	964	1216	1426
a. Suppliers' Credits	36	149	101	191	267	268	247	226	220	226	228
b. Commercial Banks	38	41	0	0	0	0	7	228	424	611	780
c. Other Private	123	169	148	155	142	117	174	246	320	379	419
Private Non-Guaranteed LT	106	98	105	88	71	51	58	68	84	100	111
Total LT Interest	1067	1797	1393	1661	2185	2381	2384	2498	2719	2847	2848
IMF Service Charges	12	14	9	3	0	-0	-0	-0	-0	-0	-0
Interest Paid on ST Debt	363	624	404	404	404	404	423	444	465	488	511
Total Interest Paid	1442	2434	1811	2069	2589	2785	2807	2942	3184	3334	3359
Memorandum Item:											
Arrears (Interest)											
DEBT OUTSTANDING & DISB. (DOD)											
Public & Publicly Guar. LT	40972	42315	37619	41594	43245	44415	45420	46535	47769	48926	49885
1. Official Creditors	34825	36339	32019	35279	37625	38655	36874	35235	33742	32547	31142
a. Multilateral	5113	5143	2808	3121	3515	4048	4691	5393	6123	6854	7364
Concessional,	2642	2723	1229	1335	1446	1591	1785	2010	2258	2519	2716
of which IDA	902	913	921	955	1029	1152	1326	1520	1728	1945	2072
Nonconcessional,	2470	2420	1579	1786	2069	2457	2905	3383	3866	4335	4648
of which IBRD	1488	1447	1579	1786	2069	2383	2729	3079	3414	3735	3905
b. Bilateral	29713	31196	29211	32158	34110	34607	32184	29842	27618	25693	23778
Concessional	12907	12848	11851	12608	12812	12847	12891	12952	13037	13151	13296
Nonconcessional	16806	18348	17360	19551	21299	21761	19293	16890	14582	12542	
2. Private Creditors	6147	5976	5600	6316	5620	5760	8546	11300	14027	16379	
a. Suppliers' Credits	3973	3774	3781	4423	4042	3701	3320	3145	3177	3179	
b. Commercial Banks	419	318	0	0	0	91	2705	5025	7214	9213	11613
c. Other Private	1755	1884	1819	1893	1578	1968	2522	3130	3636	3987	4098
Private Non-Guaranteed LT	1131	1215	1013	849	647	674	717	778	873	966	1033
Total LT DOD	42103	43529	38632	42443	43891	45089	46137	47313	48642	49892	50918
Use of IMF Credit	156	118	42	4	-0	-0	-0	-0	-0	-0	-0
Short-Term Debt	7806	8006	5047	5047	5047	5290	5545	5813	6095	6390	6701
Total External Debt	50065	51653	43721	47494	48938	50379	51683	53126	54736	56282	57619
Principal Reduction Due to:											
1. Debt-Equity Swaps+Buybacks	..	..	..	..	..	..	..	..	..	..	..
2. Debt Exchanges	..	..	..	..	..	..	..	..	..	..	..
3. Debt Forgiveness	..	..	..	..	..	..	..	..	..	..	..
Memorandum Item:											
% Debt on Concessional Terms	37.04	35.87	33.86	32.85	32.48	32.02	31.81	31.62	31.44	31.41	31.45
% Debt at Variable Int. Rates	7.85	7.85	7.33	6.46	5.07	6.06	12.88	18.88	24.10	28.39	32.89
Preferred Creditor DS											
Share of IBRD Portfolio											

EGYPT
STANDARD TABLE 9.1:
Government Budget 1/
(In _____ of national curr.)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Direct Taxes											
Indirect Taxes											
Nontax Receipts											
Total Current Revenues											
Interest on External Debt											
Interest on Domestic Debt											
Other Current Transfers											
Subsidies											
Consumption											
Total Current Expenditures											
Budgetary Savings											
Capital Revenues											
Capital Transfers											
Budgetary Investment											
Total Capital Expenditures											
Total Deficit Financing											
External Capital Grants											
External Borrowing (net)											
Monetary System Credit (net)											
Other Domes. Borrowing (net)											
Debt (at end of year)											
External Debt											
(in millions of LCUs)											
(in millions of US$)											
Domestic Debt											
To Monetary System											
Other Domestic Debt											
Memorandum Item:											
Primary Deficit											

1/ Please identify if it is General, Central or Budgetary Central Govern

EGYPT
STANDARD TABLE 9.2:
Money and Credit
(In _____ of national curr.)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Annual Flows:											
Net International Reserves											
Net Domestic Credit											
To Government Budget											
To Other Official Entities											
To Private Sector											
Total Assets & Liabilities											
Money and Quasimoney											
Net Other Liabilities											
End-of-Year Stocks:											
Net International Reserves											
Net Domestic Credit											
To Government Budget											
To Other Official Entities											
To Private Sector											
Total Assets & Liabilities											
Money and Quasimoney											
Net Other Liabilities											
Memorandum Items:											
Net Int. Reserves (mill US$)											
Change during the year											
Stock at end of year											

EGYPT
STANDARD TABLE 10:
External Trade with Commodities Variables
(Vol. Index & mill. of curr. US$)

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99
A. VOLUME, VALUE AND PRICES											
MERCHANDISE EXPORTS:											
(Vol. Index 1989=100)											
Cotton	100.0	95.0	96.9	104.7	117.2	126.6	135.4	143.6	150.8	158.3	166.2
Other Agriculture	100.0	100.0	105.0	118.1	131.1	145.5	158.6	169.7	178.2	187.1	196.5
Oil (Egyptian companies)	100.0	108.4	108.1	120.5	123.8	123.8	125.2	120.6	115.8	111.5	107.1
Oil (foreign companies)	..	..	..	..	..	..	..	..	..	..	..
Other Manufactures	100.0	101.0	108.1	124.3	142.9	157.2	172.9	190.2	209.3	230.2	253.2
Textiles	100.0	95.0	104.5	112.9	121.9	130.4	139.6	149.3	159.8	171.0	182.9
Merchandise Exports (FOB)	100.0	102.5	106.2	118.6	128.5	135.4	143.3	149.0	155.1	162.1	169.8
(Value - Curr. mill. $)											
Cotton	269	289	306	339	397	446	497	543	584	628	676
Other Agriculture	102	99	97	107	115	138	161	184	205	229	255
Oil (Egyptian companies)	1066	1256	2427	2254	1986	1776	1774	1739	1821	1912	2006
Oil (foreign companies)	..	..	..	..	..	..	..	..	..	..	..
Other Manufactures	719	753	875	1069	1256	1406	1585	1797	2052	2346	2673
Textiles	389	383	458	526	580	631	693	764	849	943	1046
Merchandise Exports (FOB)	2546	2780	4164	4295	4335	4397	4709	5026	5511	6059	6657
MERCHANDISE IMPORTS:											
(Vol. Index 1989=100)											
Food	100.0	101.6	101.9	103.1	105.3	104.3	107.8	111.6	115.5	119.1	122.8
Other Consumer Goods	100.0	102.3	102.7	102.0	100.7	99.5	103.6	108.2	112.9	117.4	121.9
POL and Other Energy	100.0	100.5	98.4	96.9	98.9	102.8	107.0	111.2	115.7	120.3	125.1
Intermediate Goods	100.0	97.8	88.6	86.7	87.6	88.8	90.1	91.4	92.8	94.3	95.8
Primary	..	..	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..	..	..
Capital Goods	100.0	99.3	27.1	33.0	38.3	49.5	51.5	53.6	55.8	58.1	60.5
Total Merch. Imports (CIF)	100.0	100.1	82.1	82.8	84.5	86.8	89.4	92.3	95.2	98.1	101.0
(Value - Curr. mill. $)											
Food	2327	2362	2222	2969	2893	3001	3248	3538	3868	4197	457
Other Consumer Goods	2237	2372	2587	2731	2753	2769	2955	3180	3446	3721	4005
POL and Other Energy	232	253	480	394	345	320	329	348	395	448	
Intermediate Goods	3161	3205	3155	3281	3386	3492	3631	3797	4003	4224	
Primary	..	..	..	..	..	..	..	..	..	..	
Manufactures	..	..	..	..	..	..	..	..	..	..	..
Capital Goods	2123	2185	649	838	994	1307	1394	1496	1617	1748	1885
Total Merch. Imports (CIF)	10079	10377	9094	10213	10372	10889	11557	12359	13328	14338	15417
COUNTRY INDICES (1989=100):											
Merchandise Export Price	100.0	106.5	154.0	142.2	132.5	127.5	129.1	132.5	139.6	146.8	154.0
Merchandise Import Price	100.0	102.9	110.0	122.3	121.8	124.4	128.2	132.9	138.9	145.0	151.4
Merch. Terms of Trade	100.0	103.5	140.0	116.3	108.8	102.5	100.7	99.7	100.5	101.2	101.7
TRENDS IN NONFACTOR SERVICES:											
Volume Indices 1989=100											
Exports of Nonfactor Services	4316	4422	3791	4488	4824	5071	5331	5578	5837	6108	6393
Imports of Nonfactor Services	2192	1800	1774	1753	1781	1838	1904	1980	2059	2142	2227
US$ Price Indices 1989=100											
Exports of Nonfactor Services	4316	4583	4272	5371	5900	6307	6797	7329	7964	8659	9391
Imports of Nonfactor Services	2192	1866	1999	2098	2178	2286	2428	2602	2810	3036	3272
Base Year Exchange Rate	1.6892										
Country's Import MUV	-0.5	9.3	9.7	1.1	-1.0	2.1	4.2	3.9	3.9	3.9	3.9
Country's Export Growth	3.2	2.5	2.2	2.9	2.6	2.6	2.9	3.1	3.1	3.1	3.1

EGYPT	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
CONSISTENCY CHECKS									18-Dec		09:56 AM
National Accounts											
Gross Domestic Product m.p.	0.0	0.0	0.0	-0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	
Gross Domestic Product f.c.	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	
Services	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	0.0
Resource Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditures	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0
Total Consumption	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	-0.0	-0.0
Private Consumption	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	0.0	-0.0	0.0	0.0
Statistical Discrepancy	0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	0.0	-0.0	-0.0	-0.0
Gross Domestic Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross National Product	-0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0
Gross Domestic Saving	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0
Gross National Saving	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capacity to Import	0.0	-0.0	-0.0	-0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0
Terms of Trade Adjustment	-0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	0.0	-0.0	0.0
Gross Domestic Income	0.0	-0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	0.0	0.0	0.0
Gross National Income	0.0	-0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0
Exchange Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP-current $	0.0	0.0	-0.0	0.0	-0.0	-0.0	0.0	-0.0	0.0	0.0	0.0
Exports GNFS-current	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0	0.0	0.0
Imports GNFS-current	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	-0.0
BALANCE of PAYMENTS	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
A. Exports of Goods & NFS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Imports of Goods & NFS	0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0
C. Resource Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Net Factor Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Interest payments)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Factor Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
E. Net Current Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
F. Current Account Balance	-0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0
Curr. A/C Bal after Off.Grant	-0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0
G. Long-Term Capital Inflow	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	
3. Net LT Loans (DRS data)	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	
a. Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
b. Repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Other LT Inflows (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0
H. Total Other Items (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net ST Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Errors and Omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I. Changes in Net Reserves	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in Net Reserves (RL)		-38.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0
Residual	0.0	0.0	0.3	0.0	0.0	0.0	0.1	0.4	-0.0	-0.1	0.0
Exchange Rates (LCU/US$):											
3. X-Rate for GNP Conversion	-0.0	-0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	-0.0	-0.0	-0.0
CONSTANT PRICE GROWTH RATES (%)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
A.1. GDP at market prices		0.5%	-2.1%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0
2. Net indirect taxes		7.7%	-12.7%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0
3. GDP at factor cost		0.1%	-1.4%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.
4. Agriculture		1.5%	2.0%	2.7%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.
5. Industry		-2.4%	-3.8%	-1.5%	1.8%	3.6%	3.7%	3.7%	3.8%	3.9%	3.
a. Manufacturing		-2.0%	-1.5%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.
b. Mining and quarrying		-2.5%	-2.0%	-1.0%	2.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.
c. Other (by difference)		-2.5%	-12.5%	-5.5%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.
6. Services, etc.		0.9%	-1.3%	-3.0%	1.7%	4.2%	4.2%	4.1%	4.1%	4.1%	4.
2. Exports of GNFS		2.5%	-7.6%	15.6%	7.8%	5.2%	5.4%	4.4%	4.4%	4.6%	4.
3. Imports of GNFS		-3.1%	-15.5%	0.6%	1.9%	2.9%	3.1%	3.3%	3.3%	3.2%	3.
C.1. Domestic absorption		-0.8%	-4.9%	-3.7%	0.9%	3.5%	3.5%	3.7%	3.7%	3.7%	3.
D.1. Total consumption, etc		-0.8%	0.2%	-0.9%	-1.5%	-1.3%	3.4%	3.7%	3.7%	3.6%	3.
2. Private, etc		2.3%	0.3%	-0.6%	-1.3%	-1.1%	4.1%	4.4%	4.4%	3.9%	3.
a. Statistical discrepancy		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ER
3. General government		-20.0%	-1.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	0.0%	0.
E.1. Gross domestic investment		-1.0%	-24.2%	-17.9%	15.6%	28.5%	4.0%	4.0%	4.0%	4.0%	
2. Fixed investment		-0.7%	-25.2%	-18.4%	16.1%	29.3%	4.1%	4.1%	4.1%	4.1%	4.
3. Increase in stocks		-19.6%	55.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.

Memorandum Items:	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
G.1. Net factor income		457.1%	-53.8%	74.1%	54.5%	8.6%	-5.9%	1.7%	6.9%	0.3%	-6.2
2. Net current transfers		1.7%	-59.9%	21.4%	1.9%	1.9%	1.4%	1.1%	0.0%	0.1%	0.8
3. Gross national product		-2.2%	-0.3%	-2.7%	0.5%	3.8%	4.4%	4.1%	3.9%	4.1%	4.4
H.1. Gross domestic saving		16.0%	3.9%	-22.4%	33.5%	38.5%	6.1%	4.7%	5.7%	6.2%	6.0
2. Gross national saving		-5.6%	-20.1%	-21.0%	15.0%	34.5%	7.9%	4.4%	4.0%	6.0%	7.5
I.1. Capacity to import		4.2%	6.9%	3.8%	5.8%	2.5%	4.4%	3.7%	4.5%	4.7%	
2. Terms of trade adjustment		*********	875.9%	-63.0%	-29.4%	-71.9%	-95.0%	-1424.2%	-7.0%	-12.0%	
3. Gross domestic income		0.8%	0.6%	-3.3%	1.6%	3.4%	3.8%	3.9%	4.0%	4.0%	
4. Gross national income		-1.9%	2.4%	-4.5%	0.2%	3.2%	4.2%	3.9%	3.9%	4.2%	4.4
Population		2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.2%	2.2%	2.2%	2.2
CONSTANT RATIOS to GDP (%)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	199
A.1. GDP at market prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0
2. Net indirect taxes	5.5%	5.9%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2
3. GDP at factor cost	94.5%	94.1%	94.8%	94.8%	94.8%	94.8%	94.8%	94.8%	94.8%	94.8%	94.8
4. Agriculture	17.5%	17.7%	18.5%	19.2%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4
5. Industry	27.9%	27.1%	26.6%	26.6%	26.6%	26.5%	26.4%	26.3%	26.3%	26.2%	26.2
a. Manufacturing	7.9%	7.7%	7.8%	7.9%	7.7%	7.4%	7.1%	6.8%	6.6%	6.3%	6.0
b. Mining and quarrying	14.7%	14.3%	14.3%	14.4%	14.4%	14.7%	14.9%	15.1%	15.3%	15.5%	15.7
c. Other (by difference)	5.3%	5.1%	4.6%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4
6. Services, etc.	49.1%	49.3%	49.7%	48.9%	48.8%	48.9%	49.0%	49.0%	49.1%	49.1%	49.1
B.1. Resource balance	-14.1%	-12.6%	-9.4%	-7.0%	-5.8%	-5.3%	-4.7%	-4.5%	-4.2%	-3.9%	-3.5
2. Exports of GNFS	17.9%	18.3%	17.2%	20.2%	21.4%	21.6%	21.9%	22.0%	22.1%	22.2%	22.4
3. Imports of GNFS	32.0%	30.9%	26.7%	27.2%	27.2%	26.9%	26.7%	26.5%	26.3%	26.1%	25.9
C.1. Domestic absorption	114.1%	112.6%	109.4%	107.0%	105.8%	105.3%	104.7%	104.5%	104.2%	103.9%	103.5
D.1. Total consumption, etc	90.5%	89.4%	91.4%	92.0%	88.8%	84.3%	83.7%	83.5%	83.2%	82.9%	82.5
2. Private, etc	77.9%	79.3%	81.2%	82.0%	79.3%	75.4%	75.4%	75.7%	76.0%	76.0%	75.9
a. Statistical discrepancy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0
3. General government	12.7%	10.1%	10.2%	10.0%	9.5%	8.9%	8.3%	7.7%	7.2%	6.9%	6.7
E.1. Gross domestic investment	23.6%	23.3%	18.0%	15.0%	17.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0
2. Fixed investment	23.2%	23.0%	17.5%	14.5%	16.5%	20.5%	20.6%	20.6%	20.6%	20.6%	20.0
3. Increase in stocks	0.4%	0.3%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.
Memorandum Items:											
G.1. Net factor income	-0.6%	-3.3%	-1.5%	-2.7%	-4.1%	-4.3%	-3.9%	-3.8%	-3.9%	-3.8%	
2. Net current transfers	9.3%	9.4%	3.8%	4.7%	4.7%	4.6%	4.5%	4.4%	4.2%	4.1%	
3. Gross national product	99.4%	96.7%	98.5%	97.3%	95.9%	95.7%	96.1%	96.2%	96.1%	96.2%	96.0
H.1. Gross domestic saving	9.5%	10.9%	11.6%	9.2%	12.0%	16.0%	16.3%	16.4%	16.7%	17.0%	17.2
2. Gross national saving	18.2%	17.1%	13.9%	11.2%	12.6%	16.3%	16.9%	17.0%	17.0%	17.3%	17.5
I.1. Capacity to import	17.9%	18.6%	20.3%	21.4%	22.2%	21.8%	21.9%	21.9%	22.0%	22.1%	22.2
2. Terms of trade adjustment	-0.0%	0.3%	3.0%	1.1%	0.8%	0.2%	0.0%	-0.1%	-0.1%	-0.1%	-0.
3. Gross domestic income	100.0%	100.3%	103.0%	101.1%	100.8%	100.2%	100.0%	99.9%	99.9%	99.9%	99.9
4. Gross national income	99.4%	97.0%	101.5%	98.4%	96.7%	95.9%	96.1%	96.1%	96.0%	96.1%	96.1
C. Growth Rates (%) at Constant Pr	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	199
Merchandise Exports											
Cotton		-5.0%	2.0%	8.0%	12.0%	8.0%	7.0%	6.0%	5.0%	5.0%	5.0
Other Agriculture		0.0%	5.0%	12.5%	11.0%	11.0%	9.0%	7.0%	5.0%	5.0%	5.0
Oil (Egyptian companies)		8.4%	-0.3%	11.5%	2.7%	0.0%	1.1%	-3.7%	-4.0%	-3.7%	-4.0
Oil (foreign companies)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Other Manufactures		1.0%	7.0%	15.0%	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0
Textiles		-5.0%	10.0%	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0
Total Merch. Exports FOB		2.5%	3.6%	11.7%	8.3%	5.4%	5.8%	4.0%	4.1%	4.5%	4.
Total Merch. Exports FOB (XPI)		-0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.0%	-0.
Merchandise Imports											
Food		1.6%	0.2%	1.3%	2.1%	-0.9%	3.3%	3.5%	3.5%	3.1%	3.
Other Consumer Goods		2.3%	0.3%	-0.6%	-1.3%	-1.1%	4.1%	4.4%	4.4%	3.9%	3.
POL & Other Energy		0.5%	-2.1%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.
Intermediate Goods		-2.2%	-9.4%	-2.1%	1.0%	1.4%	1.4%	1.5%	1.5%	1.6%	1.
(of which Primary Goods)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ER
(of which Manuf. Goods)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ER
Capital Goods		-0.7%	-72.7%	21.5%	16.1%	29.3%	4.1%	4.1%	4.1%	4.1%	4.
Total Merch. Imports CIF		0.1%	-18.0%	0.9%	2.0%	2.8%	3.0%	3.2%	3.2%	3.0%	3.
Total Merch. Imports CIF (MPI)		0.0%	-0.0%	-0.0%	0.0%	-0.0%	-0.0%	0.0%	-0.0%	-0.0%	-0.
Nonfactor Services											
Exports of Nonfactor Services		2.5%	-14.3%	18.4%	7.5%	5.1%	5.1%	4.6%	4.6%	4.7%	
Imports of Nonfactor Services		-17.9%	-1.5%	-1.2%	1.6%	3.2%	3.6%	4.0%	4.0%	4.0	

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
——Elasticities to GDP and Others——											
Export Elasticity (GNFS)		5.1	3.7	-10.5	3.9	1.3	1.4	1.1	1.1	1.1	1.2
Export Elasticity (Goods only)		5.1	-1.8	-7.9	4.1	1.3	1.5	1.0	1.0	1.1	1.2
Import Elasticity		-6.4	7.5	-0.4	0.9	0.7	0.8	0.8	0.8	0.8	0.8
Import Elast.-Food:PC		0.7	0.7	-2.1	-1.5	0.8	0.8	0.8	0.8	0.8	
Import Elast.-Oth. Cons. Goods:PC		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Import Elast.-Petroleum:GDP		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Import Elast.-Interm.:Industry		0.9	2.5	1.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Import Elast.-Interm. Prim.:Oth. Ind.		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Import Elast.-Interm. Mfg.:Manuf.		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Import Elast.-Capital:Fixed Investment		1.0	2.9	-1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Import Elast.-Capital:Total Investment		0.7	3.0	-1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Exports of Goods/GNFS	37.1%	37.8%	49.4%	44.4%	42.4%	41.1%	40.9%	40.7%	40.9%	41.2%	41.5
Imports of Goods (fob)/GNFS	82.1%	84.8%	82.0%	83.0%	82.6%	82.6%	82.6%	82.6%	82.6%	82.5%	82.5
Imports of Goods (cif)/GNFS	82.1%	84.8%	82.0%	83.0%	82.6%	82.6%	82.6%	82.6%	82.6%	82.5%	82.5
Factor Payments - Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Receipts - Other	24.1	25.9	27.6	29.4	31.2	32.3	33.6	34.8	36.2	37.5	39.0
Misc. Exports-value	0.0	-0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	0.0	0.0	0.0
Misc. Exports-% to total exports	0.0%	-0.0%	0.0%	0.0%	-0.0%	-0.0%	0.0%	-0.0%	0.0%	0.0%	0.0
Implicit Trade Price Indices (1989=100)											
Merchandise Exports											
Cotton	100.0	113.0	117.3	120.2	125.6	130.7	136.1	140.4	143.8	147.3	150.9
Other Agriculture	100.0	96.8	90.4	89.0	86.2	92.6	99.4	106.0	112.4	119.9	127.2
Oil (Egyptian companies)	100.0	108.6	210.6	175.4	150.5	134.6	132.9	135.2	147.5	160.8	175.8
Oil (foreign companies)	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Other Manufactures	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
Textiles	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
Total Merch. Exports FOB	100.0	106.5	154.0	142.2	132.5	127.5	129.1	132.5	139.6	146.8	154.0
Total Merch. Exports FOB (XPI)	100.0	106.5	154.0	142.2	132.5	127.5	129.1	132.5	139.6	146.8	154.0
Merchandise Imports											
Food	100.0	99.9	93.7	123.7	118.1	123.6	129.5	136.3	143.9	151.5	160.0
Other Consumer Goods	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
POL & Other Energy	100.0	108.6	210.6	175.4	150.5	134.6	132.9	135.2	147.5	160.8	175.8
Intermediate Goods	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	
(of which Primary Goods)	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	
(of which Manuf. Goods)	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	
Capital Goods	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
Total Merch. Imports CIF	100.0	102.9	110.0	122.3	121.8	124.4	128.2	132.9	138.9	145.0	151.4
Total Merch. Imports CIF (MPI)	100.0	102.9	110.0	122.3	121.8	124.4	128.2	132.9	138.9	145.0	151.4
Nonfactor Services											
Exports of Nonfactor Services	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
Imports of Nonfactor Services	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
Growth Rates (%) of Implicit Price Indices											
Merchandise Exports											
Cotton		13.0%	3.8%	2.5%	4.5%	4.1%	4.1%	3.2%	2.4%	2.4%	2.4
Other Agriculture		-3.2%	-6.6%	-1.5%	-3.1%	7.3%	7.4%	6.7%	6.1%	6.7%	6.0
Oil (Egyptian companies)		8.6%	93.9%	-16.7%	-14.2%	-10.6%	-1.2%	1.8%	9.1%	9.0%	9.3
Oil (foreign companies)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Other Manufactures		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.6
Textiles		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.0%	3.8%	3.9%	3.0
Total Merch. Exports FOB		6.5%	44.6%	-7.6%	-6.8%	-3.8%	1.2%	2.6%	5.4%	5.2%	4.9
Total Merch. Exports FOB (XPI)		6.5%	44.6%	-7.6%	-6.8%	-3.8%	1.2%	2.6%	5.4%	5.2%	4.9
Merchandise Imports											
Food		-0.1%	-6.1%	32.0%	-4.5%	4.7%	4.8%	5.2%	5.6%	5.2%	5.0
Other Consumer Goods		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.9
POL & Other Energy		8.6%	93.9%	-16.7%	-14.2%	-10.6%	-1.2%	1.7%	9.1%	9.0%	9.
Intermediate Goods		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.
(of which Primary Goods)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
(of which Manuf. Goods)		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Capital Goods		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.
Total Merch. Imports CIF		2.9%	6.9%	11.3%	-0.4%	2.1%	3.0%	3.6%	4.5%	4.4%	4.
Total Merch. Imports CIF (MPI)		2.9%	6.9%	11.3%	-0.4%	2.1%	3.0%	3.6%	4.5%	4.4%	4.
Nonfactor Services											
Exports of Nonfactor Services		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	
Imports of Nonfactor Services		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
—Price Deflators - LC—											
GDP Implicit Price Deflator	100.0	130.0	182.0	222.0	248.7	273.6	292.6	313.0	334.9	358.4	383.5
Export Price Index-GNFS	100.0	135.7	238.0	335.8	361.6	387.4	412.3	440.9	473.9	509.8	550.7
Import Price Index-GNFS	100.0	133.4	202.4	317.8	348.7	383.6	412.1	443.5	476.4	512.0	553.7
Investment Price Deflator	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consumption Price Deflator	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net factor Income	100.0	130.0	182.0	222.0	248.7	273.6	292.6	313.0	334.9	358.4	
Net current transfer	100.0	130.0	182.0	222.0	248.7	273.6	292.6	313.0	334.9	358.4	
—Price Deflators - LC growth rates—											
GDP Implicit Price Deflator		30.0%	40.0%	22.0%	12.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0
Export Price Index-GNFS		35.7%	75.5%	41.0%	7.7%	7.2%	6.4%	6.9%	7.5%	7.6%	8.0
Import Price Index-GNFS		33.4%	51.7%	57.0%	9.7%	10.0%	7.4%	7.6%	7.4%	7.5%	8.1
Investment Price Deflator		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Consumption Price Deflator		ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR	ERR
Net factor Income		30.0%	40.0%	22.0%	12.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0
Net current transfer		30.0%	40.0%	22.0%	12.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0
—Price Deflators - US$ Based—											
GDP Implicit Price Deflator	100.0	100.4	99.3	85.1	87.0	88.7	91.0	93.6	97.3	101.1	104.3
Export Price Index-GNFS	100.0	104.7	129.9	128.7	126.4	125.7	128.1	131.8	137.7	143.8	149.8
Import Price Index-GNFS	100.0	103.0	110.4	121.9	121.9	124.4	128.1	132.6	138.4	144.4	150.6
Net factor Income	100.0	100.4	99.3	85.1	87.0	88.7	91.0	93.6	97.3	101.1	104.3
Net current transfer	100.0	100.4	99.3	85.1	87.0	88.7	91.0	93.6	97.3	101.1	104.3
NFS Export Price	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
NFS Import Price	100.0	103.7	112.7	119.7	122.3	124.4	127.5	131.4	136.4	141.8	146.9
NFS Terms of Trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
—Price Deflators - US$ growth rates—											
GDP Implicit Price Deflator		0.4%	-1.1%	-14.3%	2.1%	2.0%	2.5%	2.9%	4.0%	3.9%	3.2
Export Price Index-GNFS		4.7%	24.0%	-0.9%	-1.8%	-0.6%	2.0%	2.9%	4.5%	4.4%	4.2
Import Price Index-GNFS		3.0%	7.2%	10.4%	0.0%	2.1%	2.9%	3.5%	4.4%	4.3%	4.3
Net factor Income		0.4%	-1.1%	-14.3%	2.1%	2.0%	2.5%	2.9%	4.0%	3.9%	3.2
Net current transfer		0.4%	-1.1%	-14.3%	2.1%	2.0%	2.5%	2.9%	4.0%	3.9%	3.2
NFS Export Price		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.6
NFS Import Price		3.7%	8.7%	6.2%	2.2%	1.7%	2.5%	3.1%	3.8%	3.9%	3.6
Exchange Base	1.689										
Country's Import MUV	-0.5	9.3	9.7	1.1	-1.0	2.1	4.2	3.9	3.9	3.9	
Country's Export Growth	3.2	2.5	2.2	2.9	2.6	2.6	2.9	3.1	3.1	3.1	
Country's MUV (1989=100)	100.0	109.3	119.9	121.2	120.0	122.5	127.7	132.7	137.8	143.2	148.8
GDP Deflator (1989=100)	100.0	130.0	182.0	222.0	248.7	273.6	292.6	313.0	334.9	358.4	383.5
Real Eff. Exch. Rate (proxy)	0.59200	0.54355	0.49028	0.41579	0.42895	0.42865	0.42174	0.41766	0.41797	0.41793	0.4149
Real per Capita GDP	1259	1235	1182	1138	1135	1154	1172	1194	1215	1237	125
Real per Capita Consumption	1139	1104	1081	1047	1008	972	982	996	1011	1025	103
Real per Capita Prv Consumption	980	979	960	933	900	869	884	904	924	939	95

GLOBAL ASSUMPTIONS	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
G-5 real GNP	3.3	2.7	2.3	2.9	2.7	2.7	3.0	3.2	3.2	3.2	3.2
U.S.	2.5	1.1	1.1	2.7	2.1	2.1	2.8	3.0	3.0	3.0	3.0
Japan	4.9	5.2	3.8	3.8	3.9	4.2	4.1	4.1	4.1	4.1	4.1
Germany	4.0	3.8	3.9	3.1	2.8	2.5	2.6	2.9	2.9	2.9	[illegible]
France	3.4	2.8	2.7	2.7	2.5	2.5	2.4	2.8	2.8	2.8	
U.K.	2.3	1.8	1.1	1.5	1.6	1.7	1.7	1.9	1.9	1.9	
G-5 GNP Deflator	-1.0	9.5	8.1	3.6	0.5	2.8	4.6	3.7	3.7	3.7	3.7
U.S.	4.1	3.7	5.5	2.4	2.6	2.9	2.9	3.1	3.1	3.1	3.1
OECD Export MUV	-0.3	6.3	9.0	1.1	-0.4	1.6	3.8	3.7	3.7	3.7	3.7
U.S.	2.5	3.9	10.6	0.7	2.7	2.1	3.3	3.8	3.8	3.8	3.8
Japan	-1.0	0.8	6.7	1.0	-0.9	0.0	3.0	3.4	3.4	3.4	3.4
Germany	-1.7	15.8	9.0	0.2	-3.0	2.9	4.2	3.8	3.8	3.8	3.8
France	1.8	15.7	12.6	0.8	-2.8	1.7	4.8	3.7	3.7	3.7	3.7
U.K.	-6.2	7.0	8.8	4.8	-0.4	3.7	6.1	4.9	4.9	4.9	4.9
Country's Import MUV	-0.5	9.3	9.7	1.1	-1.0	2.1	4.2	3.9	3.9	3.9	3.9
Country's Export Growth	3.2	2.5	2.2	2.9	2.6	2.6	2.9	3.1	3.1	3.1	3.1
COUNTRY vs. GLOBAL ASSUMPTIONS											
Import Price Elasticity-G5		0.0	-2.0	0.9	-4.9	1.8	0.8	0.9	0.9	0.8	0.8
Import Price Elasticity-U.S.		0.0	-1.7	1.3	0.7	1.3	0.9	0.8	0.8	0.8	0.8
Import Price Elasticity-Japan		0.1	-2.7	0.9	-2.2	ERR	1.0	0.9	0.9	0.9	0.9
Import Price Elasticity-Germany		0.0	-2.0	4.7	-0.7	1.0	0.7	0.8	0.8	0.8	0.8
Import Price Elasticity-France		0.0	-1.4	1.2	-0.7	1.6	0.6	0.9	0.9	0.8	0.8
Import Price Elasticity-U.K.		0.0	-2.0	0.2	-4.9	0.8	0.5	0.7	0.7	0.6	0.6
Import Price Elasticity-Country		0.0	-1.9	0.9	-2.0	1.3	0.7	0.8	0.8	0.8	0.8
Export Elasticity-Country		1.0	1.6	4.0	3.2	2.1	2.0	1.3	1.3	1.5	1.5
Export Elasticity-G5 GDP growth		0.9	1.6	4.0	3.1	2.0	1.9	1.3	1.3	1.4	1.4
Export Elasticity-U.S. GDP growth		2.3	3.3	4.3	4.0	2.6	2.1	1.3	1.4	1.5	1.5
Export Elasticity-Japan GDP growth		0.5	1.0	3.1	2.1	1.3	1.4	1.0	1.0	1.1	1.1
Export Elasticity-Germ. GDP growth		0.7	0.9	3.8	3.0	2.2	2.2	1.4	1.4	1.6	1.6
Export Elasticity-France GDP growth		0.9	1.3	4.3	3.3	2.2	2.4	1.4	1.4	1.6	1.6
Export Elasticity-U.K. GDP growth		1.4	3.3	7.8	5.2	3.2	3.4	2.1	2.1	2.4	2.4
IPD/G-5 GNP Deflator		3.2	4.9	6.1	24.0	3.6	1.5	1.9	1.9	1.9	
IPD/U.S. GNP Deflator		8.1	7.3	9.2	4.6	3.4	2.4	2.2	2.3	2.3	
GDP/G5 GDP		0.2	-0.9	-0.5	0.7	1.5	1.3	1.2	1.2	1.2	1.2
GDP/U.S. GDP		0.4	-1.9	-0.5	1.0	1.9	1.4	1.3	1.3	1.3	1.3
GDP/Japan GDP		0.1	-0.5	-0.4	0.5	1.0	1.0	1.0	1.0	1.0	1.0
GDP/Germ. GDP		0.1	-0.5	-0.5	0.7	1.6	1.5	1.4	1.4	1.4	1.4
GDP/France GDP		0.2	-0.8	-0.5	0.8	1.6	1.7	1.4	1.4	1.4	1.4
GDP/U.K. GDP		0.3	-1.9	-1.0	1.3	2.4	2.4	2.1	2.1	2.1	2.1

SUMMARY TABLE - EGYPT

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
REAL GROWTH RATES (%)												
GDP at market prices			0.5%	-2.1%	-1.5%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0
Agriculture			1.5%	2.0%	2.7%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Industry			-2.4%	-3.8%	-1.5%	1.8%	3.6%	3.7%	3.7%	3.8%	3.9%	
Imports of GNFS			-3.1%	-15.5%	0.6%	1.9%	2.9%	3.1%	3.3%	3.3%	3.2%	
Exports of GNFS			2.5%	-7.6%	15.6%	7.8%	5.2%	5.4%	4.4%	4.4%	4.6%	
Gross domestic investment			-1.0%	-24.2%	-17.9%	15.6%	28.5%	4.0%	4.0%	4.0%	4.0%	4.0
Consumption			-0.8%	0.2%	-0.9%	-1.5%	-1.3%	3.4%	3.7%	3.7%	3.6%	3.8
Implicit GDP Deflator			30.0%	40.0%	22.0%	12.0%	10.0%	7.0%	7.0%	7.0%	7.0%	7.0
GDP per Capita			-1.9%	-4.3%	-3.7%	-0.3%	1.6%	1.6%	1.8%	1.8%	1.8%	1.8
Consumption per Capita			-3.1%	-2.1%	-3.1%	-3.8%	-3.6%	1.0%	1.5%	1.5%	1.4%	1.4
Private Consumption per Capita			-0.1%	-1.9%	-2.9%	-3.6%	-3.4%	1.7%	2.2%	2.2%	1.7%	1.7
TRADE PRICE INDICATORS												
Terms of Trade (NA)		100.0	101.7	117.6	105.6	103.7	101.0	100.0	99.4	99.5	99.6	99.5
Terms of Trade ($ goods)		100.0	103.5	140.0	116.3	108.8	102.5	100.7	99.7	100.5	101.2	101.7
Nominal Exch. Rate Index (a)		100.0	77.2	54.6	38.3	35.0	32.4	31.1	29.9	29.1	28.2	27.2
Real Effective Exch. Rate (b)		100.0	91.8	82.8	70.2	72.5	72.4	71.2	70.6	70.6	70.6	70.7
SHARES of GDP (c)												
Agriculture		17.5%	17.7%	18.5%	19.2%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4%	19.4
Industry		27.9%	27.1%	26.6%	26.6%	26.6%	26.5%	26.4%	26.3%	26.3%	26.2%	26.2
Exports of GNFS		17.9%	18.3%	17.2%	20.2%	21.4%	21.6%	21.9%	22.0%	22.1%	22.2%	22.4
Imports of GNFS		32.0%	30.9%	26.7%	27.2%	27.2%	26.9%	26.7%	26.5%	26.3%	26.1%	25.9
Total consumption		90.5%	89.4%	91.4%	92.0%	88.8%	84.3%	83.7%	83.5%	83.2%	82.9%	82.5
Gross domestic investment		23.6%	23.3%	18.0%	15.0%	17.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0
Gross domestic savings		9.5%	10.9%	11.6%	9.2%	12.0%	16.0%	16.3%	16.4%	16.7%	17.0%	17.3
Gross national savings		18.2%	17.1%	13.9%	11.2%	12.6%	16.3%	16.9%	17.0%	17.0%	17.3%	17.9
ICOR (annual)			48.2	-11.2	-12.1	7.5	4.3	5.3	5.3	5.3	5.3	5.3
ICOR (5-year period)							33.8	14.5	7.3	5.3	5.1	5.3
Import Elasticity			-6.4	7.5	-0.4	0.9	0.7	0.8	0.8	0.8	0.8	0.8
SHARES of GDP (Current US$):												
Resource Balance		-14.1%	-12.6%	-7.1%	-8.4%	-7.0%	-7.1%	-6.7%	-6.5%	-6.2%	-5.7%	-5.3
Total Interest Payments	**	3.8%	6.3%	4.8%	6.5%	7.9%	8.0%	7.5%	7.4%	7.4%	7.2%	
Cur Acct Bal (bef. off. cap. tr.)		-5.4%	-6.5%	-4.8%	-6.3%	-6.4%	-6.7%	-6.0%	-5.9%	-5.9%	-5.4%	
Cur Acct Bal (after off. cap. tr.)		-3.8%	-4.1%	-2.6%	-3.8%	-3.8%	-4.2%	-3.6%	-3.6%	-3.7%	-3.3%	
Net LT Capital Inflow	**	4.8%	6.5%	4.6%	7.2%	6.8%	6.4%	5.7%	5.7%	5.8%	5.3%	4.1
Net Credit from the IMF	**	0.0%	-0.1%	-0.2%	-0.1%	-0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1
Debt Outstanding (total)	**	130.7%	133.8%	116.8%	150.3%	148.6%	144.2%	138.7%	133.3%	127.0%	120.8%	115.3
Current Account Balance (US$ mill.) (after official capital transfers)		-1441	-1583	-978	-1192	-1247	-1469	-1344	-1449	-1577	-1531	-134
Gross Res. in Months Imports (d)**		1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1
DEBT SERVICE RATIOS (e)												
Debt Service/Exports	**	23.4%	49.4%	33.2%	30.5%	39.0%	41.7%	49.2%	45.1%	42.3%	39.4%	38.7
Unpaid Debt Service/Exports	**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0
Interest/Exports	**	12.4%	20.1%	16.3%	16.8%	19.9%	20.5%	19.3%	19.0%	19.0%	18.4%	17.8
Interest/Debt Out. (total)	**		4.9%	3.5%	4.7%	5.5%	5.7%	5.6%	5.7%	6.0%	6.1%	6.0

** Preliminary (subject to review by IECDI)
(a) US$ per Unit of Local Currency
(b) Index of Nominal Exchange Rate (E) adjusted by country's GDP Deflator Index (P) and MUV Index (P*), i.e. EP/P*.
(c) At constant prices if current prices are not available
(d) Gross Reserves including Gold; Imports of Goods and Services
(e) "Exports" defined as exports of goods and services plus workers' remittances; debt service, interest, and debt outstanding all include ST, LT and IMF (scheduled basis)

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ARAB REPUBLIC OF EGYPT - ECONOMIC INDICATORS 1/ 4/

Mid 1989 Population (mils.) 51.4
1989 Per Capita GNP in US$: 630

A. Percent Shares of Gross Domestic Product (at current market prices)

	1983	1984	1985	1987	1988	1989	1990
Gross Domestic Product m.p.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net Indirect Taxes	3.8	3.9	3.6	7.1	4.6	5.5	5.9
Agriculture	18.9	19.3	19.3	19.1	18.4	17.5	17.7
Industry	25.8	28.2	27.5	27.2	28.6	27.9	27.1
(of which Manufacturing)	12.7	12.7	13.0	0.0	0.0	14.7	14.3
Distribution & Services	51.4	48.7	49.6	46.5	48.4	49.1	49.3
Resource Balance	-10.9	-13.5	-12.1	-11.4	-16.0	-16.8	-12.6
Exports of GNFS	25.5	22.4	19.9	17.7	23.7	21.7	19.1
Imports of GNFS	36.4	35.8	32.0	29.1	39.7	38.4	31.7
Total Expenditures	110.9	113.5	112.1	111.4	116.0	116.8	112.6
Total Consumption	82.2	86.0	85.5	93.4	91.8	93.1	89.4
Private Consumption	65.0	18.0	17.2	14.0	13.5	12.7	10.1
General Government	17.2	67.9	68.2	79.4	78.3	80.5	79.3
Gross Domestic Investment	28.7	27.5	26.7	18.0	24.2	23.6	23.3
Fixed Investment	29.6	26.8	25.2	17.8	23.9	23.2	23.0
Changes in Stocks	-0.8	0.7	1.5	0.2	0.3	0.4	0.3
Gross Domestic Savings	17.8	14.0	14.5	6.6	8.2	6.9	10.6
Net Factor Income	-6.7	-6.7	-9.5	-9.9	-8.8	-8.1	-3.3
Net Current Transfers	9.2	9.7	7.4	4.4	4.4	5.6	9.4
Gross National Savings	20.3	17.0	12.5	1.1	3.7	4.3	16.8

B. Real Growth Rates (% per annum)

	80-84	1984	1987	1988	1989	1990
Gross Domestic Product m.p.	5.6	6.1	2.5	4.0	2.5	0.5
Net Indirect Taxes	3.6	6.1	2.5	2.6	-7.7	7.7
Agriculture	2.1	2.1	2.1	2.5	2.0	1.5
Industry	4.4	9.3	2.3	3.8	1.7	-2.4
(of which Manufacturing)	..	..	..	..	..	..
Distribution & Services	8.3	6.0	2.8	4.8	4.4	0.9
Resource Balance	a	a	a	a	a	a
Exports of GNFS	0.7	6.1	6.4	10.8	0.0	-15.2
Imports of GNFS	1.2	14.8	-15.5	4.7	-4.1	-19.2
Total Expenditures	5.6	10.0	7.8	3.0	6.0	-3.1
Total Consumption	5.1	10.2	17.2	2.2	7.9	-3.6
Private Consumption	4.4	10.9	31.6	2.5	10.8	-1.0
General Government	6.9	8.3	-25.6	0.8	-7.4	-20.0
Gross Domestic Investment	7.0	9.8	-17.0	5.9	-0.9	-1.0
Fixed Investment	8.7	4.3	-7.7	6.0	-1.4	-0.7
Changes in Stocks	a	a	a	a	a	a
Gross Domestic Savings	1.6	-4.8	-54.8	3.6	-49.3	60.5
Net Factor Income	5.5	7.4	-11.6	-11.8	-7.2	-59.7
Net Current Transfers	1.8	12.0	-22.8	-2.4	28.6	68.5
Gross National Savings	1.0	-2.9	-67.7	20.3	-52.5	297.1

In millions of LE (at constant 1989 prices)	1983	1984	1985	1987	1988	1989	1990	80-84	1984	1987	1988	1989	1990
Gross Domestic Product	50931	54058	57643	60702	63127	64688	65005	5.6	6.1	2.5	4.0	2.5	0.5
Capacity to Import	19853	20327	20838	15019	15467	14010	12075	-1.4	2.4	-16.5	3.0	-9.4	-13.8
Terms of Trade Adjustment	9142	8960	8999	2378	1458	0	198	a	a	a	a	a	a
Gross Domestic Income	60074	63017	66642	63080	64585	64688	65202	3.9	4.9	-3.4	2.4	0.2	0.8
Gross National Product	46917	49746	51163	54279	57460	59429	62884	5.6	6.0	4.5	5.9	3.4	5.8
Gross National Income	56060	58705	60162	56657	58918	59429	63082	3.8	4.7	-2.4	4.0	0.9	6.1

C. Price Indices

(1989 = 100)

	1983	1984	1985	1987	1988	1989	1990
Consumer Prices (IFS 64) 3/	37.5	41.2	46.7	62.2	78.6	100.0	..
Wholesale Prices (IFS 63) 3/	36.0	42.2	47.3	70.1	82.5	100.0	110.8
Implicit GDPMP Deflator	47.5	52.7	57.5	74.5	86.4	100.0	130.0
Implicit Expenditure Deflator	47.9	52.5	57.2	72.9	88.8	100.0	130.0

Inflation Rates (% p.a.)

	74-81	81-85	1987	1988	1989	1990
Consumer Prices (IFS 64) 3/	12.7	14.5	13.6	26.3	27.3	..
Wholesale Prices (IFS 63) 3/	10.3	11.6	19.7	17.6	21.3	10.8
Implicit GDPMP Deflator	13.0	10.1	15.1	15.9	15.7	30.0
Implicit Expenditure Deflator	13.8	9.4	11.0	21.9	12.6	30.0

D. Other Indicators:

	74-81	82-87	1987	1989	1990
Growth Rates (% p.a.):					
Population	2.7	2.7	2.3	2.4	2.3
Labor Force	3.3	2.6	2.3	2.2	..
Gross Nat'l. Income p.c.	5.0	0.3	-4.9	-1.6	3.7
Private Consumption p.c.	3.7	9.0	28.4	8.1	-3.3
Import Elasticity:					
Imports (G+NFS) / GDP(mp)	0.8	-1.5	-6.1	-1.7	-39.2
Marginal Savings Rates:					
Gross National Saving	a	-2.0	-4.4	-1.6	2.4
Gross Domestic Saving	a	-1.3	-6.8	-2.8	8.5
ICOR (period averages):	3.2	6.6	11.7	10.0	48.2

Share of Total Labor Force in:	1965	1974	1981	1987	1988
Agriculture	53.4	46.6	37.6	36.3	35.9
Industry	16.2	17.1	20.2	20.2	20.6
Distribution & Services	30.5	36.2	42.2	43.5	43.5
Total	100.0	100.0	100.0	100.0	100.0

Notes:

e = estimated data
p = preliminary data
a = figures cannot be calculated as one year is negative.
.. = data are not available.

1/ Data presentations in this brief are different from those of previous briefs due to revision of methodology and to new debt information.

2/ 1973 data sketchy and incomplete due to war.

3/ The data used is in calendar year.

4/ Year n represents fiscal year from 7/1/n-1 to 6/30/n. Prior to 1981 data in calendar year.

ARAB REPUBLIC OF EGYPT - ECONOMIC INDICATORS 1/

E. Merchandise Exports	Volume Index (1989=100): 1982	1983	1985	1987	1988	1989	1990	Value at Current Prices (million US$): 1982	1983	1985	1987	1988	1989	1990
Cotton	87.0	93.7	137.0	130.4	119.4	100.0	49.9	291	314	414	343	354	299	169
Other Agriculture	128.9	123.6	108.0	144.0	150.5	100.0	155.6	162	159	140	123	144	115	173
Oil (domestic companies)	117.8	126.4	136.7	82.7	142.7	100.0	106.1	2735	2656	2634	906	1563	1066	1229
Textiles	74.6	60.4	91.4	87.9	116.8	100.0	134.3	251	199	294	350	504	446	621
Other Manufactures	66.4	68.5	76.0	74.8	90.2	100.0	120.6	407	411	446	542	709	812	1015
Total Merch. Exports FOB	92.6	94.8	110.2	89.0	120.7	100.0	110.9	3847	3740	3928	2264	3274	2738	3206
F. Merchandise Imports														
Food & Other Agriculture	73.5	90.0	109.3	103.9	85.0	100.0	89.9	2175	2393	2711	2116	1881	2671	2385
Other Consumer Goods	67.4	74.9	118.2	84.6	104.4	100.0	101.8	1119	1218	1875	1658	2220	2197	2317
Capital Goods	149.6	156.7	157.7	100.6	111.8	100.0	112.8	2379	2443	2398	1891	2279	2106	2463
Intermediate Goods	96.1	101.6	137.4	76.1	108.9	100.0	104.9	2241	2322	3063	2098	3255	3087	3356
Primary	..	..	..	..	..	..	..	..	..	..	..	..		
Manufactures	..	..	..	..	..	..	..	..	..	..	..	..		
Petroleum & Other Energy	100.2	108.1	112.1	79.5	86.7	100.0	100.5	505	493	469	189	206	232	253
Total Merch. Imports CIF	95.2	104.3	129.6	90.2	101.8	100.0	101.8	8418	8869	10516	7952	9841	10294	10773

G. Terms of Trade (1989=100)	1982	1983	1985	1987	1988	1989	1990
Merch. Exports Price Index	151.7	144.1	130.2	93.0	99.1	100.0	105.6
Merch. Imports Price Index	85.9	82.6	78.8	85.7	93.9	100.0	102.8
Merchandise Terms of Trade	176.5	174.5	165.2	108.5	105.5	100.0	102.7

H. Balance of Payments	US$ millions (at current prices): 1982	1983	1985	1987	1988	1989	1990
Exports of Goods & NFS	6338	6682	6866	5667	7225	7061	8010
Merchandise (FOB)	3847	3740	3928	2264	3274	2738	3206
Non-Factor Services	2491	2943	2938	3403	3951	4324	4804
Imports of Goods & NFS	10132	10766	12606	10097	11690	12469	13137
Merchandise (CIF)	8418	8869	10516	7952	9841	10294	10773
Non-Factor Services	1714	1896	2091	2145	1849	2175	2364
Resource Balance	-3794	-4083	-5741	-4430	-4465	-5407	-5127
Net Factor Income 5/	-671	-630	-991	-457	-1689	-1590	-1937
(LT interest)2/ 5/	704	839	1000	936	2289	2430	2721
Net Current Transfers	2133	3191	3522	3033	3406	3556	3769
(workers remittances)	2082	3165	3496	3012	3384	3532	3744
Current Account Balance 5/	-2332	-1522	-3209	-1854	-2747	-3441	-3295
Long-Term Capital Inflow	3373	3665	3492	2250	2136	1892	2492
Direct Investment	100	120	212	176	124	124	136
Official Capital Grants	527	601	1097	974	698	711	930
Net LT Loans 3/	2767	2745	2183	1100	1314	1057	1426
Other LT Inflows (Net)	-20	199	0	0	0	0	0
Total Other Items (net) 4/	-980	-1254	108	350	947	1398	983
Net Short Term Capital	..	..	94	-249	-195	579	200
Capital Flows N.E.I.	..	..	14	599	-369	0	108
Error & Omission	0	0	0	0	1511	819	675
Change in Net Reserves	-61.2	-888.7	-390.4	-746.4	-335.5	151.8	-180.8
Net Credit from the IMF	-44.2	0.3	9.6	59.6	58.5	0.0	-38.8
Other Reserve Changes	-17.0	-889.0	-400.0	-806.0	-394.0	151.8	-142.0
[- indicates increase]							
As shares of GDP:							
Resource Balance	-14.8	-14.5	-16.5	-12.5	-14.4	-16.2	-13.3
LT Interest Payments 5/	2.7	3.0	2.9	2.6	7.4	7.3	7.0
Current Account Balance 5/	-9.1	-5.4	-9.2	-5.2	-8.9	-10.3	-8.5
Memorandum Items:							
Int'l. Reserves (mil. US$)	698	771	792	1378	1263	1520	..
Reserves incl. Gold (mil.US$)	1491	1528	1370	2192	2057	2199	..
Official X-Rate (LE/US$)	0.7	0.7	0.7	0.7	0.7	1.1	..
Index Real Eff. X-R Base 1987	..	85.8	105.0	100.0	108.2	100.1	98.5
GDP (millions of current US$)	25592	28137	34690	35545	30978	33399	38619

Notes:

1/ Year n represents fiscal year n which is from 7/1/(n-1) to 6/30/n.

2/ Includes interest on arrears and estimates of interest on military as well as short-term debt.

3/ Includes arrears and Western military debt. FY86/87 data includes $392 mill. military repayment to USSR.

4/ Includes rescheduling in FY87.

5/ Based on Debt service payments due for 1988-90 (source : IMF).

ARAB REPUBLIC OF EGYPT - ECONOMIC INDICATORS 1/

I. Budget	Shares of GDP (%) 1982	1983	1985	1987	1988	1989	1990	Growth Rates (% p.a.) 5/ 1983	1985	1987	1988	1989	1990
Current Receipts	25.9	25.6	22.2	19.0	18.6	19.0	17.1	15.3	10.3	5.4	18.1	20.9	17.6
Current Expenditures	38.8	36.3	35.9	29.3	29.0	28.7	24.8	8.7	10.5	-2.5	19.5	17.5	12.7
Current Budget Balance	-13.0	-10.7	-13.7	-10.3	-10.4	-9.8	-7.7	-4.5	10.9	-14.4	22.0	11.4	3.0
Capital Receipts	14.2	14.7	11.9	10.8	10.7	9.3	5.9	20.4	6.8	5.8	18.9	3.5	-16.8
Capital Expenditures	24.7	23.7	19.9	19.9	24.8	17.9	12.7	11.5	8.9	11.7	50.2	-14.4	-7.5
Overall Deficit	-23.5	-19.6	-21.6	-19.3	-24.5	-18.3	-14.4	-2.8	11.4	-1.2	52.8	-11.2	2.9
External Borrowing (net)	3.9	3.5	4.6	4.0	9.2	4.6	1.4	4.9	45.4	1.9	173.0	-40.7	-61.5
Domestic Bank Financing (net)	12.4	8.3	8.3	7.9	9.3	7.9	8.1	-22.2	-1.8	-14.0	41.5	1.0	33.9
Dom. Non-Bank Financing (net)	6.0	6.3	6.6	6.3	6.0	5.8	5.0	22.9	22.5	-0.6	14.6	14.7	11.4

J. External Capital Flows, Debt and Debt Burden Ratios	Net Disbursements (US$ millions) 3/ 1982	1983	1985	1987	1988	1989	1990	Debt Outstanding & Disbursed (US$ mil.) 1982	1983	1985	1987	1988	1989	1990
Public & Publicly Guar. LT	2671	2605	2116	970	1250	1065	1343	21747	24894	31098	39266	41532	40972	42315
Official Creditors	1771	1788	1643	827	723	425	1513	18133	20473	25697	33147	35491	34825	36339
Multilateral	237	283	243	269	183	131	30	18133	20473	25697	33147	35491	34825	36339
of which IBRD	98	94	157	47	-3	-27	-41	578	672	884	1534	1609	1488	1447
of which IDA	101	129	74	30	21	12	11	451	579	773	869	896	902	913
Bilateral	1535	1505	1400	558	540	294	1483	15170	17239	22017	28346	30395	29713	31196
Private Creditors	900	818	473	144	527	640	-171	3614	4421	5400	6120	6041	6147	5976
Suppliers	686	504	487	78	153	80	-199	2741	3301	4266	4637	4255	3973	3774
Financial Mkts	32	29	-39	-8	73	44	-101	407	436	318	303	376	419	318
Others	183	285	25	74	301	517	129	466	684	815	1180	1411	1755	1884
Private Non-Guaranteed LT e	95	140	67	130	64	-9	84	388	528	650	1023	1115	1131	1215
Total LT	2766	2745	2183	1100	1314	1057	1426	22135	25421	31748	40289	42647	42103	43529
Use of IMF Credit	-44.3	0.2	9.6	59.6	58.5	-8.4	-38.0	57	51	42	183	156	156	118
Net Short-Term Capital	..	..	93.5	-248.5	-195.0	579.0	200.0	4904	5044	6103	6267	4537	7806	8006
Total incl. IMF & Net ST	2722.2	2745.3	2285.7	910.7	1177.6	1627.3	1588.0	27096	30516	37892	46739	47340	50065	51653

Bank and IDA Ratios	1982	1983	1985	1987	1988	1989	1990
Share of Total Long-Term DOD							
1. IBRD as % of Total	2.6	2.6	2.8	3.8	3.8	3.5	3.3
2. IDA as % of Total	2.0	2.3	2.4	2.2	2.1	2.1	2.1
3. IBRD+IDA as % of Total	4.6	4.9	5.2	6.0	5.9	5.7	5.4
Share of Total LT Debt Service							
1. IBRD as % of Total	2.7	3.3	5.0	10.9	14.7	11.3	5.2
2. IDA as % of Total	0.2	0.2	0.3	0.4	0.6	0.5	0.2
3. IBRD+IDA as % of Total	2.9	3.5	5.3	11.4	15.2	11.8	5.4
DOD-to-Exports Ratios 4/							
1.Long-Term Debt/Exports	249.1	246.3	290.5	423.9	368.5	362.7	358.6
2. IMF Credit/Exports	0.6	0.5	0.4	1.9	1.3	1.3	1.0
3. Short-Term Debt/Exports	55.2	48.9	55.8	65.9	39.2	67.2	66.0
4. LT+IMF+ST DOD/Exports	304.9	295.7	346.7	491.8	409.1	431.3	425.6
DOD-to-GDP Ratios							
1. Long-Term Debt/GDP	86.5	90.3	91.5	113.3	137.7	126.1	112.7
2. IMF Credit/GDP	0.2	0.2	0.1	0.5	0.5	0.5	0.3
3. Short-Term Debt/GDP	19.2	17.9	17.6	17.6	14.6	23.4	20.7
4. LT+IMF+ST DOD/GDP	105.9	108.5	109.2	131.5	152.8	149.9	133.8
Debt Service % (DS/Exp) 4/							
1. Public & Guaranteed LT	22.4	21.2	21.5	19.5	13.3	17.8	41.5
2. Private Non-Guaranteed LT	1.2	1.3	1.7	2.4	2.1	2.4	2.4
3. Total LT Debt Service 6/	23.6	22.6	23.2	21.8	43.3	43.1	47.6
4. IMF Repurchases+Serv.Chgs.	0.9	0.3	0.1	0.2	0.3	0.2	0.4
5. Interest on ST Debt 6/	4.8	2.5	5.1	3.6	3.0	3.1	3.1
6. Total (LT+IMF+ST Int.) 6/	29.3	25.4	28.3	25.6	46.6	46.5	51.1

Notes:

a = growth rates cannot be calculated as one year is negative
e = estimate
p = preliminary data
.. = data are not available.

1/ Year n represents fiscal year n which is from 7/1/(n-1) to 6/30/n.

2/ As at the beginning of the year and includes arrears and rescheduled debt. 1988 DOD data are for end CY 1988 and are not fully comparable to earlier years.

3/ Civilian and military debt.

4/ Exports of goods & services excluding foreign oil companies' exports incl. workers' remittances (R).

5/ Based on current prices.

6/ Debt services for 1988-90 were based on the amounts due.

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: December 17, 1990

TO: Ms. Rosalinda Dacumos, Economist, CECMG

FROM: Khai Nguyen, EM3CO

EXTENSION: 33049

SUBJECT: Assumptions Underlying the Projections for Egypt

1. As you requested, this memorandum describes the main assumptions underlying the projections for Egypt in connection with the Fall 1990 Unified Survey.

2. Main assumptions :

a) Due to Gulf crisis, the Egyptian economy is projected to experience higher domestic inflation, slower growth, a depreciation of the Egyptian Pound, an impact fall in export revenue except oil export earnings, and sharply reduced workers' remittances.

b) US military and Arab debts amounting to $13 billion were assumed to be written off. Paris Club debt services falling due during the period January 1991 - June 1992, along with accumulated arrears, were assumed to be rescheduled on Toronto terms.

c) The budget deficit could be reduced substantially in real terms through expenditure cuts and higher and better-targeted taxes. Such fiscal adjustment would reduce domestic demand and depress economic activity in the short-run. However, it would help Egypt's trade performance through more efficient resource allocation in conjunction with the implementation of exchange rate reform.

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d) The exchange rates were assumed to be unified at the beginning of CY91 at a rate not less than 30 percent above the present Banks' Free Market rate; thereafter, the real effective exchange rate would be kept constant.

e) Due to devaluation, higher interest rates and energy prices, and the speed of money base creation, domestic inflation was assumed to increase to about 40 percent in FY91 from its FY90 level of 25 percent, falling gradually to 22 percent and 12 percent in FY92-FY93, respectively.

f) GDP is expected to decline by 2 percent and 1.5 percent in real terms in FY91-FY92, respectively. This is due to depressed domestic aggregate demand and several structural reform adjustments which are likely to reduce output. GDP performance is expected to improve in later years due to increased investment in more productive sectors, increased efficiency, and increase in manufacturing production for export which is stimulated by higher real exchange rates. GDP would grow by 2 percent in FY93. In the long-run, an average growth in real GDP of 4 percent appears feasible.

g) Private investments are expected to increase their share from the present 40 percent to about 50 percent of total investment by FY93 and growing thereafter. This projection is based on an assumption that the overall business climate improves as a result of a rapid implementation of proposed reform measures.

c/c Messrs. Dinh, Giugale (o/r) (EM3CO).
Ms. Ossowicka (CECMG).

knguyen/assump

CCEG FC EG

WORLD BANK OTS SYSTEM
SENIOR VICE PRES. OPERATIONS

CORRESPONDENCE DATE : 90/05/17 DUE DATE : 00/00/00
LOG NUMBER : 900518005 FROM : HUSAIN
SUBJECT : ZAMBIA - FINANCING PLAN

OFFICE ASSIGNED TO FOR ACTION : NO ASSIGN OFFICE

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :PRIORITY #1
CC: MR. BOCK, MR. DUBEY, MR. LEE

Zambia CSP file

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE May 17, 1990 CONFIDENTIAL

TO Files

FROM S. Shahid Husain, Acting Senior Vice President, Operations

EXTENSION 39001

SUBJECT Zambia Financing Plan

DECLASSIFIED
JUN 04 2025
WBG ARCHIVES

1. Messrs. Bock, Gebhart and I met with Mr. Erb to discuss how much of a contribution the Fund could make to the 1990 financing plan for Zambia. Messrs. Toure, Boorman, Blalock and Bornemann were also present. We provided the Fund with the attached table which shows a 1990 gap of $234 million before any exceptional efforts by the Bank and the Fund. It was noted that the figures for IDA were different than those presented to the CG in terms of phasing (the CG presentation assumed no disbursements in 1990). Moreover, these figures represented the maximum regular IDA contribution that could be made assuming strong performance. As to exceptional efforts on the part of the Bank, we were prepared to countenance some frontloading of the IDA program, but this would be unlikely to exceed $50 million in 1990. As for any additional amounts, they would have to be subject to a special allocation of IDA funds to be approved by the Bank's Board of Directors. We could not seek such an approval unless it was clear that the IMF was also contributing to the maximum extent feasible.

2. Here we noted two substantive problems: first, were we to go to the maximum for a special allocation, the combination of frontloading and the special allocation would be virtually equal to the amount being paid by Zambia to the IMF in 1990, even with arrears frozen at the end of June. Second, at the time of the CG, it was assumed that the Fund's arrears would be cleared in early 1991 and that Zambia would be able to draw on the ESAF during the 1991-93 period. Under the Rights Approach, however, Zambia would not be able to draw but would nonetheless need to remain current with the Fund. This meant that the Fund would be withdrawing $300 million more from Zambia over the 1990-93 period than had been assumed in the CG presentation. It was therefore doubly important for the IMF to be forthcoming in helping finance the gap in 1990.

3. Mr. Erb told us that: (a) He saw no way for the Fund to go beyond the proposal to freeze the arrears at the end of June. Even this was controversial with the members of the Board, and he did not see any flexibility in this regard. (b) There might be some flexibility for the Fund to contribute to future years' financing through drawings under the SAF, but that this would require much more groundwork both inside the Fund and vis a vis the member governments.

4. In closing, I reiterated the importance attached by the Bank's management to the Fund making maximum efforts in 1990, freezing the arrears as of the end of June, at the least.

cc: Messrs. Conable, Qureshi (o/r), Stern, Wood, Jaycox, Sandstrom, Ms. Haug, Ms. Iweala, Gebhart

DB/mjw

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JUN 04 2025

ZAMBIA: EXTERNAL FINANCING REQUIREMENTS, 1990-93
IMF-Rights Approach, No IDA Front-Loading

(US$ MILLIONS)

WBG ARCHIVES

	1990	1991	1992	1993	Total 1990-93
CURRENT ACCOUNT (EXC. INTEREST)	-220	-252	-253	-228	-953
DEBT SERVICE (INC ARREARS)	-3067	-853	-770	-708	-5396
NON-MULTILATERALS	-2481	-522	-543	-483	-4029
Scheduled Obligations 1/	-395	-368	-388	-313	-1444
Interest on Arrears 2/	-132	0	0	0	-132
Interest on Deferred Payments 3/	0	-154	-175	-170	-499
Arrears	-1954	0	0	0	-1954
MULTILATERALS	-586	-331	-227	-223	-1367
World Bank	-305	-74	-72	-71	-522
Debt Service IDA	-3	-3	-4	-6	-15
Debt Service IBRD	-85	-71	-68	-65	-290
Arrears	-217	0	0	0	-217
IMF	-225	-157	-104	-100	-586
Repurchases	-117	-57	-6	-3	-183
Charges 4/	-108	-100	-98	-97	-403
Arrears 4/	0	0	0	0	0
					0
Other Multilaterals	-56	-100	-51	-52	-259
GROSS FINANCING REQUIREMENTS	-3287	-1105	-1023	-934	-6349
DEBT RELIEF NON-MULTILATERALS 5/	2444	443	473	441	3801
Arrears 6/	1939	71	86	100	2196
Current Debt Service	505	372	387	341	1605
REQUIREMENTS AFTER DEBT RELIEF	-843	-662	-550	-493	-2548
PROJECTED FINANCING INFLOWS	609	522	517	518	2166
Private Flows 6/	15	0	0	0	15
Official Investment Flows	200	196	198	200	794
Loans	60	70	70	70	270
Grants	140	126	128	130	524
Official Adjustment Flows (SPA) 7/	280	210	205	205	900
World Bank	114	116	114	113	457
IDA	101	101	101	101	404
IDA Reflows (5th Dimension)	13	15	13	12	53
FINANCING GAP	234	140	33	-25	382

Is it not well above the Regular allocation

1/ Includes service on debt contracted after January 1, 1990.
2/ Interest accruing on arrears outstanding at end 1989.
3/ Interest on rescheduled and deferred amounts. Assumes rescheduling at end 1990. Includes post-cut off arrears deferred throughout 1991-93.
4/ Assumes arrears are cleared on January 1, 1994.
5/ Assumes rescheduling of Paris Club debt under Toronto terms and deferral of other non-multilateral debt.
6/ Includes effect of debt swaps in 1990.
7/ Includes donor co-financing associated with Fifth Dimension and donor contribution to finance World Bank arrears.

cc. Mr Dudley

THE WORLD BANK

June 4, 1990

Messrs. Jaycox/Sandstrom:

This is fine. You can proceed on this basis but on the understanding that our large contribution will be made available on the basis that the financing gap will be closed.

cc: Mr. Conable

MOEEN A. QURESHI
Senior Vice President, Operations

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

900601025

DATE: June 1, 1990

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

FROM: Edward V. K. Jaycox, Vice President, Africa Region

EXTENSION: 34000

SUBJECT: ZAMBIA - Financing Plan

1. Attached for your review and endorsement are the four tables which constituted Attachment A of our May 4 memorandum to you on a proposed financing plan for Zambia; the tables have been revised to make clear that the new financing from IDA consists of two components, a front-loaded "high allocation" and an "extraordinary allocation." The high allocation is based on underlying commitments comparable to Ghana's IDA-8 allocation while the extraordinary allocation represents an even higher IDA allocation, but still within the range of actual per capita commitments during IDA-8 to well performing countries (see para. 4). The financing gap remains the same as in the May 4 Attachment A with the exception of a minor adjustment to IDA disbursements in 1993 so as to eliminate the small surplus in 1993 which appeared in the May 4 version.

2. This financing plan is the outcome of several rounds of negotiations and discussions with bilateral donors and the IMF. All parties have now made maximum effort in relation to the large financing gaps of earlier financing plans. Another round to elicit more funds based on a major gap is likely to be counterproductive with the risk that the entire package could disintegrate. As the plan now stands the Fund takes out $117 m. in 1990, the Bank, $105 m. During the subsequent three years the Fund takes out $333 m., but at the end of that period must clear arrears of $1 b. We and the donors will continue to press the Fund to find the means to reduce its charges further during this period. The Banks's arrears will of course already have been cleared in 1990. Over the entire four year period the Bank will be net positive by only $50m. The remaining financing gaps - $40 m. in 1990, $87 m. in 1991, and $62 m. in 1992 - are manageable in the context of the intensive donor consultation process that is underway, provided that the donors are convinced that their effort balances that of the other parties, especially the multilateral institutions.

3. It is now essential to close the plan quickly so that these tables can be distributed to the SPA meeting in Paris next week, with the message to donors that a feasible plan is imminent and they should start to release the funds which were conditional on the package coming together. The timely release of these funds is essential to maintaining the program; to-date the Government of Zambia has not received any donor funding for the "market-clearing" 2nd window, while disbursements through the window have begun to accelerate. Agreement has been reached with the Government on a schedule for channelling a growing proportion of imports through the 2nd window so that by end-1990 approximately 95% of imports would be purchased at the market-clearing rate. This critical aspect of

the program will be seriously set back if donor support does not soon begin to flow.

4. As stressed above, this financing plan represents extra effort by all parties:

- We have pressed the IMF in recent weeks but they are unable to move beyond 6/30 as the date for freezing their arrears. Nevertheless this represents a significant concession from the earlier date of December, 1989 resulting in a reduction of $108 m. in the financing requirements for 1990, compared to the financing plan presented to the April CG meeting.

- This plan assumes extraordinary rescheduling by the Paris Club, going beyond standard "Toronto" terms by deferring moratorium interest due during the four years 1990-93 and spreading the post cut-off date arrears also over the four years. Indications remain positive that the Club would react favorably to such requests from Zambia.

- Bilateral donors are making extraordinary efforts. Their 1990 pledges have so far exceeded our expectations by about $130 m. ($480 m. vrs. $350 m.). Based on these pledges we anticipate "SPA" <u>disbursements</u> of $280 m. in 1990. This translates to about $37 per-capita, an amount well above SPA-I total <u>allocations</u> per-capita for any SPA country (Senegal averaged $24.7 per-capita, Mozambique $17.2, Tanzania $11.6). The upcoming SPA meeting and the CG scheduled for July 24 will offer opportunities to press the donors for some additional support; but there would be little to be gained by soliciting more in the absence of the agreed plan on which donors have made many of their recent pledges contingent.

- In this financing plan the IDA "extraordinary" allocation contributes an additional $116 m. over the four years beyond the front-loaded "high" allocation. In per-capita terms, front-loading the "high" allocation, and adjusting disbursements to commitments as in page 4 of the attachment, results in per-capita IDA commitments for the "high" program alone of $20 in 1990, $12 in 1991 and in 1992, and $9.3 in 1993 (average $13.5 per capita over the 4-year period). This is also in line with the Ghana profile during IDA-8 (commitments of $15.8 in FY88 falling to $9.5 in FY90). The "high" and the "extraordinary" allocations together average $16.9 per capita annually over the 4-year period (with a profile of $26.0 in 1990, $18.2 in 1991, and $11.7 in 1992 and 1993); during IDA-8, several countries received similar high allocations (3-year averages and/or annual peaks): Burundi, CAR, Guinea, Mauritania, Senegal and Togo.

5. We would like to begin the process of closing the remaining gap. The first step will be to present and discuss these tables with the SPA donors next week in Paris. May we have your clearance to proceed.

cc: Messrs. Denning (AFRVP), O'Brien (AFRCE), Bock (CFSVP), Grilli (EAS), Ms. De Nevers (FRSCR), Sandstrom (AF6DR), Messenger, Gebhart, Karuga, Yang (AF6CO), Khan (AF6ZM)

RWGrawe:bt

ZAMBIA: EXTERNAL FINANCING REQUIREMENTS, 1990-93
IMF-Rights Approach, IDA-Front-Loading

(US$ MILLIONS)

	1990	1991	1992	1993	Total 1990-93
CURRENT ACCOUNT (EXC. INTEREST)	-220	-252	-253	-228	-953
DEBT SERVICE (INC ARREARS)	-3067	-853	-770	-706	-5396
NON-MULTILATERALS	-2481	-522	-543	-483	-4029
Scheduled Obligations 1/	-395	-368	-368	-313	-1444
Insterest on Arrears 2/	-132	0	0	0	-132
Interest on Deferred Payments 3/	0	-154	-175	-170	-499
Arrears	-1954	0	0	0	-1954
MULTILATERALS	-586	-331	-227	-223	-1367
World Bank	-305	-74	-72	-71	-522
Debt Service IDA	-3	-3	-4	-6	-15
Debt Service IBRD	-85	-71	-68	-65	-290
Arrears	-217	0	0	0	-217
IMF	-225	-157	-104	-100	-586
Repurchases	-117	-57	-6	-3	-183
Charges 4/	-108	-100	-98	-97	-403
Arrears 4/	0	0	0	0	0
					0
Other Multilaterals	-56	-100	-51	-52	-259
GROSS FINANCING REQUIREMENTS	-3287	-1105	-1023	-934	-6349
DEBT RELIEF NON-MULTILATERALS 5/	2444	443	473	441	3801
Arrears 6/	1939	71	86	100	2196
Current Debt Service	505	372	387	341	1605
REQUIREMENTS AFTER DEBT RELIEF	-843	-662	-550	-493	-2548
PROJECTED FINANCING INFLOWS	803	575	490	491	2359
Private Flows 6/	15	0	0	0	15
Official Investment Flows	200	196	198	200	794
Loans	60	70	70	70	270
Grants	140	126	128	130	524
Official Adjustment Flows (SPA) 7/	280	210	205	205	900
World Bank	200	179	97	96	572
IDA	187	164	84	84	519
High Allocation 8/	150	101	76	76	403
Extraordinary Allocation	37	63	8	8	116
IDA Reflows (5th Dimension)	13	15	13	12	53
IMF (net)	108	-10	-10	-10	78
Deferred Obligations	113	0	0	0	113
Charges on Deferred Obligations	-5	-10	-10	-10	-35
FINANCING GAP 9/	40	87	60	2	189

1/ Includes service on debt contracted after January 1, 1990.
2/ Interest accruing on arrears outstanding at end 1989.
3/ Interest on rescheduled and deferred amounts. Assumes rescheduling at end 1990. Includes post-cut off arrears deferred throughout 1991-93.
4/ Assumes arrears are cleared on January 1, 1994.
5/ Assumes rescheduling of Paris Club debt under Toronto terms and deferral of other non-multilateral debt.
6/ Includes effect of debt swaps in 1990.
7/ Includes donor co-financing associated with Fifth Dimension and donor contribution to finance World Bank arrears.
8/ This is based on average IDA per-capita commitments over the four years 1990-93 equivalent to $13.50 annually.
9/ This gap may be covered by additional export receipts should the copper price remain above projected levels.

WORLD BANK (IBRD AND IDA) FINANCIAL PLAN 1990-93
IDA Front-Loading

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-305	-74	-72	-71	-522
ARREARS	-217	0	0	0	-217
DEBT SERVICE - IDA	-3	-3	-4	-6	-15
DEBT SERVICE - IBRD	-85	-71	-68	-65	-290
-Principal	-40	-41	-42	-42	-165
-Interest	-45	-30	-26	-23	-124
INFLOWS	200	179	97	96	572
IDA REFLOWS (5TH DIMENSION) 1/	13	15	13	12	53
IDA NEW INVESTMENT PROJECTS	0	7	20	20	47
IDA ON-GOING INVESTMENT CREDITS	20	19	14	14	67
IDA QUICK DISBURSING	167	138	50	50	405
On-going Credits	30				30
New Adjustment Credits	100	75	42	42	259
Extraordinary Allocation	37	63	8	8	116
NET FLOWS IBRD/IDA	-105	105	25	25	50

1/ Estimated to cover about 1/4 of IBRD interest payments in 1990 and 1/2 thereafter.

IMF FINANCIAL FLOWS 1990-93
Rights Approach

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-225	-157	-104	-42	-528
ARREARS 1/	0	0	0	0	0
DEBT SERVICE	-225	-157	-104	-42	-528
REPURCHASES	-117	-57	-6	-3	-183
CHARGES	-22	-13	-9	-8	-52
INTEREST ON ARREARS	-86	-87	-89	-31	-293
INFLOWS	108	-10	-10	-10	78
DEFERRED OBLIGATIONS 2/	113	0	0	0	113
CHARGES ON DEFERRED OBLIGATIONS	-5	-10	-10	-10	-35
NET FLOWS	-117	-167	-114	-52	-450

1/ Assumes arrears (US$979 million at end 1989) are cleared on January 1, 1994
2/ Assumes 1/2 of debt service due in 1990 is deferred and capitalized under the "rights approach".

ZAMBIA

WORLD BANK FINANCING PLAN 1990-1993

(US$ millions)

SOURCE	1990	1991	1992	1993	1990-93
IDA Disbursements					
New Adjustment Credits 1/	137	138	50	50	375
Commitments:					
1990 - $200 m.	137	63			
1991 - $100 m.		75	25		
1992 - $ 50 m.			25	25	
1993 - $ 50 m.				25	
Fifth Dimension	13	15	13	12	53
Ongoing Projects	50	19	14	14	97
Investment	20	19	14	14	
Adjustment	30				
New Projects Credits	-	7	20	20	47
Commitments:					
$40 m. p.a.					
1991-93					
Sub-Total - IDA	200	179	97	96	572
Financing for Bank Arrears					
Donors 2/	30				
Zambian Government	75				
Sub-total	105				
Total Financing	305	179	97	96	677
Obligations to Bank	305	74	72	71	522
o/w Current					
Arrears					
Net Flow-Bank to Zambia	-105	105	25	25	50

1/ This combines the "high" and "extraordinary" allocations, detailed in Tables 1 and 2 of this attachment.

2/ Comprised of amounts held in trust by the Bank on behalf of two donors. Two additional donors have indicated that they would be prepared to shift part of their SPA contributions to the Bank for this purpose and another donor has advised that it would make a small contribution, which would be additional to its CG indication.

WORLD BANK OTS SYSTEM
SENIOR VICE PRES. OPERATIONS

cc EG

VP 6/4
EC

CORRESPONDENCE DATE : 90/06/01 DUE DATE : 00/00/00
LOG NUMBER : 900601035 FROM : JAYCOX
SUBJECT : ZAMBIA - FINANCING PLAN

OFFICE ASSIGNED TO FOR ACTION : NO ASSIGN OFFICE

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :PRIORITY #1
CC: MESSRS. BOCK, DUBEY

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: June 1, 1990

TO: Mr. Moeen A. Qureshi, Senior Vice President, Operations

FROM: Edward V. K. Jaycox, Vice President, Africa Region

EXTENSION: 34000

SUBJECT: ZAMBIA - Financing Plan

1. Attached for your review and endorsement are the four tables which constituted Attachment A of our May 4 memorandum to you on a proposed financing plan for Zambia; the tables have been revised to make clear that the new financing from IDA consists of two components, a front-loaded "high allocation" and an "extraordinary allocation." The high allocation is based on underlying commitments comparable to Ghana's IDA-8 allocation while the extraordinary allocation represents an even higher IDA allocation, but still within the range of actual per capita commitments during IDA-8 to well performing countries (see para. 4). The financing gap remains the same as in the May 4 Attachment A with the exception of a minor adjustment to IDA disbursements in 1993 so as to eliminate the small surplus in 1993 which appeared in the May 4 version.

2. This financing plan is the outcome of several rounds of negotiations and discussions with bilateral donors and the IMF. All parties have now made maximum effort in relation to the large financing gaps of earlier financing plans. Another round to elicit more funds based on a major gap is likely to be counterproductive with the risk that the entire package could disintegrate. As the plan now stands the Fund takes out $117 m. in 1990, the Bank, $105 m. During the subsequent three years the Fund takes out $333 m., but at the end of that period must clear arrears of $1 b. We and the donors will continue to press the Fund to find the means to reduce its charges further during this period. The Banks's arrears will of course already have been cleared in 1990. Over the entire four year period the Bank will be net positive by only $50m. The remaining financing gaps - $40 m. in 1990, $87 m. in 1991, and $62 m. in 1992 - are manageable in the context of the intensive donor consultation process that is underway, provided that the donors are convinced that their effort balances that of the other parties, especially the multilateral institutions.

3. It is now essential to close the plan quickly so that these tables can be distributed to the SPA meeting in Paris next week, with the message to donors that a feasible plan is imminent and they should start to release the funds which were conditional on the package coming together. The timely release of these funds is essential to maintaining the program; to-date the Government of Zambia has not received any donor funding for the "market-clearing" 2nd window, while disbursements through the window have begun to accelerate. Agreement has been reached with the Government on a schedule for channelling a growing proportion of imports through the 2nd window so that by end-1990 approximately 95% of imports would be purchased at the market-clearing rate. This critical aspect of

the program will be seriously set back if donor support does not soon begin to flow.

4. As stressed above, this financing plan represents extra effort by all parties:

- We have pressed the IMF in recent weeks but they are unable to move beyond 6/30 as the date for freezing their arrears. Nevertheless this represents a significant concession from the earlier date of December, 1989 resulting in a reduction of $108 m. in the financing requirements for 1990, compared to the financing plan presented to the April CG meeting.

- This plan assumes extraordinary rescheduling by the Paris Club, going beyond standard "Toronto" terms by deferring moratorium interest due during the four years 1990-93 and spreading the post cut-off date arrears also over the four years. Indications remain positive that the Club would react favorably to such requests from Zambia.

- Bilateral donors are making extraordinary efforts. Their 1990 pledges have so far exceeded our expectations by about $130 m. ($480 m. vrs. $350 m.). Based on these pledges we anticipate "SPA" disbursements of $280 m. in 1990. This translates to about $37 per-capita, an amount well above SPA-I total allocations per-capita for any SPA country (Senegal averaged $24.7 per-capita, Mozambique $17.2, Tanzania $11.6). The upcoming SPA meeting and the CG scheduled for July 24 will offer opportunities to press the donors for some additional support; but there would be little to be gained by soliciting more in the absence of the agreed plan on which donors have made many of their recent pledges contingent.

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RWGrawe:bt

ZAMBIA: EXTERNAL FINANCING REQUIREMENTS, 1990-93
IMF-Rights Approach, IDA-Front-Loading

(US$ MILLIONS)

	1990	1991	1992	1993	Total 1990-93
CURRENT ACCOUNT (EXC. INTEREST)	-220	-252	-253	-228	-953
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Scheduled Obligations 1/	-395	-368	-368	-313	-1444
Insterest on Arrears 2/	-132	0	0	0	-132
Interest on Deferred Payments 3/	0	-154	-175	-170	-499
Arrears	-1954	0	0	0	-1954
MULTILATERALS	-586	-331	-227	-223	-1367
World Bank	-305	-74	-72	-71	-522
Debt Service IDA	-3	-3	-4	-6	-15
Debt Service IBRD	-85	-71	-68	-65	-290
Arrears	-217	0	0	0	-217
IMF	-225	-157	-104	-100	-586
Repurchases	-117	-57	-6	-3	-183
Charges 4/	-108	-100	-98	-97	-403
Arrears 4/	0	0	0	0	0
					0
Other Multilaterals	-56	-100	-51	-52	-259
GROSS FINANCING REQUIREMENTS	-3287	-1105	-1023	-934	-6349
DEBT RELIEF NON-MULTILATERALS 5/	2444	443	473	441	3801
Arrears 6/	1939	71	86	100	2196
Current Debt Service	505	372	387	341	1605
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PROJECTED FINANCING INFLOWS	803	575	490	491	2359
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Official Investment Flows	200	196	198	200	794
Loans	60	70	70	70	270
Grants	140	126	128	130	524
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High Allocation 8/	150	101	76	76	403
Extraordinary Allocation	37	63	8	8	116
IDA Reflows (5th Dimension)	13	15	13	12	53
IMF (net)	108	-10	-10	-10	78
Deferred Obligations	113	0	0	0	113
Charges on Deferred Obligations	-5	-10	-10	-10	-35
FINANCING GAP 9/	40	87	60	2	189

1/ Includes service on debt contracted after January 1, 1990.
2/ Interest accruing on arrears outstanding at end 1989.
3/ Interest on rescheduled and deferred amounts. Assumes rescheduling at end 1990. Includes post-cut off arrears deferred throughout 1991-93.
4/ Assumes arrears are cleared on January 1, 1994.
5/ Assumes rescheduling of Paris Club debt under Toronto terms and deferral of other non-multilateral debt.
6/ Includes effect of debt swaps in 1990.
7/ Includes donor co-financing associated with Fifth Dimension and donor contribution to finance World Bank arrears.
8/ This is based on average IDA per-capita commitments over the four years 1990-93 equivalent to $13.50 annually.
9/ This gap may be covered by additional export receipts should the copper price remain above projected levels.

WORLD BANK (IBRD AND IDA) FINANCIAL PLAN 1990-93
IDA Front-Loading

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-305	-74	-72	-71	-522
ARREARS	-217	0	0	0	-217
DEBT SERVICE - IDA	-3	-3	-4	-6	-15
DEBT SERVICE - IBRD	-85	-71	-68	-65	-290
-Principal	-40	-41	-42	-42	-165
-Interest	-45	-30	-26	-23	-124
INFLOWS	200	179	97	96	572
IDA REFLOWS (5TH DIMENSION) 1/	13	15	13	12	53
IDA NEW INVESTMENT PROJECTS	0	7	20	20	47
IDA ON-GOING INVESTMENT CREDITS	20	19	14	14	67
IDA QUICK DISBURSING	167	138	50	50	405
On-going Credits	30				30
New Adjustment Credits	100	75	42	42	259
Extraordinary Allocation	37	63	8	8	116
NET FLOWS IBRD/IDA	-105	105	25	25	50

1/ Estimated to cover about 1/4 of IBRD interest payments in 1990 and 1/2 thereafter.

IMF FINANCIAL FLOWS 1990-93
Rights Approach

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-225	-157	-104	-42	-528
ARREARS 1/	0	0	0	0	0
DEBT SERVICE	-225	-157	-104	-42	-528
REPURCHASES	-117	-57	-6	-3	-183
CHARGES	-22	-13	-9	-8	-52
INTEREST ON ARREARS	-86	-87	-89	-31	-293
INFLOWS	108	-10	-10	-10	78
DEFERRED OBLIGATIONS 2/	113	0	0	0	113
CHARGES ON DEFERRED OBLIGATIONS	-5	-10	-10	-10	-35
NET FLOWS	-117	-167	-114	-52	-450

1/ Assumes arrears (US$979 million at end 1989) are cleared on January 1, 1994
2/ Assumes 1/2 of debt service due in 1990 is deferred and capitalized under the "rights approach".

ZAMBIA

WORLD BANK FINANCING PLAN 1990-1993

(US$ millions)

SOURCE	1990	1991	1992	1993	1990-93
IDA Disbursements					
New Adjustment Credits 1/	137	138	50	50	375
Commitments:					
1990 - $200 m.	137	63			
1991 - $100 m.		75	25		
1992 - $ 50 m.			25	25	
1993 - $ 50 m.				25	
Fifth Dimension	13	15	13	12	53
Ongoing Projects	50	19	14	14	97
Investment	20	19	14	14	
Adjustment	30				
New Projects Credits	-	7	20	20	47
Commitments:					
$40 m. p.a.					
1991-93					
Sub-Total - IDA	200	179	97	96	572
Financing for Bank Arrears					
Donors 2/	30				
Zambian Government	75				
Sub-total	105				
Total Financing	305	179	97	96	677
Obligations to Bank	305	74	72	71	522
o/w Current					
Arrears					
Net Flow-Bank to Zambia	-105	105	25	25	50

1/ This combines the "high" and "extraordinary" allocations, detailed in Tables 1 and 2 of this attachment.

2/ Comprised of amounts held in trust by the Bank on behalf of two donors. Two additional donors have indicated that they would be prepared to shift part of their SPA contributions to the Bank for this purpose and another donor has advised that it would make a small contribution, which would be additional to its CG indication.

Repris' meeting with
Mr. S. Shahid Husain, Acting SVPOP

Financing Plan

Zambia

- What are asking the Paris Club?

Cashin — asking Toronto (Tanzania version
- rescheduling moratorium ½ (there is precedent)
- post-cut-off debt arrears "rescheduling (no precedent)

(No discussions by the Bank with the Chairman or officials of Paris Club)

SSH — Any body talked to the Chairman of Paris Club

→ Kim: to talk to officials of the Paris Club himself

Assumptions about IMF

IBRD needed before IMF accepted

Repris — - worked out the financing plan with the IMF staff
- bargained with agreed
- Agreed measures of the Board — Sum approaching 1st half 1990, amount $130 million
↓
Issuance of rights against it
→ Zambia before current after June 1989.
- Clearance of all IMF arrears after 1994

SSH — If IMF board & MD accepts receptive to management →

IBRD Disbursements

Reform — Disbursements will continue only against assessed credit → which meet objectives — $57 to be cancelled

---

make use of the 5th dimension —

relending IDA reflows (supplementary) = proportion of it paid to IBRD
$13 million
(≈ 50%

New disbursement — $50 million Commitments/year
No disbursements.

---

ongoing Credits

- IDA continued not acceptable to Brain
- Bodies — Numbers not entirely unacceptable
- Brain want IMF to do more.
  (IMF takes out 1990-94 — $450 million more than IBRD

- IMF to cumulate arrears beyond June 1990:

Net cash flow for the Bank roughly break even

Finance Treasury Plan gap - 1990 - £126 mn

(SSH) → ~~Dictier~~ To meet B-Canada first.
— go back

EDs to go back to the Capitals to get authorization for accumulating arrears upto June 1990

Lucr. Barclays, Merrill, MBO, ES.

—

arrears allowed to June 1990

ES and Mauritius
given away the store

CSE file

Th World Bank/IFC/MIGA
O F I C E M E M O R A N D U M

DATE: 12-May-1990 10:42am

TO: See Distribution Below

FROM: Sven Sandstrom, AF6DR (SVEN SANDSTROM)

EXT.: 34035

SUBJECT: Zambia: Meeting of IMF EDs

1. Yesterday afternoon, May 11, I attended an informal meeting of Fund EDs, chaired by Mr Erb, to discuss the Zambia financing plan. Shortly before the meeting, Mr Erb indicated that he wished to present a revised financing plan showing what the Bank might be able to do beyond what had been presented to the CG last month. In response, I said that we were still reviewing what the Bank might be able to do and would therefore not be prepared to present specific numbers at the meeting. I also indicated that we would not be able to go beyond what typically would be allocated under IDA for a well performing country and that a substantial gap would therefore still remain which would require the Fund to freeze the arrears at a date later than the mid-1990 date which had been discussed at the staff level a week ago. Hence, no revised Bank / IDA financing plan was presented or discussed at the meeting. (I had only yesterday morning learnt about the discussion which took place between senior Bank and Fund management on May 2, when Bank management had taken a stand which implied lower IDA contributions and aimed at freezing Fund arrears at the end of 1990 rather than in mid-1990 as had been negotiated at the staff level and reflected in my May 4 memo to Mr Qureshi on Zambia -- Proposed Financing Plan.)

THE MEETING ITSELF

2. Mr Erb presented a revised financing plan based on the plan presented to the CG in April but modified in the following ways:

(a) it assumes that the Fund arrears would be cleared only after 1993, under the "Rights Approach", rather than in 1991 (this does, of course, not change the 1990 gap);

(b) it reduces the 1990 gap from the $352 million in the CG scenario to $48 million through the following adjustments:

(i) $100 million from additional donor pledges at the April CG meeting,

(ii) $15 million from additional foreign investment flows,

(iii $76 million from "exceptional rescheduling coverage" (i.e., the Paris Club is expected to go beyond the Toronto terms), and

(iv) $113 million from "additional support".

3. Mr Erb indicated that this plan did not reflect any change with regard to the Bank's financing plan since the CG meeting (i.e., Bank arrears would be cleared early in 1991 and total IDA inflows to Zambia would be $109 million in 1991, $165 million in 1992 and $165 million in 1993). He emphasized, however, that the Bank was considering the possibility of clearing arrears before the end of 1990 and making a larger contribution to the financing in 1990 and 1991.

4. The discussion focused on the $113 million in "additional support" (which equals Zambia's obligations to the Fund during the first six months of 1990). Mr Erb explained that this amount could be raised in one of several ways, including:

(a) a Support Group could be formed with the task of mobilizing these funds,

(b) the Fund could freeze its arrears at the end of June, 1990 rather than at the end of 1989, or

(c) SAF resources could be provided in the context of the "Rights Approach", as has been discussed in the Fund Board.

5. Only Option (b) was seriously discussed. Several EDs, particularly the German ED, emphasized that further accumulation of arrears beyond December 1989 would be unacceptable. (Some EDs noted privately after the meeting that Zambia is not paying its 1990 obligations and the Fund may therefore ultimately have to accept further accumulation of arrears as a fact. It was felt that this might enable the Fund to "stretch" till June 30, but not beyond -- the package should be technically complete by early July when the Paris Club is expected to meet.)

6. Mr Erb responded by emphasizing that the Fund must make a special effort and "stretch" a little more. He noted that others were making extraordinary efforts: the CG had gone well beyond what had been expected, the Paris Club had indicated that it would be prepared to go beyond Toronto, and the Bank was considering additional efforts. He also noted that donor pledges at the CG meeting had been made conditional on completion of the financing package and that donor disbursements were therefore now being held up.

7. The meeting concluded with Mr Erb asking the EDs to seek advice from their capitals on how the $113 million could be mobilized. There may be another meeting of the Fund EDs on this

subject in about a week's time.

NEXT STEPS

8. AF6 staff (George Gebhart) is working with staff in the Finance Complex to put together a revised financing plan for Zambia, based on the discussions held on May 2 between senior Bank and Fund management. This alternative plan should be ready for senior management review during the week of May 21. It should thereafter be taken up with Fund management.

9. We need to move fast -- the donors are increasingly concerned about what they perceive as slow progress by the Fund and the Bank. As you know, the two donors who have about $30 million deposited with the Bank to help pay the arrears are now asking that these Funds be returned so they can be used to assist Zambia directly. Other donors who had planned additional support for IBRD arrears and debt service under the 5th dimension are beginning to reconsider. And the flow of funds to Zambia is held up while donors are waiting for the financing package to come together.

10. Please note that I will be in Paris next week, until Friday, for the Malawi CG meeting. And, as you know, Mr Jaycox is also away next week, for the SPAAR meeting.

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FORM NO. 1599
(8 80)

THE WORLD BANK

ROUTING SLIP	DATE 5/9/90

OFFICE OF THE SENIOR VICE PRESIDENT, OPERATIONS

NAME	ROOM NO.
Mr. Dubey	E-3-069

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	To Handle		Note and File
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REMARKS

FROM Moeen A. Qureshi

EG Chron

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 9, 1990

TO: Mr. Moeen A. Qureshi

FROM: V. Dubey
Vinod Dubey, Director, EAS

EXTENSION: 78051

SUBJECT: Zambia: Proposed Financial Plan

We have reviewed the proposed alternative financing plan for Zambia and would advise that it can be endorsed under the circumstances, though it rests on a number of heroic assumptions and appears to have no room for any downside risks, particularly in 1991 when copper prices are expected to crash and the reserve position of the Central Bank of Zambia will be under pressure.

We are seriously concerned about the following issues:

(a) the assumption of extraordinary rescheduling by the Paris Club including the deferred payment of post cutoff arrears: it is unlikely that this departure from Paris Club policy will happen this year (or in the near future). You should try to make sure that the Fund pulls all the stops on this one;

(b) the extraordinary IDA allocations for FY91-93 was SDR 193 million (or $251 million, averaging $84 million per annum). Of this amount the adjustment component in the Business Plan amounted to SDR 75 million or $98 million for 3 years. Now the Region is proposing IDA credit of $200 million for FY90 alone. Can we justify it internally? The President should be brought in on this as early as possible. Also, is it good tactics to use up such a large part of our lending potential in the first year?

(c) There is no cushion in the financing package to meet unfavorable developments. The Region argues (para 7) that by using conservative assumptions of the copper price and discounting donor pledges at the CG meeting there is a possibility that in fact the remaining gap for 1990 ($40 million) will be closed. However, in case of unfavorable developments (either in these areas or in the implementation of the program) may result in a larger gap than projected. The Region should be encouraged to seek additional donors' support, e.g. to copper mining in 1991, in order to build in a $50-100 million extra flow.

cc: Mr. Bock
Mr. Lee
Mrs. Okonjo-Iweala

VD/EG:eg

THE WORLD BANK

BBC file

May 9, 1990

Mr. Conable

Attached is a revised Plan that has been put together by the Region. I support it, but would like you to see Attachment A, page 1 of 4, regarding front loading of IDA commitments to be sure that you do not object.

MOEEN A. QURESHI
Senior Vice President, Operations

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

90058807 1,

DATE: May 4, 1990

TO: Mr. Moeen A. Qureshi, OPNSV
thru: Mr. E.V.K. Jaycox, AFRVP
FROM: Sven Sandstrom, Director, AF6

EXTENSION: 34035

SUBJECT: Zambia - Proposed Financial Plan

Mr. Conable:

Attached is a revised plan that has been put together by the Region. I support it, but would like you to see Attachment A Page 1, 4 regarding front loading of IDA commitments to be sure that you do not object.

MAQ 5/9

1. Attached for your endorsement is a proposed alternative financing plan for the Zambia program, along with associated tables. It modifies the plan (also attached) submitted to the April Consultative Group meeting by incorporating the "rights" approach of the IMF and frontloading (into 1990) of the IDA program . In effect, therefore, it assumes sequential clearance of the arrears to the Bank and Fund, with the Bank's arrears being cleared in 1990 and the Fund's in early 1994. It assumes also that the Paris Club goes beyond "Toronto" by rescheduling over the four year period, 1990-93, about three-quarters of post cutoff date arrears which would otherwise have to be paid in 1990. Lastly, it incorporates the indications given at the CG meeting of donor support, which turned out to be about $100 million above our estimate prior to the meeting.

2. You will recall (see attached table) that the financing plan submitted to the CG meeting projected very large external financial requirements for 1990 ($700 million), even after "Toronto" rescheduling of bilateral arrears and current obligations, and total deferment of obligations, including arrears on short-term (trade) credits, to private creditors. Although the donors did indicate substantial support ($450 million), a gap of $250 million remained after the CG meeting.

3. The plan presented here, which is described in detail below, would essentially close the financing gap for this year. It has been worked out together with Fund staff and we have received informal indications that Fund management and the Paris Club would support it. In this revised plan, the unfinanced gap in 1990 is only $40 million. Given the current high copper prices, we believe that the conservatism built into the copper price projections understates the country's export receipts sufficiently that there is a high probability that this remaining gap would be closed by additional export revenues. Should that prove not to be the case, the unfinanced gap is manageable and could most likely be raised at the next Consultative Group meeting scheduled for July 1990.

4. Since the assumptions underlying the resource balance are the same, the balance in the revised plan is identical to that in the plan prepared for the CG. These assumptions are conservative, particularly with respect to copper prices and copper export volumes.

5. The major new features of the revised plan are as follows:

a. It assumes the "rights" approach with respect to the IMF arrears, with the arrears frozen as of June 30, 1990. The current obligations to the IMF in the first half of 1990 ($113 million) are assumed to be capitalized and covered by the rights accumulated during the 1990-1993 period. This latter is an important concession by the Fund and helps to close the financing gap for 1990. Actual clearance of the Fund arrears would occur in January 1994. Zambia would have to stay current in its obligations to the Fund during the second half of 1990, and thereafter.

   In the CG version of the financial plan, the Fund's arrears were assumed cleared in early 1991 (along with those of the Bank, i.e., simultaneous clearance), with the IMF disbursing some ESAF or other funding to assist Zambia with the clearance. These disbursements would be equal to only a portion of the amounts due the IMF, however, so payment of the arrears would contribute to the large financing gap projected for 1991 under the CG plan. Moreover, the Fund arrears were assumed frozen at the end of 1989 in this plan, so all current obligations to the IMF in 1990 would have to be paid ($225 million).

b. It assumes that the Bank's arrears are cleared in 1990, i.e., sequential clearance of the arrears to the two institutions. This plan would allow the Bank to make a positive contribution to Zambia's financial requirements during the remaining three years of the projection period.

   In the CG financial plan, the Bank's arrears were assumed cleared in 1991, along with those of the IMF. Zambia was expected to remain current with the Bank during 1990, without any contribution by the Bank to the country's financial requirements.

c. It assumes substantial frontloading of IDA lending, with commitments of $25 per capita in CY1990 and $18 in CY1991. Over the four calendar years 1990-1993, IDA per capita lending would average $16.27. On a fiscal year basis, per capita IDA lending would be $27, $17, $11 and $8, respectively, in FY1991 to FY94, with an average of $15.71 per capita for the period. This is not out of line with recent IDA lending to some other countries (see attached table of IDA commitments per capita, FY88-FY90).

   In the CG financial plan, no IDA lending was envisaged in 1990, because of the assumption that the arrears would not be cleared until 1991. For 1991-93, we had assumed a level of IDA lending of $17.44 per annum on average, but equally distributed over the period.

Out of the $154 million in ongoing credits to Zambia, we would expect to close and cancel $57 million on priority and project grounds. We would seek authority to release and disburse this year the second tranche of the Recovery Credit (about $30 million) and begin disbursing those ongoing credits that are still viable and priority. We would also expect to disburse in 1990 about 70 percent ($137 million) of the $200 million adjustment credit planned for this calendar year. (see IDA World Bank Financial Plan attached). These disbursements would assist Zambia at a time when they would be making extraordinarily high arrears and debt service payments to creditors abroad in connection with the proposed financing plan.

With regard to Zambia's arrears to the Bank, the $30 million that we have in trust from two donors would be utilized. Two other donors have indicated that they would be prepared to shift part of their SPA contribution to the Bank for this purpose and another donor has advised us that it would make a small contribution, which would be additional to the support it announced at the CG meeting. A bridging loan to IDA's disbursements would probably be required to assist Zambia with her cash flow when payment to the Bank is made. Together with a direct contribution by the Government, we believe that sufficient funds would be available to settle these arrears.

d. The revised plan assumes some extraordinary rescheduling by the Paris Club, going beyond the standard "Toronto" terms. It assumes that moratorium interest due in the four years is deferred and that post cutoff date arrears ($97 million) are spread over the four years (1990-1993), rather than being paid in 1990. Apparently there is some precedent for deferring moratorium interest, but none for deferring post cutoff arrears. In any event, this has been discussed informally with individual Paris Club members by the IMF delegate to the PC and there are good indications that the Club would be prepared to grant such deferments to Zambia.

The CG financial plan assumed "Toronto" rescheduling of arrears and service payments falling due in the four year period. Moratorium interest and post cutoff date arrears were assumed to be paid when due.

e. As in the CG financial plan, total deferral of private debt is assumed in the revised plan, except for some trade and medium term credits to the mining company (ZCCM) that are being kept current to avoid loss of the credit lines.

6. We believe that this revised financial plan is realistic. If positive decisions are made on the rights approach and on sequencing, the initiative of the IMF to capitalize and fund under the accumulated rights

Zambia's obligations to the Fund for the first half of 1990 and the frontloading of IDA lending would go a long way towards eliminating the residual financing gap. This is true also of the initiative of the Paris Club to reschedule moratorium interest and post cutoff date arrears. Our projections show that the gap would be reduced to only about $40 million.

7. There are a number of different ways the remaining gap might be closed. Copper prices may be higher than projected; every added $0.10 per pound in the average copper price means an extra $95 million in export receipts. The average copper price projected in the financial plan for 1990 is $0.86 per pound, while the current price is $1.22 and it has hovered in this range for most of the year so far. Consequently, it could well average $1.00 or more this year, resulting in significant additional foreign exchange earnings for Zambia. In addition, to be conservative we discounted by 10 percent ($45 million) the indications of donor support at the CG meeting, so it is possible that such support will be higher than what was projected in the financial plan. Moreover, a couple of donors did not give indications of support at the CG meeting, but may provide assistance later. Lastly, we have not taken fully into account the effects of debt forgiveness, which has been indicated by several donors. Since the debt forgiven would be mostly concessional debt and is assumed to be rescheduled by the Paris Club in any event, the impact on the financing gap in 1990 would be rather small. Nevertheless, it would make some difference.

Attachments

cc: Messrs: S. Denning, S. O'Brien, R. Armstrong, (AFRVP); E. Grilli, P. Ljung (EAS); F. Kilby, (FRSCR); R. Liebenthal, (SPRPA); H. Messenger, R. Grawe, J. Karuga, C. Yang, (AF6CO); S. Al Habsy, (LEGAL).
Mesdames: B. Opper, M. de Nevers, (FRSCR); R. Castro, (AFTTF)

GGebhart
(c:\wp50\doc\zfinpln)

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WBG ARCHIVES

ZAMBIA: EXTERNAL FINANCING REQUIREMENTS, 1990-93
IMF-Rights Approach, IDA-Front-Loading

(US$ MILLIONS)

	1990	1991	1992	1993	Total 1990-93
CURRENT ACCOUNT (EXC. INTEREST)	-220	-252	-253	-228	-953
DEBT SERVICE (INC ARREARS)	-3067	-853	-770	-706	-5396
NON-MULTILATERALS	-2481	-522	-543	-483	-4029
Scheduled Obligations 1/	-395	-368	-368	-313	-1444
Insterest on Arrears 2/	-132	0	0	0	-132
Interest on Deferred Payments 3/	0	-154	-175	-170	-499
Arrears	-1954	0	0	0	-1954
MULTILATERALS	-586	-331	-227	-223	-1367
World Bank	-305	-74	-72	-71	-522
Debt Service IDA	-3	-3	-4	-6	-15
Debt Service IBRD	-85	-71	-68	-65	-290
Arrears	-217	0	0	0	-217
IMF	-225	-157	-104	-100	-586
Repurchases	-117	-57	-6	-3	-183
Charges 4/	-108	-100	-98	-97	-403
Arrears 4/	0	0	0	0	0
					0
Other Multilaterals	-56	-100	-51	-52	-259
GROSS FINANCING REQUIREMENTS	-3287	-1105	-1023	-934	-6349
DEBT RELIEF NON-MULTILATERALS 5/	2444	443	473	441	3801
Arrears 6/	1939	71	86	100	2196
Current Debt Service	505	372	387	341	1605
REQUIREMENTS AFTER DEBT RELIEF	-843	-662	-550	-493	-2548
PROJECTED FINANCING INFLOWS	803	575	490	503	2371
Private Flows 6/	15	0	0	0	15
Official Investment Flows	200	198	198	200	794
Loans	60	70	70	70	270
Grants	140	128	128	130	524
Official Adjustment Flows (SPA) 7/	280	210	205	205	900
World Bank	200	179	97	108	584
IDA	187	164	84	96	531
IDA Reflows (5th Dimension)	13	15	13	12	53
IMF	108	-10	-10	-10	78
Deferred Obligations	113	0	0	0	113
Charges on Deferred Obligations	-5	-10	-10	-10	-35
FINANCING GAP 8/	40	87	60	-10	177

1/ Includes service on debt contracted after January 1, 1990.
2/ Interest accruing on arrears outstanding at end 1989.
3/ Interest on rescheduled and deferred amounts. Assumes rescheduling at end 1990. Includes post-cut off arrears deferred throughout 1991-93.
4/ Assumes arrears are cleared on January 1, 1994.
5/ Assumes rescheduling of Paris Club debt under Toronto terms and deferral of other non-multilateral debt.
6/ Includes effect of debt swaps in 1990.
7/ Includes donor co-financing associated with Fifth Dimension and donor contribution to finance World Bank arrears.
8/ This gap may be covered by additional export receipts should the copper price remain above projected levels.

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WBG ARCHIVES

WORLD BANK (IBRD AND IDA) FINANCIAL PLAN 1990-93
IDA Front-Loading
(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-305	-74	-72	-71	-522
ARREARS	-217	0	0	0	-217
DEBT SERVICE - IDA	-3	-3	-4	-6	-15
DEBT SERVICE - IBRD	-85	-71	-68	-65	-290
-Principal	-40	-41	-42	-42	-165
-Interest	-45	-30	-26	-23	-124
INFLOWS	200	179	97	108	584
IDA REFLOWS (5TH DIMENSION) 1/	13	15	13	12	53
IDA NEW INVESTMENT PROJECTS	0	7	20	32	59
IDA ON-GOING INVESTMENT CREDITS	20	19	14	14	67
IDA QUICK DISBURSING	167	138	50	50	405
On-going Credits	30				30
New Adjustment Credits	137	138	50	50	375
NET FLOWS IBRD/IDA	-105	105	25	37	62

1/ Estimated to cover about 1/4 of IBRD interest payments in 1990 and 1/2 thereafter.

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WBG ARCHIVES

IMF FINANCIAL FLOWS 1990-93
Rights Appraoch
(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-225	-157	-104	-42	-528
ARREARS 1/	0	0	0	0	0
DEBT SERVICE	-225	-157	-104	-42	-528
REPURCHASES	-117	-57	-6	-3	-183
CHARGES	-22	-13	-9	-8	-52
INTEREST ON ARREARS	-86	-87	-89	-31	-293
INFLOWS	108	-10	-10	-10	78
DEFERRED OBLIGATIONS 2/	113	0	0	0	113
CHARGES ON DEFERRED OBLIGATIONS	-5	-10	-10	-10	-35
NET FLOWS	-117	-167	-114	-52	-450

1/ Assumes arrears (US$979 million at end 1989) are cleared on January 1, 1994
2/ Assumes 1/2 of debt service due in 1990 is deferred and capitalized under the "rights approach".

ZAMBIA

WORLD BANK FINANCING PLAN 1990-1993
(US$ millions)

Source	1990	1991	1992	1993	1990-93
IDA Disbursements					
New Adjustment Credits	137	138	50	50	375
Commitments:					
1990 - $200 m.	(137)	(63)			
1991 - $100 m.		(75)	(25)		
1992 - $ 50 m.			(25)	(25)	
1993 - $ 50 m.				(25)	
Fifth Dimension	13	15	13	12	53
Ongoing projects	50	19	14	14	97
Investment	(20)	(19)	(14)	(14)	
Adjustment	(30)				
New Projects Credits	-	7	20	32	59
Commitments:					
$50 m p.a.					
1991-93					
Sub-total - IDA	200	179	97	108	584
Financing for					
Bank Arrears:					
Donors 1/ :	30				
Zambian Government:	75				
Sub-total :	105				
Total Financing	305	179	97	108	689
Obligations to Bank	305	74	72	71	522
o/w Current	(88)	(74)	(72)	(71)	(305)
Arrears	(217)				(217)
Net Flow-Bank to Zambia	-105	105	25	37	62

1/ Comprised of amounts held in trust by the Bank on behalf of two donors. Two additional donors have indicated that they would be prepared to shift part of their SPA contributions to the Bank for this purpose and another donor has advised that it would make a small contribution, which would be additional to its CG indication.

Memorandum item:

IDA per capita commitments, adjustment and project credits, would average $16.27 per annum over the four year period, excluding supplemental amounts associated with the 5th dimension. On an annual basis they would be $25.00, $18.07, $11.63 and $11.24, respectively in the four years.

ZAMBIA: EXTERNAL FINANCING REQUIREMENTS, 1990-93

(US$ MILLIONS)

	1990	1991	1992	1993	Total 1990-93
CURRENT ACCOUNT (EXC. INTEREST)	-220	-252	-253	-228	-953
DEBT SERVICE (INC ARREARS)	-2850	-1955	-685	-649	-6139
NON-MULTILATERALS	-2481	-497	-518	-483	-3979
Scheduled Obligations 1/	-395	-368	-368	-313	-1444
Insterest on Arrears 2/	-132	0	0	0	-132
Interest on Deferred payments 3/	0	-129	-150	-170	-449
Arrears to Non-Multilaterals	-1954	0	0	0	-1954
MULTILATERALS 1/	-369	-1458	-167	-166	-2160
World Bank	-88	-291	-72	-71	-522
Debt Service IDA	-3	-3	-4	-6	-15
Debt Service IBRD	-85	-71	-68	-65	-290
Arrears	0	-217	0	0	-217
IMF	-225	-1067	-44	-43	-1379
Repurchases	-117	-57	-6	-3	-183
Charges 4/	-108	-31	-38	-40	-217
Arrears	0	-979	0	0	-979
					0
Other Multilaterals	-56	-100	-51	-52	-259
GROSS FINANCING REQUIREMENTS	-3070	-2207	-938	-877	-7092
DEBT RELIEF NON-MULTILATERALS 5/	2368	372	387	341	3468
Arrears 6/	1842	0	0	0	1842
Current Debt Service	526	372	387	341	1626
REQUIREMENTS AFTER DEBT RELIEF	-702	-1835	-551	-536	-3624
PROJECTED FINANCING INFLOWS	350	1208	838	843	3240
Normal Flows	200	196	198	200	794
Loans	60	70	70	70	270
Grants	125	126	128	130	509
Other 6/	15	0	0	0	15
SPA 7/	150	210	205	205	770
World Bank	0	109	165	165	440
IDA	0	94	152	153	400
Fifth Dimension 8/	0	15	13	12	40
IMF	0	693	270	273	1236
FINANCING GAP BASE SCENARIO	352	627	-287	-307	384
Effects of Paris Club rescheduling of:					
Moratorium Interest	0	71	86	100	257
Post-cut off arrears	97	0	1	1	99
Post-cut off debt service	0	53	43	41	137
FINANCING GAP WITH TOTAL DEFERRAL	255	503	-417	-449	-109

1/ Includes service on debt contracted after January 1, 1990.
2/ Interest accruing on arrears outstanding at end 1989.
3/ Interest on rescheduled and deferred amounts. Assumes rescheduling at end of 1990.
4/ Assumes arrears are cleared on January 1, 1991. If arrears are not cleared, annual charges will be: US$100 million in 1991, US$98 million in 1992 and US$98 million in 1993.
5/ Assumes rescheduling of Paris Club debt under Toronto terms and deferral of other non-multilateral debt.
6/ Reflects small reduction in 1990 from buy backs and swaps.
7/ Includes donor co-financing associated with Fifth Dimension.
8/ From IDA reflows.

WORLD BANK (IBRD AND IDA) FINANCIAL PLAN 1990-93

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATIONS	-88	-291	-72	-71	-522
Arrears	0	-217	0	0	-217
Debt Service - IDA 1/	-3	-3	-4	-6	-15
Debt Service - IBRD	-85	-71	-68	-65	-290
-Principal	-40	-41	-42	-42	-165
-Interest	-45	-30	-26	-23	-124
INFLOWS	0	109	165	165	440
IDA 5TH DIMENSION 2/	0	15	13	12	40
IDA NEW PROJECTS	0	8	18	33	59
IDA ON-GOING PROJECTS	0	26	19	10	56
IDA QUICK DISBURSING	0	60	115	110	285
NET FLOWS IBRD/IDA	-88	-182	93	94	-82
SPA 3/	150	210	205	205	770
NET FLOWS - WORLD BANK/SPA	62	28	298	299	688

1/ Includes service on debt contracted after January 1, 1990.
2/ Applies to IBRD only; estimated to cover 1/2 of interest payments.
3/ Includes donor co-financing associated with Fifth Dimension.

IMF FINANCIAL FLOWS 1990-93

(US$ MILLIONS)

	1990	1991	1992	1993	TOTAL 1990-93
OBLIGATION	-225	-1067	-44	-43	-1379
ARREARS 1/	0	-979	0	0	-979
DEBT SERVICE 2/	-225	-88	-44	-43	-400
REPURCHASES	-117	-57	-8	-3	-183
CHARGES	-22	-31	-38	-40	-131
INTEREST ON ARREARS	-86	0	0	0	-86
INFLOWS	0	693	270	273	1236
NET FLOWS	-225	-374	226	230	-143

1/ Assumes arrears are cleared on January 1, 1991.
2/ Includes service on debt contracted after January 1, 1990.

IDA COMMITMENTS PER CAPITA, FY88 - FY90
(IN US$)

	Rating	FY88	FY89	FY90	IDA-8 Avg
BANGLADESH	3	2.10	3.85	5.08	3.68
BENIN	2	4.91	17.41	0.54	7.62
BHUTAN	3	3.32	0.00	0.00	1.11
BOLIVIA	4	13.25	11.27	11.85	12.12
BURKINA FASO	2	1.86	4.00	2.49	2.78
BURUNDI	4	24.44	8.70	13.19	15.44
CAR	3	21.19	8.94	27.00	19.04
CHAD	3	11.93	14.94	0.00	8.96
CHINA	4	0.48	0.39	0.60	0.49
ETHIOPIA	2	1.82	2.80	1.51	2.05
GHANA	4	15.77	15.26	9.54	13.52
GUINEA	3	22.56	12.55	20.54	18.55
INDIA	4	0.73	0.91	0.85	0.83
KENYA	3	4.94	8.80	8.51	7.41
LAO P.D.R.	3	3.19	11.33	9.35	7.96
LESOTHO	2	17.93	0.00	6.91	8.28
LIBERIA	1	0.00	0.00	0.00	0.00
MADAGASCAR	3	13.47	3.69	13.07	10.08
MALAWI	3	9.36	8.45	16.81	11.54
MALI	2	9.45	6.07	6.35	7.29
MAURITANIA	3	4.61	7.50	47.50	19.87
MOZAMBIQUE	3	4.99	10.99	9.17	8.39
MYANMAR	1	1.35	0.00	0.00	0.45
NEPAL	3	3.23	9.22	4.71	5.72
NIGER	3	5.59	0.00	7.09	4.23
NIGERIA		0.00	0.74	1.04	0.59
PAKISTAN	4	1.47	1.59	1.57	1.54
RWANDA	3	0.00	6.57	6.41	4.33
SENEGAL	3	15.45	2.53	24.74	14.24
SOMALIA	2	2.67	12.72	8.81	8.07
SRI LANKA	3	8.72	3.13	7.09	6.31
SUDAN	2	4.96	3.24	3.32	3.84
TANZANIA	3	2.03	6.45	19.88	9.45
TOGO	4	27.85	6.49	0.06	11.47
UGANDA	2	7.52	7.15	14.25	9.64
YEMEN ARAB REP	3	3.52	2.46	4.18	3.39
YEMEN, PDR	2	0.00	9.93	7.82	5.92
ZAIRE	2	1.39	2.87	1.56	1.94
ZAMBIA	1	0.00	0.00	0.00	0.00

SOURCES: -- IDA commitment data in SDRs from SPRPA. Africa Region data for FY90 updated from RVP Lending Report of March 30, 1990.
-- Population data from IECSE.
-- USD/SDR exchange rate data from January 1990 IFS.

NOTE: USD/SDR exchange rates were calculated on a fiscal year basis as follows: FY88-1.34, FY89-1.30, FY90-1.28.

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WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 10, 1989

TO: Mr. F. Stephen O'Brien, Chief Economist, AFRCE

FROM: Sven Sandstrom, Director, AF6

EXTENSION: 34035

SUBJECT: CSP Schedule - Zambia

Although progress has been made recently in defining a policy adjustment program, the direction that the Zambian authorities intend to give to the economy in the short or medium term is still unclear. A number of critical issues remain to be resolved fully, including a path for the exchange rate and trade liberalization, parastatal reform and a public expenditure program. In addition, arrangements need to be made, presumably in the "support group" context, to provide financing for the Bank (and Fund) arrears and there needs to be a debt workout solution for the extremely high arrears and annual debt service obligations facing Zambia. All of these issues are likely to affect the policy program and the amount of financing required to support the economy in the medium term. It will take time for all of this to come together and it will probably be well into the second half of FY90 before we have a full picture of the adjustment program and a clear direction for the Bank's strategy. Considerable uncertainty exists also as to the degree of commitment by the Government, Cabinet and Party to the reform effort, so it could very well again come off-track because of insufficient support locally.

For these reasons, we are not scheduling a CSP on Zambia in FY90. If all goes well, we would expect to prepare a CSP in early FY91.

REVIEW DRAFT
FOR OPERATIONS POLICY SUB-COMMITTEE
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Country Program Paper

Z A M B I A

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March 29, 1985

COUNTRY PROGRAM PAPER

ZAMBIA

		FY80-84	FY85-89	FY86-90
1983 Population: 6.255 million	IBRD	137.7	50.0	65.0
1983 Per Capita GNP: US$580 a/	IDA	108.2	157.1	150.0
	SFA b/	-	100.0	100.0
Current Population Growth Rate: 3.4% p.a.	Total	245.9	307.1	315.0
No. of Loans/Credits:		12	17	18
No. of Loans/Credits per Million Pop.:		1.9	2.7	2.9

Current Exchange Rate:
US$1.00 = Zambian Kwacha 2.50

Average Lending Per Capita Per Annum: Current US$ (Const. FY85 Commitment $)

IBRD/IDA/SFA	7.9(9.1)	9.8(8.7)	10.1(8.5)
IDA	3.5(4.1)	5.0(4.6)	4.8(4.0)

The FY85-89 lending program proposed in this CPP compares with the program for the same period approved in the last Bankwide lending program review in November 1984 as follows:

	FY85-89 Lending Program		Percentage Change
	Approved	Proposed	Proposed/Approved
No. of Loans and Credits	16	17	6
Current US$ Million	247.1	307.1	24
Constant FY84 Commitment $	220.6	273.6	24
Per Capita Per Annum (Constant FY84 Commitment $)	7.9 (7.1)	9.8 (8.7)	24 23

a/ Based on Per Capita Income Guidelines for Operational Purposes, dated November 8, 1984. However, the Kwacha is currently 55 percent below the 1981-83 average exchange rate on which this estimate is based. GNP per capita would be US$260 at the current exchange rate.

b/ Special Facility for Africa (SFA)

ZAMBIA

COUNTRY PROGRAM PAPER

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A. INTRODUCTION

1. The last Country Program Paper for Zambia was reviewed in September 1981. The review emphasized the urgent need for Zambia to diversify its exports away from copper. Future IBRD lending was conditioned on the Government's success in bringing the current economic crisis under control and developing measures for export diversification. A principal objective for the Bank was to establish a meaningful dialogue on economic policy reform. It was agreed that the up-coming Mining Rehabilitation loan (Export Rehabilitation and Diversification project) would be an appropriate means for doing so. To this end a memorandum of understanding should be drawn up setting out Zambia's development objectives, the future direction of economic policy and a program of action, including studies, which would lead to an appropriate adjustment process. The meeting also agreed that IBRD/IDA resources should be made available on roughly a 50:50 basis, totalling $325 million over the FY82-86 period.

2. An interim assessment of Zambia's creditworthiness and of the Bank's assistance strategy was made in May/June 1983. During the intervening two years, Zambia's creditworthiness had deteriorated sharply in line with a further steep decline in world copper prices. On the other hand, the Bank had succeeded in negotiating a Memorandum of Development Objectives and Policies with the Government, and an IMF stabilization program had been put in place. Nevertheless, in view of chronically weak economic performance, the prospects for a significant decline in copper production around the turn of the century, and the unlikelihood of sufficient growth in other exports to avoid a decline in total exports, it was concluded that Zambia was clearly not creditworthy "except for very limited purposes and then only if progress in the reform program continues at an adequate pace" (memorandum of June 16, 1983 from Mr. Stern to Mr. Wapenhans).

3. As a result, it was decided to proceed with the Mining Rehabilitation loan ($75 million IBRD), but simultaneously stressed that Zambia's creditworthiness should be re-evaluated before further IBRD funds are committed. Given the high risk of lending to Zambia, it was agreed that future Bank lending should hinge on whether such lending would contribute significantly to reducing future risks. It would be desirable to pursue other sector-based policy loans, but in view of considerable doubts concerning the Government's ability to implement policy packages, most action should be taken prior to Board Presentation. Except for technical assistance, commitment of IDA funds should be conditioned on completion of an acceptable investment program, i.e. a program suitable for reconvening the Consultative Group for Zambia.

4. Since the 1983 interim review, Zambia has made very substantial progress in implementing a wide range of macroeconomic, sector and institutional reforms along the lines set out in the Memorandum of Development Objectives and Policies. In this light, the Bank's activities during the past three years can be seen to have succeeded in establishing a

strong dialogue on economic policy reform and increasing the Government's receptivity to and solicitation of Bank advice. Our activities have focused on implementing and deepening the direction of policy reform agreed to in the Memorandum. The nature of Bank Group lending has shifted towards rehabilitation of existing capital assets and quickly disbursing operations aimed at increasing capacity utilization in sectors of the economy where policy reform has occured. As a result, the negative resource transfer that has existed during the past six years from the Bank Group to Zambia will be reversed in 1985 and 1986. The Bank has also greatly increased its efforts in aid-coordination, through increased co-financing and through its chairmanship of the Consultative Group for Zambia which was re-convened in May 1984 after a six year hiatus.

Recent Political Developments

5. The political situation is replete with economic issues, but procedurally stable. President Kaunda was reelected for a fifth five-year term in October 1983, with a reported 96 percent of voters supporting him. He has held the presidency since Zambia's independence in 1964. Greatly admired by his people, the President has no significant opposition and, in fact, rules in a one-party state. He is 60 years old and apparently in good health.

6. Parliamentary and judicial procedures continue to function well in Zambia, and there is a great deal of open discussion and debate, both within Government and in the press. The main economic issues are the rising cost of living resulting from price decontrol and devaluation, the erosion of real wages and the pace of economic liberalization. Strong ideological factions within the ruling United National Independence Party (UNIP) continue to advocate that Zambia's socialist goals can only be attained through a high degree of government intervention and administrative control. There are also fears that certain ethnic groups would unduly benefit from greater reliance on market mechanisms, especially a freer system of foreign exchange allocation that could result in capital flight. Also, some groups have benefited from the past policies of controls, regulation and protection and are likely to resist change. On the other hand, President Kaunda has become a major force for acceptance of "economic" prices and has been successful in convincing a sufficient portion of the political leadership and the population that Zambians must accept a decline in living standards until the nation develops new lines of export to replace copper. The political tightrope is nevertheless taught, and the sustainability of the on-going reform process wil require periods of consolidation to absorb sudden changes in prices (paras. 29-31).

7. Zambia has good relations with neighboring countries and is a strong supporter of the Southern African Development Coordination Conference (SADCC) and a member of the Preferential Trade Area (PTA). President Kaunda has been active in attempting to mediate a solution of the Namibia problem, including personal contacts with Prime Minister Botha of South Africa. Zambia is also the principal headquarters for the African National Congress (ANC).

Economic Developments

8. Recent economic developments are discussed in the CEM dated April 16, 1984 (Report No. 5000-ZA). Since the last CPP, the most important economic development has been the continuation of a long-term down-trend in copper prices. This has been contrary to the expectations of most observers including the Bank and the IMF. Not only has the trend been counter to expectations, but the order of magnitude of the decline has been severe. For example, the commodity prices used in the 1981 CPP projected a copper price of $1.50/lb. in current terms in 1984, when in fact the price last year averaged $0.62/lb. In real terms, the 1984 price was 36 percent lower than the price projected three years ago.[1/] The direct impact on Zambia's balance of payments was a $2.45 billion shortfall in projected export earnings over the three year period 1982-84 (equivalent to 120 percent of actual export earnings during that period and 110 percent of debt outstanding as of end 1981). In the event, imports declined by 45 percent in three years and GDP by an average of four percent per annum. This followed a previous 50 percent decline in imports between 1974 and 1981 and has resulted in a severe underutilization of capacity throughout the economy and a growing backlog of rehabilitation and maintenance expenditures. Foreign exchange scarcity has also prevented the economy from responding to newly established incentives to diversify and expand production.

M.B.

9. In this situation, it is surprising that the economy did not contract more than it actually did (since 1974 the economy contracted on average by about 1.5 percent per annum). However, there are increasing

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1/ Copper Price Forecasts (US cents per lb.), EPD

	1980	1981	1982	1983	1984	1985	1986	1990
Current Prices								
June 1981 [a]	99	95	115	(131)	(150)	172	(187)	258
January 1985 [b]	99	79	67	72	62	65*	72	103
Constant 1980 Prices								
June 1981	99	89	100	(106)	(113)	120	(123)	135
January 1985	99	83	72	81	72	71	73	77

[a] Used in 1981 CPP
[b] Used in this CPP
() Interpolated
* Adjusted from EPD estimate of 68 cents.

A major issue. Needs elaboration

signs that the current level of imports is now below the critical minimum required for functioning of the economy and continuation of copper export volumes at sustainable levels. The current level of merchandise imports, estimated at $615 million in 1984, provides for little more than the requirements of the mining industry and for food and petroleum, together about $550 million. Little is left for the rest of the economy, including government, agriculture, manufacturing, transport and general consumption. As in past years, foreign exchange was drained from the mining industry in 1984 in order to keep the rest of the economy functioning, albeit at minimal levels of capacity. This has contributed to a long term downtrend in copper production, which declined by 9 percent in 1984 to 525,000 tonnes. Recent quarterly production figures indicate that the mining industry has halted the decline in copper production, but the prospects for continued scarcity of foreign exchange suggest that Zambia will not be able to return production levels to the range of 600-620,000 tonnes per annum as expected in the last CPP and in the Mining Rehabilitation project. The offsetting benefit of this prospect, however, is that foregone production over the next ten years will extend the life of the mines further into the next century.

10. The other major external factor has been three consecutive years of poor rains and, in the southern and western parts of the country, a severe drought. Although overall agricultural production increased in 1983 and 1984, poor rains in the principal maize growing areas required significant imports of maize which have exacerbated pressure on the balance of payments and required the Government to divert scarce budgetary resources to provide relief to the affected parts of the country.

11. The above factors converged in mid-1982 to create an unsustainable situation regarding the servicing of external debt. For the first time arrears on contractual debt service accumulated and, in January 1983, the Government declared a moratorium on the servicing of all commercial and bilateral debt. In 1983, and again in 1984, the Government sought relief from the members of the Paris Club, other bilateral governments and commercial creditors. Rescheduling of bilateral debt has been on generous terms (close to 100% of principal and interest due each year), although in 1984 the Paris Club required payment of moratorium interest on rescheduled amounts which substantially reduced the net benefit. Negotiation of individual, one-year, bilateral rescheduling agreements within the framework of the Paris Club agreement has proven to be very time consuming for the Zambian authorities and has stretched their already thin administrative capacity. In addition, the structure of Zambia's total external indebtedness, including short-term borrowings and drawings from the IMF, is such that the reschedulable portion of debt service is only about 30 percent of total debt service due in the next few years. Thus, while helpful, further debt reschedulings, especially on a one-year timeframe, will not resolve Zambia's external debt servicing problems.

Social Developments

12. Zambia suffered sharp deteriorations in its terms of trade in 1975, 1981, 1982 and again in 1984. Each of these was associated with successive declines in the copper price which in 1984 reached its lowest point in real terms during the post World War II era. This has resulted in a massive decline in per capita incomes. In real terms gross national income (GNY) fell by 23% over the past decade; with population growth of 3.1% during this period, per capita incomes were 44 percent lower in 1984 than ten years earlier. The official Bank estimate for GNP per capita is $580 for 1983. However, GNP per capita is today much lower if account is taken of the large exchange rate movements of the past two years. Using the current exchange rate, GNP per capita would be about $260 before taking into account the increase in domestic prices resulting from devaluation.

Impact of Terms of Trade on National Income
(Millions of constant 1970 US Dollars)

	1970	1974	1975	1980	1984
GNP	1681	1924	1898	1865	1922
GNY	1578	1737	1319.	1297	1334
GNY per capita	380	370	272	230	206
Terms of Trade Index	100	85	43	42	26

13. The decline in per capita incomes has affected all sectors of society. Workers in the formal wage sector have suffered declines in real wages especially during the past three years, when Government wage and price policies have purposely sought to hold wage increases below the rise in the cost of living while simultaneously decontrolling prices. As a result, domestic consumption has declined by about six percent per annum during 1982-84. Workers in the mining industry have suffered the sharpest decline in income and, over the past decade, have seen their wages vis-a-vis other industrial workers fall from nearly twice the average wage to a premium of only about one-third. Their wage demands have been contained primarily by large financial losses suffered by the mining industry as a result of lower copper prices throughout this period. Whether the trend of declining real wages in the formal sector will continue, however, is not clear, since the Government has recently permitted the traditional practice of free collective bargaining to resume as a response to discontent over the decontrol of prices.

14. Nearly 60% of the population lives in the rural areas where the decline in gross national income has been felt in the form of reductions in critical government services (agricultural extension, health, education, etc.) and in the virtual disappearance of wage goods. The disappearance of wage goods has resulted from declines in industrial production stemming from the lack of imported intermediate materials, as well as from the

closure of many rural trading shops which have lacked goods to sell and have suffered from previous government policies of price control. These developments are particularly unfortunate in view of sustained increases in agricultural producer prices over the past four years which have increased rural incomes in real terms. Thus, while government policies have moved to redress a long-existing bias in the rural-urban terms of trade, which favored the urban consumer through policies of wage increases and cheap food, the economy has been unable to deliver the wage goods necessary to make improved production incentives as effective as they could be. Relaxation of the import constraint will be necessary for this to happen.

B. COUNTRY OBJECTIVES AND PERFORMANCE

15. The Government's development objectives were most recently spelled out in it's documents to the Consultative Group Meeting. These objectives are:

i) to economize on foreign exchange,

ii) to make better use of existing capacity;

iii) to diversify from copper and through new forms of exports and import substitution, and

iv) to reduce capital intensity.

These objectives aim to restructure the economy so that it can function in an environment of markedly reduced foreign exchange availability. They represent a pragmatic response to the financial crisis of the past decade and an evolution from Zambia's development objectives spelled out in the Third National Development Plan, 1979-83, which, while similar in many respects, placed greater emphasis on social objectives such as increased employment and reduction of income disparities between rural and urban dwellers.

16. As stated in Zambia's CG documents, the immediate priority is to restore financial stability without which the resources necessary to carry out the proposed restructuring program would not be available. In particular, the restoration of efficiency in the mining industry is recognized as essential. Zambia's restructuring and diversification efforts are to focus on agriculture as the priority sector, including the development of agro-industries and non-traditional exports. Within the industrial sector, Zambia's priorities focus mainly on increasing capacity utilization which is at historically low levels due to the severe contraction in import volumes referred to earlier. Relatively little priority is placed on further expansion of Zambia's well-developed transport infrastructure, although better maintenance of existing infrastructure is emphasized. It is also recognized that expansion of

social services can only precede apace with renewed economic growth; in the meantime, the emphasis in these sectors is to make better use of existing resources and facilities and, in the case of health, to reorient services from curative to primary health care. The strategy for local government is to lessen its dependence on central government grants through improved financial management.

Past Performance and Policies

17. Zambia's attainment of these objectives has been frustrated in the past by a combination of external events, domestic policies and inadequacies in administrative capacity. The decline in the price of copper since 1975 has forced Zambia to live with a much lower level of external resources than during the first decade of its independence. This has meant less foreign exchange for the economy as a whole, as well as the disappearance of mineral revenue which previously represented up to one-half of total Government revenues. Also, the higher grade copper reserves have been depleted, and production is becoming increasingly expensive as mining operations move to lower grade and less accessible ores. Known, economically exploitable reserves could sustain current rates of production, about 525,000 tonnes per annum, for only another 19 years; in practice, copper production is expected to fall off sharply between 1995 and 2000, although it may continue at much lower levels well into the next century.

18. Domestic policies have created a highly import and capital intensive structure of production. This occured as a result of an overvalued exchange rate, tariff policies which encouraged assembly-type industry at the expense of domestic resource based industries, negative real interest rates, and tax incentives which favored capital investment but not employment. The almost total lack of diversification of exports away from mineral products, despite the fact that Zambia has excellent agricultural potential and a high level of engineering skills in its mining and industrial sectors, attests to the historical overvaluation of the exchange rate. During the period of high copper prices, Government budgetary policies were established which aimed to generate employment through the expansion of government services and to provide cheap food and subsidized services to the urban population. As such, the budget was poorly suited to deal with the sudden disappearance of mineral revenue, and a severe underfunding of operations and maintenance expenditure has emerged. In addition, existing programs have not been well-focused on broad development objectives. In particular, agricultural research and extension services were geared to the commercial farming sector rather than smallholders, and health services aimed to provide the urban population with a high standard of curative health care, rather than preventative health services for a broader segment of the population.

19. In addition to inappropriate economic and fiscal policies, Zambia's economy has been hampered by a wide degree of administrative control and regulation. This included an import licensing and foreign exchange allocation system, control of most wholesale and retail prices and

licensing of new industries and businesses. These controls have led to a significant misallocation of resources, as well as to declining levels of profitability and domestic savings. They have stretched the administrative capacity of Government to the point where, together with the increased resource constraint, allocative decisions can no longer be made effectively. Discretionary interventions by politically powerful factions, such as the defense establishment's demands for budgetary and foreign exchange resources, have further destabilized the admistrative capacity of Government.

New Policy Direction

20. Over the last two years, the Government has recognized the need for structural adjustment and has taken a new approach to the management of the economy. Greater reliance is being placed on market mechanisms and broad instruments of economic policy and less on administrative control. Of the recent reforms, the most important was the adoption of a flexible exchange rate system (i.e., a crawling peg) in July 1983, with the objective of re-establishing and maintaining the competitiveness of Zambian goods in external markets and sustaining the profitability of the mining industry. Through this system the Kwacha has been depreciated by 60 percent against the US dollar since the beginning of 1983, equivalent to a real devaluation of about 40 percent in foreign exchange terms.[2/] This was possible since the Government has been successful to date in limiting wage increases in the public and parastatal sectors to 10 percent or less during this period.

21. While it is generally accepted that the Kwacha remains overvalued, the extent of overvaluation is debateable. Because of the large backlog of commercial payment arrears and the increased scarcity of foreign exchange over the past three years, the black market rate is a multiple of the existing rate. However, the black market is only a small proportion (probably less than 10 percent) of the official market which still comprises over $1 billion per annum; it represents marginal demand and is unlikely to be indicative of a medium term equilibrium rate. Furthermore, Bank analysis indicates that the existing rate may not be too far from a rate required for long run operation and development of major sectors of the economy. For agriculture, the existing rate provides attractive economic returns for all major crops (except sunflower). Partly as a result of the devaluations in 1983 and 1984, the mining industry broke even last year despite the decline in copper prices; a moderate further movement in the real exchange rate may therefore be sufficient to restore the profitability and competitive advantage of this industry. Analysis of the efficiency of the manufacturing sector is not yet complete, but partial analysis done in 1984 indicated that a significant portion of the sector

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2/ IMF analysis indicates that as of September 1984 the Kwacha was 14 percent lower in real terms than in 1978 and 23 percent lower than in 1982.

could operate efficiently at the then existing exchange rate. When complete, the analysis for the manufacturing sector, together with that for other sectors, should provide a sufficiently broad basis to determine the range of rates that would be appropriate for longterm development purposes.

22. Other important macroeconomic measures taken in the past two years include:

i) decontrol of retail and wholesale prices (with the exception of maize meal and candles);

ii) a major reduction in the Government's fiscal deficit and borrowing from the domestic banking system (from 21 percent and 14 percent of GDP, respectively, in 1982 to about 7 percent and 2 percent, respectively in 1983 and 1984). This was achieved through reductions in consumer subsidies, a freeze on administrative positions in government employment, the introduction of a mineral export tax and other revenue measures; and

iii) a 40 percent increase in the interest rate structure, bringing the maximum rate on loans (17 percent) about even with the change in the GDP deflator (see Attachment 3b).

Mainly as a result of price decontrol and the exchange rate movements of 1983-84, consumer prices are now increasing at 20 percent per annum, and interest rates are still negative in real terms; however, monetary expansion has been restrictive and the existing interest rate structure may prove to be positive once the effects of price decontrol and devaluation work themselves through the system.

23. In addition to the above macroeconomic reforms, many important reforms have occured at the sector level. The mining industry has been streamlined and made more efficient through a merger of the two copper mining companies; this is leading to a consolidation of inventories and the formulation of a comprehensive corporate strategy. Also, improved incentives for attracting high quality expatriate personnel have been introduced; the company has gained more automatic access to foreign exchange needed for mining operations; and a set of studies has been initiated to raise labor productivity to assess the economic viability of rehabilitation investments and to plan for the closure of uneconomic mines. These initiatives, which were supported by the Mining Rehabilitation project, will need to be maintained and the results of the technical studies implemented; if so, they will help ensure the future financial viability of the industry.

24. In agriculture, producer prices have been increased by over 30 percent in real terms during the past four years, and the marginal tax rate on agricultural income has been reduced to a flat rate of 15 percent. Response to these incentives is already evident with increased acreage under cultivation and increased production in 1983 and 1984, despite poor

rains. Also, a major study has been completed to reorient agricultural research and extension services towards the smallholder sector and is being used as the basis for drawing up a 20 year program for strengthening these services. Further reforms in the agriculture sector have recently been agreed with the Bank in the context of the Agricultural Rehabilitation project (FY 1985); these include the decontrol of wheat prices and tractor hire charges, the establishment of a pricing methodology based on border prices which should lead to the termination of panterritorial pricing and the opening up of maize marketing and fertilizer distribution to private traders (private traders have always been free to trade in goods other than maize and fertilizer); and the initiation of studies on fertilizer usage and the efficiency of agricultural marketing agencies.

25. Reform of industrial policies is proceeding apace with that in the agriculture and mining sectors. The Government has already introduced a 10 percent minimum duty on intermediate and raw material imports which should reduce the effective rate of protection on assembly-type industries and provide a minimum rate of protection for domestic resource-based industries. It has also shifted the basis for levying import duties from f.o.b. to c.i.f. which, together with the new minimum tariff, should contribute to Government revenues while reducing the excess demand for foreign exchange in the economy. Furthermore, in 1983 the Government introduced a foreign exchange retention system for non-traditional exports and lowered the tax rate on profits derived from non-traditional exports to the same concessional rate of 15 percent that applies to agriculture.

26. Further reforms for the industrial sector are currently under discussion in the context of an Industrial Reorientation project. The boldest of these is the possible introduction of a foreign exchange auction system; this is currently under discussion with the IMF. Other reforms include unification of the domestic and import sales tax rates, strengthening of the foreign exchange budgeting and allocation procedures, establishment of guidelines for allocation of foreign exchange to economically efficient firms (in the absence of an auction system), establishment of a capacity for economic analysis of projects in the parastatal holding company (ZIMCO), revision of the Industrial Development Act to make it more promotional and less restrictive in nature, and strengthening of export promotion institutions in Zambia. Together with the reforms already taken, and further movement in the real exchange rate, the above measures represent a wide-ranging and substantive package which should lead to a less import and capital-intensive structure of production and an aggressive framework for the development of non-traditional exports.

27. In the area of population and health, there is a growing awareness within Government of the socio-economic implications of the current and projected rates of population growth. Within its announced policy of shifting health services towards broad based programs of primary health care, the Government is working with the Bank to promote child spacing, maternal health and family planning programs. These should help mitigate the effects on the population growth rate, currently 3.4 percent, of an expected decline in mortality resulting from the expansion of preventative health services.

28. Several far-reaching institutional reforms have been introduced as well. The national budget system has been revamped following the recommendations of the Bank's Planning and Budgeting Study.[3/] Second, the planning unit of the Ministry of Agriculture and Water Development (MAWD) have been reorganized along lines recommended in a Bank sector report; this has streamlined the planning process in the agricultural sector and has established a collaborative program of sector studies between MAWD and the Bank which is leading to improvements in agricultural policy and investment strategy. Third, the portfolio of Minister for Planning has been transferred to the Minister of Finance; this should improve the coordination between planning and budgeting and may signal the eventual merger of the planning and finance ministries.

Sustainability of Adjustment

29. The macroeconomic, sector and institutional reforms discussed above represent a major turnaround in Zambia's policital and economic direction. They have been introduced following a realization by the President and top policymakers that the old policies of increased centralization and administrative controls have not worked, that Zambia's copper reserves will suffice only towards the end of the century and that adjustment of the economy must begin now while copper can still contribute to the diversification process. The President has led the effort to introduce the new policy environment. During the past two years, he has delivered a consistent message that the days of high copper prices are over, that Zambians must accept a lower standard of living, that business needs to be profitable in order to expand, and that to survive in the long-term, new types of production and exports must be created. This campaign of educating the public to Zambia's new economic realities has not been easy in a nation accustomed to increasing government involvement in the economy over the past 15 years and the expectation that government can and should protect society from changes in economic circumstances.

3/ This has involved the establishment of a rolling three-year financial plan, the issuance of budget guidelines compatible with resource availability and the restructuring of budget categories including the consolidation of recurrent and capital expenditure. These procedures are in their second year and have improved the allocation of resources, both within ministries and for the budget as a whole. In addition, the Government is in the process of revising the format of the Annual Plan to make it forward looking and to establish linkages between the Government's development objectives and the supporting programs of expenditure. This is in line with the recommendations of a second Bank Study on Development Planning, through which we are providing assistance to help the process of drawing up the Annual Plan in the revised format.

30. The President's efforts in persuading the country to accept economic policy reforms and declining living standards were recently culminated in the convening of the Third National Convention in July 1984. The last convention took place in 1969 when the Mulungushi reforms were announced that placed Zambia on its socialist path of development. The objective of the Third National Convention was to discuss the economic crisis facing the country and, in the words of the President, "to cause the economic problems to be understood by everyone here." The Convention was attended by delegates representing the Party, trade unions, the Chamber of Commerce (ZINCOM), the Commercial Farmers Bureau, commercial banks,senior government and parastatal officials, and provincial and district leaders. It was a continuation of an ongoing policy dialogue that has been carried out at the provincial level during the past two years. The Convention passed resolutions recommending that the size of the public service be reduced; that tax resources be mobilized; subsidies reduced; fiscal measures taken to discourage reliance on imported raw materials and encourage utilization of local raw materials; that management of public enterprises be improved; and, perhaps most indicative, that the mine workers union and the mining company management prepare for the eventuality of closing uneconomic mining operations. Follow-up working groups have been formed and already actions are being taken, most recently, in the form of an "Economic Crusade - 1985." As part of this crusade, targets have been set to reduce imports of wheat, cooking oil, rice, barley and petroleum. With immediate effect, imports of passenger cars are banned for one year and no new government or parastatal project may be started that does not have an immediate positive effect on foreign exchange availability or increase use of existing capacity.

31. The significance of the Third National Convention is that the Government has fully recognized the depth of the economic crisis and has taken a major step to develop a national consensus for the difficult measures that lie ahead. This consensus is essential if the pace of adjustment is to be sustained over the next few years. On the other hand, it is equally essential that adjustment proceed at a measured pace; that is, one which allows sufficient time for digestion of major changes, especially price increases, before the next round of adjustment occurs. In sum, from the steps already taken, it is clear that the Government is fully commited to restructuring the economy through changes in macroeconomic and sector policies, but that given the real political pressures and real declines in the standard of living that have occured over the past decade, the adjustment effort will only be sustainable if it is allowed to proceed at a measured pace.

C. EXTERNAL ASSISTANCE REQUIREMENTS

Donor Programs

32. External assistance programs for Zambia have undergone a major shift in emphasis during the past two years as bilateral and multilateral agencies adjusted to the country's changing needs and to the realities of

their own recession-constrained resource availabilities. The major characteristics of this shift include a greater emphasis on rehabilitation and maintenance of infrastructure as opposed to the financing of new capital assets; a significant softening of lending terms, with some bilateral donors moving to full grant programs; and an increase in input support and commodity assistance, particularly food aid to help alleviate the worst effects of the recent drought. Also evident is a significantly greater emphasis on agriculture, human resource development (education, health, training) and, to some extent, industry as a means of diversifying the economy. Accompanying these changes in emphasis has been an increased concern on the part of these agencies that Zambia adopt the policy reforms needed to restore structural balance to the economy and that both capital flows and technical assistance be better coordinated. Underlying this concern is the realization that fewer resources are likely to be available in the future and that those that are available must be used more productively.

33. Loan commitments to Zambia by multilateral and bilateral agencies fell sharply in 1983, from an average of US$285 million in 1980-82 to US$110 million in 1983. This decline is visible in both bilateral and multilateral programs, but was more pronounced in the latter. To some extent the decline in bilateral commitments was offset by an increase in capital grants, which rose from an average of $28 million in 1980-82 (there may have been large, unrecorded grants as well) to an estimated $42 million in 1983. Various factors may account for the fall in lending to Zambia: (a) a cutback in resource availabilities in donor countries because of recession at home; (b) heightened concern over Zambia's creditworthiness for all but the most highly concessionary credits; (c) questions of absorptive capacity, including slow disbursement of existing loans; and (d) no new capital commitments from the Eastern Bloc countries which were an important source of funds for Zambia in the past (mostly for military equipment and tractor/truck fleets).

34. Representatives attending the May 1984 Consultative Group for Zambia indicated a strong willingness to expand assistance programs to Zambia, based on the improved policy performance to date. A summing up of the programs specifically mentioned at the meeting showed that Zambia may expect capital commitments totalling about $300 million per annum from the Group members (excluding the Bank Group). Of this amount, about one-third would be in the form of grants and another third in the form of highly concessional loans. These amounts will need to be commited carefully and disbursed quickly in order to meet Zambia's minimum external financial requirements; they will need to be supplemented with generous debt rescheduling and some new commitments from private creditors.

35. In the past there has been a tendency on the part of some donors to push capital projects that were more in the interest of suppliers in the donor country than in the interest of Zambia. Since these projects were usually accompanied by concessional financing and often had the support of a high ranking Zambian public official or political figure, they were difficult to refuse. Consequently, the country is now saddled with many

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non-economic firms or industries (e.g. automobile assembly plant). It was recognized at the C.G. meeting that this practice is not in Zambia's interest and that in the future all new projects must be subject to rigorous economic criteria.

Aid Coordination

36. Until recently aid coordination has been minimal and on an ad hoc basis. Donor agencies consulted on matters of mutual interest, but since the 1978 meeting of the Consultative Group there had been no formal mechnanism for coordination of aid programs. In 1983 the Bank agreed with the Government to reconvene the CG for Zambia and initiated a series of meetings among local representatives in Lusaka that were successful in consolidating donor support for the upcoming CG meeting. These local meetings were also used to expand the dialogue on policy reform and sector strategies. The ensuing CG meeting in May 1984 confirmed donor interest in a regular and systematic approach to aid coordination, and it was agreed that a Joint Monitoring Committee (JMC), comprised of Government and donor representatives, would be established in Lusaka. It was also agreed to reconvene the CG in 12 to 18 months.

37. The Joint Monitoring Committee is charged with monitoring the implementation of externally funded projects and is expected to recommend actions to increase the disbursement of committed funds. It will also monitor the economic situation as well as the Government's progress on macroeconomic and sector policy reforms. The meetings of the JMC to date have proved useful in furthering the discussion of sector policies and expenditure priorities.

38. Considerable work is still required to install a project monitoring and aid flow information system that will enable the JMC to do its job. The structure of such a system has been identified by consultants financed under the Technical Assistance Credit during the past six months. It is essential that this system be installed quickly and that it become an integral part of the Government's own planning and monitoring process for all projects, not just externally funded ones. Also, the Government will need to take an assertive role in coordinating its own aid program. To date, the Bank's Resident Representative has had to perform much of the Secretariat work associated with the meetings of the JMC, in addition to assisting in drafting the Terms of Reference for the Committee and in guiding the consultant work on the information systems. The UNDP is the other technical advisor to the JMC and is charged with coordinating the technical assistance portion of donor programs.

39. Due to the continued deterioration in Zambia's external position during 1984, it has been decided to convene an emergency "interim" meeting of the CG in June 1985. This meeting will focus on a limited set of issues (e.g., the need for additional quick disbursing assistance, a more coordinated approach to debt rescheduling and aid flows, and acceleration of policy reform) and will attempt to agree on a joint action program between the Government and the donors as a group. In this respect, the

Bank will take a more active leadership role as proposed in the recent Sub-Sahara report and formulate a country specific strategy for donor support and a program of actions by the donors along the lines of the recent DAC guidelines for assistance to Sub-Saharan Africa. This, of course, will need to be complemented by a Government program of accelerated policy reforms, including implementation of the aid coordination measures referred to above. The June meeting would be followed up by more intensive aid coordination in Lusaka (through the addition of a second staff member to the Resident Mission) and by another CG meeting in 1986 which would review the Government's investment program for 1986-88.[4/]

Technical Assistance Needs

40. Zambia's technical assistance needs are substantial, but so is the supply of such assistance to the country. According to UNDP estimates, over $100 million of technical assistance has been provided to Zambia each year for the past few years. The main problem is that there has been almost no coordination of this assistance and there is often duplication of work and conflicting advice given to policymakers by "specialists" from various assistance programs. This is a particularly serious problem in the agricultural sector which is overrun by technical advisors. At least three external agencies (World Bank, EEC and USAID) are advising the Government on agricultural sector strategy, with this advice ranging from the development of state farming to the provision of support to smallholder farmers. The problem is not limited to the agricultural sector, however, and coordination of technical assistance programs is a matter of high priority. This will be a major task of the aid coordination mechanisms recently estabilised by the Zambian authorities.

41. The most pressing need for technical assistance in Zambia is in the area of economic management and planning. The capacity to manage basic economic data concerning the budget, external debt, foreign exchange, etc. is weak, and the capacity to formulate programs of structural adjustment does not now exist. Improvements are needed in both information systems and in the quality of staff. Yet assistance in these areas is the most sensitive and difficult to provide, especially from bilateral donors. Assisting Zambia develop such capacity will be a prominent feature of the Bank's country assistance for the next couple of years.

42. There are critical technical assistance requirements in other sectors of the economy as well. Many sectors are operating and investing without a clear sector strategy (transport, energy, agriculture, industry, housing, health, etc.), although in industry and agriculture a strategy is beginning to emerge. Assistance in the development of sector strategies and investment programs should be the first priority in these sectors.

4/ A rolling three year investment program will be prepared for the first time in 1985 as part of the Government's new budget procedures, but would not be available for this year's CG meeting.

Second, the structure and functional organization of various government ministries and institutions should be evaluated. In the public enterprise sector, ZIMCO's ability to evaluate investment proposals needs to be strengthened, and technical assistance is required to improve the operations of existing enterprises. Such assistance should also mark for divestiture or closedown those enterprises that are not likely to be viable in the future.

Creditworthiness and Debt Service Capacity

43. There are three major areas of uncertainty in analyzing Zambia's creditworthiness and assessing its external capital requirements: i) the future price of copper; ii) whether the economy can resume sustained rates of growth from a severly compressed level of imports; and iii) whether there will be sufficient export growth to offset the decline in copper earnings by the end of the century. As noted earlier, assumptions concerning future copper prices have been hazardous. The Bank's current projections for copper (January 1985) are the most conservative of the past decade. In current terms the copper price is projected to increase from $0.62/lb. in 1984 to $0.68/lb. in 1985, and to rise gradually to $1.03 in 1990. In real terms, this would signify an increase of about 1.5 percent per annum. Between 1990 and 1995, the real price is projected to increase by 2.5 percent per annum and reach $0.78/lb. (in constant 1983 dollars); this would be 21 percent above the 1984 price, which was the lowest in real terms during the post-World War II era.

44. The severe compression of imports that occured during the past decade poses an open question as to whether the current level of imports, now 75 percent below the level in 1974, provides a minimum base for the economy to continue functioning and, indeed, to resume positive rates of growth. In determining Zambia's external capital requirements, it is believed that for growth to occur, the volume of merchandise imports needs to be restored to the level of $750-800 million over the next two years, i.e., an increase of 18 percent in real terms above 1984. This is the minimum amount required for adequate operations and rehabilitation of the mining industry (about $350 million per annum), for petroleum (about $150 million), for some food and for reasonable capacity utilization in other sectors. It is also not known whether the high import elasticity (about 15) that existed during the past decade, when imports declined much faster than GDP, would be operative in a situation of positive growth. Undoubtedly, the decline in imports squeezed out some imported consumer goods at no sacrifice to domestic producton. Also, some import substitution is known to have occurred (e.g., beef, textiles and paper), but it was not nearly enough to prevent a major decline in capacity utilization. The existence of excess capacity is a strong reason to expect that production could respond quickly to an increase in import volume. Also, substantial scope still exists for import substitution in food,

petroleum and intermediate goods.[5]/ These opportunities are now more attractive as a result of the recent changes in the exchange rate and higher producer prices for agricultural products. Taking the scope for increased capacity utilization and import substitution into account, the projected volume of imports needed to sustain growth is estimated to have an overall elasticity of 0.9 with respect to GDP.

45. The third area of uncertainty is whether non-mineral exports can grow sufficiently to offset the decline in copper exports around the turn of the century. With strong management in the mining industry, adequate foreign exchange allocations and good implementation of the technical recommendations now being formulated under the Mining Rehabilitation project, copper production and exports could average 575,000 tonnes per annum between now and 1995. This would include a one-time boost of 50,000 tonnes per annum starting in 1986 from the third phase of the Tailings-Leach project. After 1995, however, copper exports could fall by perhaps one-third in the subsequent five years due to the exhaustion of ore reserves. This would represent an annual loss of $270 million (in constant 1982 prices) by the year 2000; however, the net loss in foreign exchange would be only $160 million in that year, since imported inputs represent about 40 percent of direct production costs and the import requirements of the mining industry would decline in line with production.

46. Zambia could recoup this net loss if non-mineral exports grow by 13 percent per annum between now and the year 2000. This in turn could be possible with a four percent per annum growth in agriculture and non-mining industry. Such rates of growth would be sufficient to provide for the required exportable surplus as well as for increased domestic consumption (although not on a per capita basis) of output from these sectors. Under these assumptions non-mineral exports would represent 12 percent of value added in agriculture and non-mining industry and 38 percent of total merchandise exports by 2000.

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[5]/ Given normal rains, Zambia could return to its historical position of a net maize exporter and pursue import substitution in food products with known production potential (wheat, rice, oil seeds, dairy, fish, soyabean); together, this could reduce food imports by 75 percent ($40 million) in five years. Reductions in petroleum imports of 15-20 percent may be possible as a result of modifications to the Indeni Refinery and substitution of coal and electricity for heavy fuel oil in the mines. Potential for substitution of intermediate goods includes timber, pulp, wood products, fertilizer and animal feeds.

Growth of Non-Mineral Exports Required to Offset Decline of Copper Exports Between 1995 and 2000
(Millions of 1982 US Dollars)

	1982	1985	1990	1995	2000
Non-Mineral Exports	47	59	99	197	359
Value Added in Agriculture and Non-Mining Industry	1539	1619	1969	2397	2916
Non-Mineral Exports					
as % of VA in Ag/Ind.	3	4	5	8	12
as % of Tot. Msde. Exports	5	7	10	19	38
five-year growth rate (% p.a.)	..	..	11	15	13

Reference: Attachments 3a and 3b.

47. The orders of magnitude set out in the preceding paragraph present a considerable but attainable challenge to the Zambian economy. Zambia has extensive agricultural potential and could develop a number of export crops, such as, tobacco, cotton, teak, other wood products, beef, fruits, flowers, vegetables, coffee, tea and groundnuts. No one of these crops could replace copper, but together they could realize, perhaps $50-60 million (in 1982 prices) by the early 1990's. This will require continued improvements in agricultural pricing policy, as have occured in the past four years and are being supported by the Agricultural Rehabilitation project. In addition, efforts are needed to improve smallholder productivity, to increase the efficiency of marketing institutions and to secure foreign markets. The former will be supported by the upcoming research and extension project, and the latter, including improvements in domestic marketing organizations, by on-going ESW and a second agricultural rehabilitation project. Further movements in the real exchange rate would also boost the export potential of agriculture, although as mentioned in para. 21, the existing rate is already conducive to longterm growth of the sector.

48. Zambia will also have to develop manufactured exports to meet the above export targets. In this regard, Zambia has the advantage of a relatively high degree of technical and engineering skills that have arisen to serve the mining industry and which today are engaged in a wide range of industrial production (e.g., chemicals, metal working). The fact that these have not developed into vigorous export industries is mainly attributable to the historic overvaluation of the exchange rate and to an inappropriate trade regime that has provided high rates of effective protection to the domestic market. Examples of potential manufactured exports are more difficult to cite than agricultural goods, but the experience of many developing countries indicates that given the right incentives, new lines of export will appear. The structure of industrial

incentives is changing rapidly in Zambia, starting with recent and anticipated changes in the exchange rate and continuing with the policy package developed for the Industrial Reorientation project. These reforms should provide a sufficiently sound framework for growth of manufactured exports on the orders of magnitude required, but will need to be reinforced by a rationalization of industrial firms to increase their efficiency and international competitiveness. The latter will also be the focus of future ESW and a second Industrial Reorientation project.

49. While agriculture and industry have the potential for sustaining growth rates of 4-5 percent per annum, overall GDP growth will be limited by two structural constraints, namely the mining and service sectors. Mineral production will at best remain constant in real terms through 1995; thereafter it will decline and act as a negative drag on overall GDP growth. This will also lead to relatively high ICOR's (about 7) during the next decade. Second, the service sector currently contributes nearly 50 percent of value added to the economy, and it would be unlikely that services could grow without much faster growth in the productive sectors; indeed, faster growth in the productive sectors will be required for any change to occur within the structure of production. In view of these contraints, overall GDP is not expected to grow by more than 2-2.5 percent per annum over the next decade. Gross national income would grow slightly faster, however, by about 3-3.5 percent per annum, due to the projected improvement in Zambia's terms of trade (+18 percent between now and 1990).[6/] This would be sufficient to prevent per capita incomes from declining further, but in view of the need to increase investment, currently about 12 percent of GDP, most of the expected gains from the terms of trade would have to go into savings, and consumption, while increasing in absolute terms, would decline on a per capita basis.

50. These rates of growth will, of course, require a minimum level of imports. As mentioned, the current level of imports needs to increase by about 20 percent before growth can resume on a sustained basis. Thereafter, imports would need to grow by 2 percent per annum. A shortfall in the required level of imports would most likely jeopardize the rates of growth discussed above, but it is not possible to estimate the impact of a shortfall in view of the uncertainty whether the current level of imports is below the critical minimum for the economy to continue functioning, and in view of the resiliency the economy has shown in the past to sharply declining levels of imports.

51. Zambia will require about $280 million per annum of net capital inflows over the next five years to attain the rates of growth discussed

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6/ Most of the projected improvement in Zambia's terms of trade is due to an expected moderation in import prices as a result of paying off the "pipeline" of commercial payment arrears. This would yield a cumulative gain of about 15 percent in the import price index between now and 1990 (equivalent to $180 million in 1990).

above.[7] On a gross basis, however, Zambia's capital requirements are much larger due to heavy debt service payments, scheduled repurchases from the IMF and the need to reduce the outstanding "pipeline" of commercial payment arrears and short-term debt. The official capital assistance believed to be available to Zambia, about $300 million per annum (excluding Bank and IDA) as indicated at the May 1984 CG meeting, will not be sufficient to meet Zambia's needs without extraordinary measures to provide quickly disbursing loans and continued debt relief. The CG meeting agreed that program assistance is appropriate for Zambia's current economic situation, and the financial projections assume that about one-half of new official loans (including Bank and IDA) will be on quickly disbursing terms. It is also assumed that debt relief of about $225 million per annum will be provided over the next five years.[8] In addition, about $25 million per annum of new commitments will be required from private sources; this could reasonably be expected if, as the projections assume, Zambia reduces its commercial arrears at a pace of $50-100 million per annum. However, even with some new private loans and foreign investment, there would still remain a financing gap of, on average, $140 million per annum in 1986-90 (see attachment 3c). This gap is roughly equal to scheduled repurchases of IMF drawings. New IMF programs will be necessary throughout this period, but given current commitment practices of limiting new drawings to 50 percent of quota, it would not be possible for the Fund to cover all of the gap in 1987 and 1988. In these two years, assuming continued Fund programs of SDR 135 million per annum (50 percent of Zambia's quota), the unfinanced gap would average $50 million per annum, and additional sources of finance, preferably direct foreign investment or increased ODA, will need to be found.

52. Even with rescheduling, Zambia's debt service will remain between 40 and 50 percent of exports between now and 1990. This is due to the structure of Zambia's external debt which is heavily weighted towards international financial institutions, short-term credits and arrears on commercial payments. More than 30 percent of total debt service due over the next five years (1985-89) represents repayments and charges to the IMF alone. Another 15 percent is due to multilateral lending institutions, while 20 percent represents interest on short-term debt and commercial

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[7] The current account deficit declines from about $300 million in 1985 to $250 million in 1989 (Attachment 3c). These deficits are mostly attributable to heavy interest payments which outweigh projected resource balance surpluses (zero in 1985, rising to over $100 million in 1989).

[8] This would represent relief of 100 percent of principal and interest due to bilateral creditors on debt committed prior to 1984 (including service on debt rescheduled under the 1983 Paris Club agreement) and 100 percent of principal due to private lenders on debt committed prior to 1984.

loans. The amount of debt that is actually rescheduleable (i.e., principal and interest to bilateral creditors and principal to private creditors) is only 35 percent of total debt service due over the next five years. Moreover, the rescheduleable portion declines quickly from 43 percent in 1985 to 27 percent in 1989. Because of the accumulation of interest on rescheduled amounts, the net effect of debt rescheduling becomes negligible after 1988 unless future reschedulings are expanded to cover service on debt already rescheduled. In the absence of significant increases in ODA, rescheduling over the next five years, will be essential if Zambia is to have a necessary minimum volume of imports. In this regard, it would be highly desirable for the next Paris Club agreement to cover a longer timeframe than the previous one-year agreements and to capitalize the payment of "moratorium" interest into the period beyond 1990. This would provide more effective relief to Zambia in the intervening years when it faces a sizeable financing gap; a longer timeframe would also reduce the considerable administrative burden of negotiating individual bilateral agreements each year. Assuming that Zambia receives maximum debt relief from its bilateral and private creditors over the next five years (see footnote 8), debt service ratios would be as follows:

Projected Debt Service Ratios
(Percent of Exports of Goods and Services)

	1985	1986	1987	1988	1989	1990	1995
Public and Publicly Guaranteed Debt							
Before Rescheduling	44	36	33	28	24	21	16
After Rescheduling [a]	15	16	19	21	23	26	23
Other Debt Service [b]	11	9	12	12	12	11	4
Repayments and Charges to IMF [c]	16	19	19	15	9	6	-
Total, Before Rescheduling	71	66	69	62	52	45	24
After Rescheduling [a]	43	44	50	48	44	43	27

[a] After rescheduling of all principal and interest due in 1985-89 to bilateral creditors on debt committed prior to 1984 and of all principal due in 1985-89 to private creditors on debt committed prior to 1984.

[b] Interest on short term debt, reduction of commercial payment arrears and service on GAPFIL.

[c] On existing drawings only (including full drawing of existing standby).

53. Beyond 1990, Zambia's has the potential to reduce its debt service burden considerably. With an active exchange rate policy geared to control import demand, the current account deficit could be eliminated by 1995. This would occur mainly as a result of growing earnings from non-traditional exports, but also as a result of continued improvement in the terms of trade. The level of external indebtedness could be reduced slightly in nominal terms during the 1990-95 period; this would include the amounts of debt service rescheduled during the previous five years as well as the borrowing required to finance the gap. As a result, debt service could decline to 27 percent of exports by 1995, and Zambia would be better prepared to weather the decline in copper export volumes expected to begin at that time. This scenario will require, however, that the level of ODA, especially capital grants, is maintained in real terms throughout the next decade. In effect, the ODA inflows would finance the repayment of debt service rescheduled between now and 1990. This suggests that a more prudent financial strategy may be to convince Zambia's creditors to provide increased ODA flows and less debt relief during the next five years, so that outstanding debt could be reduced sooner. This would provide greater capacity to deal with a downside risk should copper prices suddenly fall again during this period.

54. The recovery scenario discussed above is very tight, however, and subject to a high degree of downside risk. In particular, copper prices may fail to recover in real terms, and copper production may continue to slide if sufficient imports are unavailable for the mining industry or if the operating efficiency of the industry is not improved. Also, Zambia faces a debt service crunch over the next five years. To bridge this gap will require a high proportion of concessional, non-project assistance and maximum debt relief from private and bilateral creditors. Some private investment will also have to occur and a sustained flow of resources from the IMF will be needed to complement the amounts of ODA currently available to Zambia. All these factors must remain in effect for the scenario to succeed.

55. If, for example, the amount of new ODA commitments and debt relief were 15 percent less than the level included in the scenario, and if non-mineral exports grow at only six percent per annum over 1985-95 (vs. 13 percent p.a. in the scenario), the net financing gap prior to future IMF programs would average $250 million per annum during 1986-90 (vs. $140 million p.a. in the scenario); this would be significantly more than could be expected from the IMF or other creditors, and import levels and GDP growth would fall below those discussed above. Furthermore, as a result of slower export growth, the current account deficit would continue in the $300-400 million range through 1995, and a financing gap would remain throughout this period (vs. a net financing surplus appearing in the base case in 1992). This would preclude repayment of amounts rescheduled during the 1980's, and there would be no successful resolution of Zambia's external debt problems. In 1995, debt service would still be 34 percent of exports (vs. 27 percent in the base case) and, assuming financing had been obtained to bridge the gap throughout this period, debt outstanding would be 25 percent higher in 1995 ($6.9 billion vs. $5.4 billion in the base case).

56. In sum, Zambia's creditworthiness must ultimately be judged by the combination of its financial position and the strength of the economic policies pursued by the Government.9/ The Government will greatly enhance the probability of a successful outcome by continuing its reform program, in particular, through its exchange rate policy to encourage non-traditional exports, through the reduction of commercial payment arrears to restore commercial creditworthiness and reduce the cost of imports, through the continued setting of favorable agricultural producer prices, through strong measures to increase the efficiency of the mining industry, through the enactment of a revised Industrial Development Act aimed at promoting private (domestic and foreign) investment, and by a concerted effort to improve its own economic management, aid coordination and project implementation capacity, in order to increase the confidence among official donors that further assistance will be used productively. These are the actions that should be monitored in future assessments of Zambia's creditworthiness. In the interim, the tightness of the recovery scenario warrants a high degree of concessionality in all donor programs and precludes the commitment of large amounts of IBRD funds.

D. PROGRESS TOWARDS PRIOR YEAR'S GOALS

57. In the last CPP, the Bank's objectives and strategy for the following 12 to 18 months was to move Zambia along the path towards structural adjustment of its economy. We hoped to establish a forum for policy dialogue, intensify our economic and sector work, and consolidate these efforts through agreement with the Government on an agenda for action aimed at economic diversification and export led growth. This was to be done in the context of a mining rehabiliation loan which would be used as the principal vehicle for agreeing on the direction of economic policy reform. The last CPP also envisaged a key role for the Resident Representative in reestablishing our policy dialogue and in improving aid coordination at the local level.

58. Progress towards these goals has far exceeded our expectations. After an initial delay of one year, we reached agreement with the Government on a Memorandum of Development Objectives and Policies which defined the scope for cooperation in policy analysis and set the direction for change in various economic and sector policies. This Memorandum provided the macroeconomic basis for proceeding with the Mining Rehabilitation project which was approved in March 1984. The delay of one year in agreeing on this Memorandum was due to the Bank's insistance that the Government maintain access to IMF facilities. During 1982, the Government was unable to agree with the IMF on a program covering the second year of its then-existing Extended Fund Facility. It subsequently agreed on a Standby Arrangement for 1983, and subsequently, on another Standby covering the period July 1984 - March 1986.

9/ Zambia was rated III b in the latest (January 1984) Review of Country Creditworthiness and Bank Loan Portfolio.

59. Within the framework of the Memorandum of Development Policies, the Government has taken major strides towards adjustment of the economy (see Section B). While Zambia's dire financial situation has undoubtedly forced many tough decisions, part of the willingness to change economic policy is undoubtedly the result of the Bank's economic and sector work and the manner in which we have explained and presented our policy recommendations. In this respect, the Bank's Resident Representative has played an invaluable role in reestablishing our policy dialogue. The Bank increasingly enjoys the Government's confidence and trust, and the Government's receptivity to Bank advice can now be labelled "very good". This represents a major turn in Bank-country relations and must be counted as a principal achievement of the past three years.

Bank Country Relations

60. In terms of concrete actions that have contributed to this improvement in Bank-Government relations, we have:

i) completed a large volume of economic and sector work including major reports in agriculture, industry, energy, PHN and planning and budgeting procedures;

ii) advanced our policy dialogue in agriculture and industry to the point that we have approved a sector operation in agriculture and are in the advanced stage of processing a policy-based operation in industry;

iii) assisted in the implementation of broad-based reforms in budgeting procedures;

iv) assisted in the preparation of the Government's documents for the 1983 Paris Club meeting;

v) re-convened the Consultative Group for Zambia, which had been dormant since 1978;

vi) assisted the Government in organizing a Joint Monitoring Committee to manage aid coordination at the local level; and, most recently,

vii) organized an evaluation of the Ministry of Finance's capacity for economic management that will lead to improved information systems, the establishment of an economic policy unit, and training of its staff.

61. The Bank's lending activities have also reflected the increased trust and reliance the Government places on our advice. During FY 82-84, nine projects were approved for a total of $180 million. This represented a doubling in the number of projects approved in the prior three years and the same number of projects as proposed for the period in the last CPP.

The total of $180 million was 55 percent of the five-year FY82-86 program approved in the last CPP review and can thus be considered on target in terms of commitments per annum. The most important project was the Mining Rehabilitation loan ($75 million) which is providing quickly disbursing funds and has set the precedent for similar policy based operations in the agriculture and industrial sectors. The Bank is now positioned to recommend convincingly to the Consultative Group members that their programs of assistance should also be shifted towards quickly disbursing projects aimed at rehabilitation of existing capacity.

62. Also important in terms of improving Bank-country relations were three technical assistance/engineering loans in the energy sector (petroleum exploration, refinery modification and coal engineering), which, while small in amount (only $16 million in total), broadened the Government's exposure to the Bank's technical advice. The Government is now actively seeking our assistance over a broad spectrum of rehabilitation requirements (e.g., rehabilitation of the NCZ fertilizer plant, the TAZAMA pipeline and the ZESCO electric power distribution system). While improved receptivity is a welcome development, it creates the risk that the Bank will be unable to meet such a wide range of expectations without increased lending authority and a conscious decision to allocate more staff time for advising on technical matters possibly beyond the range of the Bank's own lending program.

63. The one area of Bank-country relations that has suffered a setback over the past few years is Zambia's record in servicing loans and paying for capital subscriptions. Service payments to the Bank Group are consistently late and often exceed 60 days overdue. Disbursements were suspended on two occasions, but only for a few days before payments were brought up-to-date. Given the extreme foreign exchange scarcity of the past few years, Zambia has had to accumulate funds to pay one creditor, while payments to others have had to wait. Concerning capital subscriptions to IBRD, the shortage of foreign exchange has prevented full payment of the US dollar portion of its subscription under resolution No. 346, while tight budgets and reductions in government expenditures under successive IMF programs have prevented payment of the local currency portion. We have requested payment of these amounts on several occasions, but with little success. We will attempt to work out a schedule of installment payments during our next operational mission to Zambia.

STATUS OF IBRD CAPITAL SUBSCRIPTIONS

Resolution No.	Adopted	Shares Allocated [a/] Subscribed No.	Subscribed $ (mil)	Unsubscribed No.	Unsubscribed $ (mil)	Amounts to be Paid-in for Unsubscribed Shares (000's) US$	Loc. Cur.	Local Currency Unreleased for Shares Subscribed $ (mil)
346	1/4/80	0	0	1077	0.97	0.79	0.00	8.77
347	1/4/80	0	0	250	30.16	0.00	0.00	0.00
	Total	0	0	1327	31.13	0.79	0.00	8.77

[a/] IBRD share value = $120,635.

Project Implementation

64. Implementation of Bank Group projects slowed considerably in FY81-82, but has improved somewhat in FY84-85. The lack of counterpart funding and budgetary releases for recurrent expenditures have been the major factors delaying project execution. Closer supervision by Bank staff of budget requirements, together with ministry level discussions at Country Implementation Reviews, has brought about some improvement. Also, within Zambia's overall budget constraints, the new budgeting procedures have shifted resources to the development sectors and this has significantly eased the funding problem for many Bank projects.

65. Staffing problems, reflecting a variety of constraints, including non-competitive public sector salaries, lack of comprehensive manpower planning and development, overloading of public sector entities, inadequate programming for staffing needs, and cumbersome design of projects have also had adverse effects on project execution. Projects involving two or more entities have suffered from coordination difficulties. These absorptive capacity constraints must be given much more attention in project design if implementation is to improve in the future.

Disbursement Record

66. Zambia's disbursement rate fell sharply in FY81 reflecting the increasingly serious implementation problems discussed above. By FY84, the rate had not yet returned to pre-FY81 levels, although some recovery occured in FY83 and FY84 as the corrective measures took hold (see table below). The disbursement rate for Zambia has been slightly below both the Eastern Africa and Bank-wide averages in recent years, whereas prior to FY81 it was generally higher than those averages. Zambia's disbursement

profile lags behind that of the Eastern and Southern Africa Region as a whole, in part because the latter includes structural adjustment loans which are disbursed quickly. As we move to policy-based sector lending in Zambia, as detailed in the proposed lending program, the country disbursement profile should shorten significantly.

IBRD/IDA Disbursements
US$, Millions

	FY80	FY81	FY82	FY83	FY84
Undisbursed balance (at beginning of FY)	126.3	129.4	123.3	175.6	141.5
Disbursements during year	32.4	21.0	21.0	35.3	27.4
Disbursement rate, % (2/1)	25.7	16.2	17.0	20.1	19.4

Disbursement Profile

	Percent of Loan/Credit Disbursed Years After Signing								
	1	2	3	4	5	6	7	8	8+
Zambia	3	8	25	40	56	71	81	88	100
Eastern and Southern Africa [a]	3	13	29	46	61	74	84	91	100

[a] Includes SALs

E. WORLD BANK STRATEGY

67. There is increasing agreement between the Bank and the Government on the strategy to be followed to achieve Zambia's development objectives. This is a two pronged strategy focused on improving economic management and restoring production levels. Improved economic management will be critical to the structural changes Zambia requires to resume growth and diversify its economy. The economic and sector reforms already introduced need to be broadened and deepened and additional measures are required, especially at the sectoral level. In addition, the Government's capacity for policy analysis and formulation, for administering development programs and for mobilizing and monitoring the flow of external resources needs to be strengthened considerably. The second part of our strategy aims to support the reform efforts by raising capacity utilization and restoring productive efficiency in the key sectors of the economy. Consistent with these goals and the economy's severe foreign exchange and financial constraints, the Bank's strategy is to provide a high proportion of quick-disbursing non-project assistance in support of these sectors. In addition, our strategy is to support new investment only if it will contribute directly

to diversification of the economy or ease long term development constraints. Our specific program goals are summarized below and are presented along with indicators of progress in the table on the following page. They are:

a) to establish a policy environment conducive to a restoration of growth and diversification of the economy;

b) to improve development administration and the capacity for policy formulation;

c) to mobilize external resources and increase the rate of disbursements; and

d) to support the Government's efforts to:

i) rehabilitate existing infrastructure;

ii) diversify the economy;

iii) increase capacity utilization; and

iv) ease long term development constraints, especially the shortage of human resources, and the high rate of population growth.

68. Goals a, b, and c are aimed at the central problem of weak economic management; they will be addressed mainly through our ESW and aid coordination work. We have already achieved a good deal of success in these areas through our recent efforts in budgeting and planning, both at the macro level and in the agricultural sector (para. 28). These efforts will continue through assistance in the implementation of agreed reforms as well as through the second Technical Assistance project which will support a reorganization of the Ministry of Finance and improve the collection and analysis of financial and macroeconomic information. Our ESW also includes efforts to improve planning and investment strategy work at the sector level, particularly in energy and transport, while the upcoming Industrial Reorientation project will support institutional improvements in foreign exchange budgeting and allocation, export promotion, and economic analysis of parastatal efficiency. Regarding aid coordination, the required technical assistance for establishing a project monitoring system has been identified and actual implementation should start soon. The above efforts will take two to three years to implement, and therefore noticeable results would not be visible for five years. By 1990, however, the Government should be in a stronger position to manage the transition to the post-copper era.

69. Goal d would be addressed mainly through our lending program which is about equally divided in the number of projects addressing each point. Assuming the Government continues to follow the policy directions it has established for itself, the Bank strategy is to assist with the maintenance and rehabilitation of existing infrastructure (especially in

ZAMBIA

STATEMENT OF PROGRAM GOALS

GOALS	INDICATORS OF PROGRESS
A. Establish a policy environment conducive to a restoration of growth and diversifiaction of the economy.	a) Compliance with agreed policy reforms and action programs contained in Export Rehabilitation and Diversification and Agricultural Rehabilitation projects.
	b) Agreement on policy reforms for Industrial Reorientation and PHN projects.
	c) Identification of policy reforms and action program for energy sector, Agricultural Rehabilitation II and Industrial Reorientation II projects.
B. Improve development administration and the capacity for policy formulation.	a) Agreement on content of Second Technical Assistance project and successful implementation of same.
	b) Production of a forward looking Annual Plan by June 30 of each year, along lines recommended by Bank.
	c) Carrying out agreed program of studies by Planning Unit in Ministry of Agriculture and Water Development.
	d) Successful functioning of newly established National Energy Council.
	e) Establishement of capacity for economic analysis of projects in ZIMCO.
	f) Rationalization of institutions responsible for transport sector planning and policies.
	g) Complete evaluation of Education Reform Program.
C. Mobilize external resources and increase the rate of disbursements.	a) Establishment of a project monitoring system to monitor aid flows and project implementation.
	b) Periodic meetings of the Joint Monitoring Committee (aid coordination at the local level).
	c) Preparation of a public investment program and meeting of Consultative Group in early 1986.
	d) Disbursement of Bank/IDA sector loans on schedule (see 1. above).
	e) Inclusion of sufficient counterpart funds for Bank projects in annual Government budgets.
	f) Mobilize co-financing for World Bank projects in ratio of 2:1.
D. Support the Government's efforts to:	
a) rehabilitate existing infrastructure;	a) Approval of Railways IV, Fertilizer Rehabilitation, Refinery Modification and Roads IV projects.
b) diversify the economy;	b) Approval of agricultural production projects (Fisheries, Coffee II, Ag. Credit and area development projects).
c) increase capacity utilization; and	c) Approval of agricultural, industrial and energy sector loans (see 1. above).
d) ease long term development constraints, especially the shortage of human resources, and the high rate of population growth.	d) Approval of Technical Assistance II, PHN, Agricultural Research and Extension, and Education VI projects.

transport and key manufacturing industries); with quick disbursing, non-project assistance in the key productive sectors (agriculture, industry and energy) in order to raise capacity utilization, increase efficiency and restore production and employment levels; and with projects to diversify production and exports (particularly in agriculture), with the view to providing alternatives to copper as a source of employment, output and foreign exchange earnings. At the same time, the strategy would allow the Bank to continue supporting programs to relieve the longer term constraints to development such as the shortage of trained personnel, the high rate of population growth and the lack of technical packages and support programs in agriculture.

70. Assisting the Government to design the policy reforms and action programs in the various sectors, while at the same time mobilizing co-financing, assisting with aid coordination, and working with the Government to strengthen development administration, all within the framework of expanded lending and economic and sector work programs, will require a significant increase in Bank staff time. The Resident Mission in Lusaka will have to be expanded as well, particularly so because of the universal aid coordination responsibilities stemming from reactivation of the Consultative Group. The Resident Mission in Lusaka should be expanded by two staff, and Economist and an Agriculturalist.

Program/Sector Lending

71. Over 40 percent of the proposed lending in FY85-89 is for quick disbursing, non-project assistance. This type of assistance would support the Government's efforts to restore capacity utilization and productivity in the agriculture, industrial and energy sectors and would be the leverage points for our encouragement of sector policy reforms. This proportion of non-project assistance is fully consistent with the recommendations of the Consultative Group for Zambia and with our assessment of the country's capital requirements. It is sector specific in nature, because Zambia does not yet have the economic management capacity to implement a full SAL operation. We are therefore addressing policy reforms in a more digestible sector-by-sector approach, following the success to date with the Mining Rehabilitation project. As appropriate, macroeconomic reforms are being built into these operations, as in the case of the mining industry operations. The feasibility for SAL lending should be examined once the measures to improve macroeconomic management are implemented.

Project Cost Sharing and Local Cost Financing

72. The last CPP approved Bank Group financing of up to 65 percent of total project costs, or total foreign exchange costs, which ever was higher, with the exception that up to 75 percent would be allowable if a reasonable case could be made. Zambia's budgetary difficulties are much more serious now than at the time of the last CPP, and the strong effort being made by the Government to contain expenditures and increase revenue to meet the performance criteria of the IMF Standby arrangement argue forcefully for a larger proportion of project financing by donors. The

donors were encouraged by the Bank at the Consultative Group meeting to finance a higher proportion of project costs and to cover part of the local currency costs of projects. The Bank needs to provide this type of support as well. Consequently, we propose an increase in the allowable percentage for Bank Group financing up to 80 percent of total project costs or the total foreign exchange costs, whichever is greater.

73. This increase is justified also by two other factors: i) the determination with which the Government has reallocated resources to the development ministries within a shrinking overall expenditure level; and ii) the fact that as a result of recent devaluations, Zambia's GNP per capita is now much closer to $300 than to the Bank's official estimate of $580. A higher percentage would thus be more in line with Zambia's relative income level.

IBRD Exposure

74. The issue of IBRD exposure and continued Bank lending to Zambia is at the heart of this CPP. The discussion of Zambia's creditworthiness in Section C indicates a high degree of risk associated with committing large amounts of IBRD funds until the Government makes further progress in its reform program which would increase the likelihood of a successful recovery scenario. On the other hand, Zambia has already taken major and politically sensitive reforms that should lead to significant structural changes in its economy. Zambia needs a minimum amount of external support if it is to succeed in these efforts, and it is in the Bank's own interests to be seen as succeeding in the development of reform oriented economies in Africa. However, the required minimum level of external assistance is much larger than what is currently available from other donors plus IDA alone. We are therefore proposing to replace most of the IBRD funds previously allocated to Zambia ($110 million for FY85-89 in the November 1984 lending program review) with $100 million of funds from the Special Facility for Africa (SFA). The SFA would be used to fund high priority, quickly disbursing operations that should act as a catalyst for attracting large amounts of cofinancing. Without these operations, Zambia's financing gap would grow much larger than the $140 million per annum projected during 1986-90 (in the absence of further IMF programs), since much of the cofinancing associated with these operations might be lost to other countries, or go for projects in Zambia with less development impact than the proposed SFA operations. The clearest and most immediate example of this is the proposed Industrial Reorientation project ($50 million, FY86) that is intended to support far-reaching changes in industrial policies. But there is not enough IDA money in the lending program for this operation to have a meaningful impact without additional funds.

75. Commitment of $100 million of SFA to Zambia, as proposed during FY86-87, would provide sufficient "seed" capital for the Bank to mobilize additional resources of the magnitude needed to bridge Zambia's liquidity gap. However, resources in excess of Zambia's existing IDA allocation will also be required in FY88-90, the period beyond the horizon of the SFA. We are therefore proposing to include $65 million IBRD in the lending program

for these years on the understanding that Zambia's creditworthiness will be reviewed again before IBRD funds are committed and that progress on the reform program will be monitored against the actions listed in para. 56.

76. The proposed levels of lending would provide meaningful support to Zambia's recovery and restructuring efforts. Net disbursements from the Bank Group would amount to $185 million during 1986-90, the period of Zambia's severest debt burden. Net transfers would be slightly positive at $34 million; however, this positive transfer will be concentrated in the 1986-87 period, reflecting the quick disbursing nature of various sector operations committed in FY84-87, and by 1990, net transfers are projected to turn negative. Nevertheless, the prospects for the next five years are a major improvement over the record of the past five years, 1980-84, when net transfers from the Bank Group were highly negative and capital flows very modest. For the IBRD alone, net flows and transfers will grow even more negative in the next five years due to the absence of new IBRD commitments until FY88. (IBRD flows are positive in 1985 and 1986, however, reflecting disbursement of the Mining Rehabilitation loan).

Net Disbursements and Net Transfers
(US$, Millions; period totals)

(calendar years)	Actual 1980-84	1985 Est.	Proposed Program IBRD/IDA/SFA 1986 - 90
IBRD			
Net Capital Flows	2	34	-58
Net Transfers [a]	-131	8	-201
IBRD/IDA/SFA			
Net Capital Flows	38	80	185
Net Transfers [a]	-97	54	34

[a] Including Interest
Reference: Attachment 1b.

77. Measures of IBRD exposure are already relatively low and will continue to decline in the future, even with the resumption of modest new commitments of $20-30 million per annum starting in FY88. The IBRD is Zambia's largest official creditor, but its share of medium and longterm (MLT) debt outstanding has been falling since the mid-1970's (from over 20 percent) as a result of much lower IBRD lending during the second half of that decade. This trend will continue from the present level of 12 percent of debt outstanding in 1984 to 7 percent in 1990 and 5 percent in 1995. Similarly, the Bank's share of scheduled debt service has fallen

from about 16 percent five years ago to 11 percent today. However, as a result of debt reschedulings in 1983 and 1984, service payments to the Bank have represented about 40 percent of actual service payments to all MLT creditors in these years. Assuming that Zambia will obtain debt relief during the next five years, service payments to the IBRD would decline from 32 percent in 1985 to 14 percent of MLT debt service in 1990. When account is taken of service payments to short-term creditors and the IMF, however, the above ratios are about one-third lower.

IBRD Exposure
(percent)

IBRD Share of:	1984	1985	1986	1987	1988	1989	1990	1995
Gross Disbursements	5	17	12	2	1	6	5	6
Debt Outstanding and Disbursed	12	11	11	9	8	7	7	5
Debt Service [a]	11	11	13	14	16	17	17	14
(After Rescheduling)[b]	(41)	(32)	(29)	(24)	(22)	(17)	(14)	(13)
IBRD + IDA + SFA Share of Gross Disbursments								
MLT Loans	11	31	28	21	15	17	13	15
MLT Loans plus Grants	8	24	22	16	11	13	9	11

[a] Excluding debt service to IMF and on short-term.
[b] After rescheduling of bilateral and private debt in 1984-89.
References: Attachments 1b and 3c.

78. The IBRD's share of gross disbursements has been quite low, between four and eight percent, since 1979. Again, this is due to low levels of lending during the late 1970's and, to some extent, the lack of counterpart funds which slowed project implementation. IBRD disbursements will increase to about 15 percent of gross disbursements in 1985-86, as a result of the Mining Rehablitation loan. Thereafter, Bank disbursements will fall quickly to 1-2 percent of total disbursements for the next few years. If IBRD lending is resumed in FY88 at the rate of $20 to $30 million per annum, IBRD disbursements would subsequently average around six percent of gross disbursements in 1990-95. Total Bank Group disbursements, i.e., IBRD plus IDA plus SFA, would be much larger, however, averaging 19 percent of total in 1986-90. Taking official grants into account Bank Group disbursements would be equal to 14 percent of total external capital flows available to Zambia over 1986-90. This would be the minimum share necessary for the Bank to exert strong leadership among donors, to mobilize cofinancing for high priority projects and to make a significant financial contribution of its own to Zambia's development efforts.

Recommended IBRD/IDA Blend

79. The amount of IDA resources in the currently approved lending program is $137 million for FY85-89. In view of Zambia's efforts at policy reform, we recommend that this be increased to $150 million for FY86-90 and that it be supplemented with $100 million of SFA in FY86-87 and $65 million of IBRD in FY88-90. Together, this would represent a lending program of $315 million for the period. The resulting IBRD/IDA-SFA blend would be approximately 20:80 which is considerably more concessionary than the 50:50 blend approved in the last CPP. Regarding the total volume of lending, the proposed FY86-90 program would represent a seven percent decrease in constant FY85 commitment dollars below the level of actual commitments in FY80-84 (see Attachment 1a). As such, the recommended volume of lending should be considered as the minimum acceptable level for a country that is accelerating the pace of policy reform.

Cofinancing

80. Four of the twelve projects financed by the Bank Group since 1979 have attracted cofinancing (ADB, KFW, JAPAN, ODA, SIDA, OPEC, and the EEC on the Third Railway Project; IFAD on the Eastern Province project; FINNIDA on the Third Forestry Project; and the ADB and EEC on the Export Rehabilitation and Diversification Project). We have considerably increased our cofinancing activities in recent months. Substantial cofinancing (about US$40 million in total from ADB, USAID, CIDA, and the Swiss Government) has been arranged for the Agricultural Rehabilitation Project and we expect to attract substantial cofinancing for both the Fourth Railways and Industrial Reorientation Projects. The Japanese aid agency and KFW will cofinance the NCZ Fertilizer Rehabilitation Project. Given the scarcity of Bank/IDA funds and the high demand on the part of the Government for Bank involvement in many projects, we will be seeking cofinancing for most projects in subsequent fiscal years. Our target is to raise cofinancing on the ratio of 2:1, and in particular, to secure cofinancing in this ratio for our policy-based sector operations.

Role of the Resident Mission

81. The Bank's Resident Mission in Zambia has played a major role in our efforts to support the country's development programs. It has contributed greatly to the formulation of our country strategy and has been invaluable in carrying forward our dialogue with the Zambian authorities on major macroeconomic and sector issues. The Mission has been instrumental in persuading the authorities of the merits of the policy and institutional reforms that have been taken over the past three years and to a large extent the widespread reforms that are being implemented are the result of the work of the Resident Representative. In addition, the mission is playing a leading role in aid coordination at the local level. It provides valuable backup support to visiting Bank staff, follows up on innumerable small but important tasks related to our ongoing projects and carries out many administrative duties, e.g., checking on debt service payments.

82. It is clear that the mission in Lusaka is understaffed given the magnitude and nature of the Bank's operations in Zambia. We are entering a stage of increasingly intense dialogue with the Government on strategy, policy formulation and institutional reforms, and investment programming which if it is to be fully effective will require the presence of an economist in the mission. It is critical that our discussions with the authorities on these issues be maintained on a continuous basis so that the rationale behind the various policy and other reforms suggested by the Bank are fully understood by the Zambian authorities.

83. It would also be desirable to have an agriculturalist assigned to the resident mission in view of the high priority accorded to agriculture in our strategy and the need for agriculture to become a source of growth for the economy. An agriculturalist/agricultural economist would maintain daily contact on our policy dialogue in the sector, assist in the agricultural sector work and work towards improving coordination of donor programs in agriculture.

Conditionality of IMF Programs

84. Recent IMF programs have been negotiated in 1981 (Extended Fund Facility), 1983 and 1984 (Standby arrangements). Both Standby arrangements have been instrumental in effecting major exchange rate changes, stabilizing public finances through decreases in subsidies and new tax revenue, and in raising the general interest rate structure. The 1983 and 1984 Standbys also provided the framework for Paris Club reschedulings. We have had good working relations with the Fund, including participation at times in each others' missions. But while our working relations are good, we have not discussed a long-term strategy for overcoming Zambia's financial and structural problems with the Fund. This would involve issues such as working towards a more comprehensive, medium-term treatment of the debt problem, approaching the exchange rate in terms of an instrument for effecting structural change and diversification of the economy, the need to reduce debt and build up financial reserves in the mining company, and the protection of essential recurrent and capital expenditures in the development sectors. Zambia has recently been selected as a country for increased Bank/Fund coordination. We intend to use this opportunity to bring about greater complementarity between Bank/Fund programs and to develop a long-term strategy for reducing Zambia's external indebtedness and diversifying its economy.

IFC Operations

85. Over the past three years, IFC has approved four projects for Zambia. The largest was a $28 million loan, as part of a $250 million syndication, for the third stage of the Tailings-Leach project. Other projects have financed rehabilitation of Kafue Textiles, expansion of the Intercontinental Hotel in Lusaka, and support to a large scale irrigated commercial farm. Future IFC projects are to focus on agriculture and perhaps a line of credit to the Development Bank of Zambia to finance rehabilitation investments.

F. WORLD BANK PROGRAM

86. The proposed FY86-90 lending program of $315 million is geared to achieve our program goals of rehabilitating economic infrastructure, diversifying the economy, increasing capacity utilization and addressing long term development constraints. The following table shows the program's composition in these terms:

Proposed FY86-90 Lending by Program Goal

Rehabilitation	$ 85	(27%)
Fertilizer Rehabilitation	10	
Refinery Conversion	15	
Energy Sector	25	
Highways IV	20	
Railways V	15	
Diversification	40	(13%)
Coffee II	10	
Agricultural Credit	10	
Agriculture (Undefined)	20	
Capacity Utilization	105	(33%)
Industrial Reorientation I	50	
Industrial Reorientation II	30	
Agricultural Rehabilitation II	25	
Long-Term Development	85	(27%)
Agricultural Research and Extension I & II	40	
Education VI	10	
Technical Assistance II & III	17	
Family Health I & II	18	
Total	315	(100%)

87. The largest proportion of lending, 33 percent, would go towards increasing capacity utilization and spurring a quick production response in the agriculture and manufacturing sectors. This type of lending is needed to get the economy back on its feet, as well as to provide a mechanism for moving external resources into Zambia on a quick disbursing basis. These operations would be our major vehicles for supporting continued policy

reform in these key sectors. The reform programs will emphasize increased reliance on market forces to guide resource allocation and to provide incentives for expanded participation by the private sector. Policy reform programs have been agreed with the Government for the initial operations in both these sectors. The second largest share of lending (27 percent) would go for five projects to rehabilitate existing infrastructure. Making full use of existing assets will be essential for the economy to make best use of scarce resources. An equally large share of resources would be used for addressing the long-term development constraints of agricultural research and extension, manpower and population and health. This category will represent the largest share in terms of number of projects, however: 7 out of 17. The remaining three projects will be for diversification of the agricultural sector through improved credit systems and the production of export crops.

Agriculture

88. In terms of sector distribution, the proposed lending program gives highest priority to agriculture because it is the sector with the best potential for growth in output and employment and must serve as the base for developing non-mineral exports. Consequently, 33 percent of our proposed lending during the FY86-90 period will be directed towards this sector, as will a substantial part of our economic and sector work.

89. Our agricultural sector strategy has two facets. One of these is to support policy reform through fast disbursing non-project sector credits. These Credits, Agricultural Rehabilitation I (FY85) and Agricultural Rehabilitation II (FY87), would provide a quick injection of agricultural machinery, equipment, tools, etc., to commercial farmers to elicit a quick response in production. The stage has been set for this by the recent increases in producer prices and other incentives which have already lead to increased acreage under cultivation, as well as an increase in production. Nevertheless, the sector remains constrained by shortages of imported inputs, and these projects would enable the commercial and medium-size farmers procure the mechanization and inputs needed for expanding their operations.

90. This emphasis on large scale farming does not mean that we have abandoned the Bank's policy of supporting smallholder agriculture. Some smallholders will benefit from the rehabilitation projects through the tools and other implements provided. The rest of our lending in agriculture, Agricultural Research and Extension, Coffee II, Agricultural Credit and Agricultural Unidentified, will be focused specifically on the smallholders. The rehabilitation projects will produce a rapid increase in domestic food supplies, thereby alleviating the food shortages and reducing food imports. The Fisheries and Coffee projects will also contribute to the diversification objective. The Agricultural Research and Extension Project will shift the focus of research and extension from large scale commercial farmers to the smallholder and help to identify technological packages (over the long-run) for smallholders that are more productive in the Zambian environment.

Industry

91. Zambia's industrial sector has been severely constrained in recent years by lack of foreign exchange with which to purchase raw materials and intermediate and capital goods. Capacity utilization has been running at well below 50 percent on average. Also, macroeconomic (especially the exchange rate and pricing) and sector policies have not provided the proper economic signals; resulting inter alia in highly capital and import intensive production. The Government has introduced wide-ranging reforms in the exchange rate and pricing systems, and we are nearing agreement with the authorities on the package of reforms at the sector level (e.g., tariffs, incentives, export promotion, etc.). We intend to support these reforms through two Industrial Reorientation loans, one in FY86 and the other in FY88. These loans will provide foreign exchange resources to purchase inputs for the sector, with the view to raising quickly the rate of capacity utilization. With new export incentives in place, industrial exports should increase and wage goods would again become available in the rural areas, giving further incentives for increased agricultural output.

92. We also intend to support rehabilitation of the NCZ fertilizer plant. The Bank is acting as the catalyst in this project for coordinating the rehabilitation and better integration of seperate production units originally installed by Japanese and German firms. Germany and Japan will provide substantial cofinancing for the rehabilitation effort. The linkage of this project to agriculture is obvious.

Energy

93. Because of its potential for import substitution given the abundance of indigenous resources, the energy sector is also an important focus of the proposed Bank strategy. Less progress has been made by the Government in formulating a strategy for development of this sector and policy reform has not received the attention it deserves. What is urgently needed is the development of an energy sector strategy and formulation of an optimum investment program taking into account the possibilities for import substitution, the projected energy pattern and the variety of supply options (i.e., imported oil, coal, electricity) available to the country. An important first step is to correct existing price distortions and then to analyze the various investment options for their relative economic benefits. We have agreed with the authorities to work towards the formulation of a strategy for the sector, on the basis of which an optimum investment program could be designed.

94. The Bank has been asked by the Government to help finance several energy-based rehabilitation projects, some of which are in our proposed lending programs (Refinery Modification and Oil Pipeline Rehabilitation) and others (Conservation, Power Rehabilitation, Coal Rehabilitation) that we have subsumed under the proposed Energy Sector operation (FY87). Because of the potential for saving foreign exchange and the possibility of some exports (coal), plus the probability of high returns on rehabilitation

projects in this sector, we feel that the sector should have high priority in our lending program. Policy and institutional reform and the development of a coherent sector strategy and investment program will be a sine-qua-non of our going ahead with lending in the sector.

Transportation

95. Zambia has an adequate transport network to handle the projected traffic for the rest of this decade. What is needed is continuation of maintenance and rehabilitation programs in both the railway and highway subsectors. In addition, there are serious institutional problems in the sector relating to organizational structure that need to be resolved. Of special concern is the country's lack of a transport sector strategy, with the related policy and institutional reforms and investment programs. During the past couple of years, we have been assisting the Government with the basic analytical work required to develop such a strategy. Furtherance of this process will be an important segment of our strategy for the next few years. We are proposing follow-up on projects in both sub-sectors, Fourth Railway (FY85) and Fourth Highway (FY89) to support the maintenance programs in these subsectors and to encourage the needed planning and reforms.

Family Health and Population

96. The recent sharp drop in per capita incomes and the devastating effects of the drought have made many Zambians aware of the importance of improved health services and family planning programs. Consequently, there appears to have been a major shift in attitude towards family planning and a renewed interest in health programs. This is evident in several recent speeches by high level Government officials, including the President. At the same time, there are serious institutional and policy constraints to be overcome, i.e., curative as opposed to preventive care, cost recovery, decentralization. To encourage the authorities to pursue these matters and to build on the more positive attitudes towards family planning, we are proposing two lending operations, Family Health I in FY86 and Family Health II in FY90.

Education

97. The Government has adopted an education reform program that aims at providing a basic education of nine years to all Zambians. However, it has yet to establish a coherent plan to implement the education reform taking into account the limited resources available to the sector. A study of the financial implications of the reform plan is currently underway, and the Bank's first priority in the sector is to assist in the review of this study and ensure that that the ensuing sector strategy is one that we can support. The strategy should give special attention to improving education quality (through an adequate supply of equipment and materials, especially at the primary level), and to achieving cost reductions (through Zambianization of secondary school teachers, more appropriate school construction methods, closer monitoring of the utilization standards for higher education and more double shifting in secondary schools).

98. The Bank should continue to focus on expansion and overall improvement of basic education and related services in line with the priorities expressed in the education reform plan. This calls for investment programs requiring broad sectoral support rather than assistance to individual institutions. Support should be given particularly to qualitative improvements including financing of operational costs for teacher training, educational materials and teaching/learning aids. In view of general shortages of skilled manpower and related training needs, sector work will focus on a training survey and review of the Government's education/training policy in a number of key sectors.

Urban and Water Supply

99. Zambia local authorities bear responsibility for the development and maintenance of urban infrastructure and services including housing and water supply. However, their performance in terms of revenue collection, the production of timely and accurate accounts and the maintenance of equipment and facilities has been poor. Although no further direct assistance is planned for the urban development and water supply and sanitation sectors, we will continue to encourage the Department of Water Affairs and the Local Authorities to adopt pricing policies and collection procedures which would allow them to finance a larger proportion of their costs from internal sources and reduce their dependence on Government grants. Within the water supply and sanitation sector, this will be done through the policy dialogue related to our on-going rural water project. Within the urban sector, some technical assistance may be provided through the Second Technical Assistance Project to bring about such reforms.

Technical Assistance

100. Finally, there is another element of our lending strategy to which we attach high priority. As was mentioned earlier, improvements in the analytical and administrative/managerial capacity of the chief policy-making ministries, particularly the Ministry of Finance, is critical to the future management of Zambian economy. Therefore, we propose to support organizational, analytical and administrative improvements in the Ministry of Finance and selected other ministries through a technical assistance credit. We see this operation as a sine qua non for successful implementation of the policy, institutional and other reforms of the economy that are required to restore the economic growth and structural balance to the economy. Successful implementation of this project is also a prerequisite to any future SAL operation.

Economic and Sector Work

101. The economic and sector program proposed in Attachment 4 has been designed to support our program goals of creating an appropriate policy environment, better development administration and increased aid mobilization. Concerning policy reform, a large part of the proposed ESW will be in the agriculture and industry sectors; the objective is to deepen

our analysis in order to develop a second tier of policy and institutional reforms suitable for proceeding with a second round of agricultural rehabilitation and industrial reorientation projects in FY87/88. In addition, a special economic study is also proposed to examine the development impact of the existing tax structure and to recommend reforms which would increase savings and enhance production incentives. The second area of emphasis is to further on-going efforts in development administration. Individual studies will help restructure the Government's annual development plan, recommend steps for strengthening the strategy formulation and investment planning capacities in the energy and transport sectors, and, toward the end of the three year period, evaluate the Government's progress in implementing the wide range of administrative reforms currently underway. The third area of emphasis will focus on a review of the Government's public expenditure/investment program, in order to make an assessment of its suitability for the Consultative Group meeting planned for 1986. This effort will complement the aid coordination work (not part of the ESW budget) which is required at the local level to assist the Joint Monitoring Committee establish a project monitoring and evaluation system. A related study will re-estimate efficiency prices for use in project appraisal, both in the Bank and by Government. The Bank's own ESW program is complemented by a dozen "other relevant studies" which have been identified in the course of lending operations. Most of these studies aim to improve the operating efficiency and/or planning capacity of companies or institutions in five sectors of the economy.

G. RECOMMENDATIONS

102. Approval is sought for:

a) an FY86-90 lending program of $315 million, comprising $150 million IDA, $100 million SFA and $65 million IBRD (paras. 74-79).

b) 80 percent cost sharing (para. 72).

c) expansion of the Resident Mission to three Headquarters staff (paras. 82 and 83).

Attachment 1a

Population: 6.255 million (mid-1983)
Per Capita: US$580 (1983)
Area: 752,614 square kilometers
Literacy Rate: 44.0 percent (1980)

ZAMBIA - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY90
(US$ Million)

		Thru FY79	FY80	FY81	FY82	FY83	FY84	Current FY85	Program FY86	FY87	FY88	FY89	FY90	Totals FY80-84	FY85-89	FY86-90	Reserve Projects
Livestock I	IBRD	2.5															
Commercial Crops	IBRD	5.5															
Int. Family Farm.	IBRD	11.5															
Forestry I and II	IBRD	22.1															
Forestry III	IDA						22.4										
Eastern Province	IBRD			11.0													
Southern Province	IDA				18.0												
Coffee I	IDA	6.0															
Coffee II	IDA									10.0*							
Dairy	IDA				7.5												
Fisheries	IDA							7.1									
Ag. Rehabilitation	IDA							25.0									
Ag. Rehabilitation II	SFA									25.0							
Ag. Research & Ext.	IDA								15.0								
Ag. Research & Ext. II	IDA												25.0*				
Ag. Credit	IDA										10.0*						
Ag. (unidentified)	IDA											20.0					
Education I-IV	IBRD	69.0															
Education V	IDA				25.0												
Education VI	IDA											10.0*					
Power I and II	IBRD	43.9															
Kariba North	IBRD	40.0															
Kariba North Sup.	IBRD	42.1															
Kafue Stage II	IBRD	115.0															
Petro. Explor. Prom.	IBRD				6.6												
Refinery Engineering	IBRD				5.1												
Refinery Conversion	IDA									15.0*							
Coal Engineering	IDA					4.3											
Energy Sector	SFA									25.0							
Rural Water Supply	IDA					16.0											
Roads I and II	IBRD	28.2															
Roads III	IBRD/IDA	22.5															
Highways IV	IBRD											20.0*					
Railways I & II	IBRD	23.5															
Railways III	IBRD/IDA		25/15														
Railways IV	IDA							20.0									
Railways V	IBRD												15.0				
Tazara I	IBRD	32.0															
IFC I	IBRD	15.0															
IFC II	IBRD			15.0													
Export Rehab.	IBRD						75.0										
Industrial Reorient.	SFA								50.0								
Ind. Reorient. II	IBRD										30.0*						
Fertilizer Rehab.	IDA								10.0								
Urban I	IBRD	20.0															
Program Loan I	IBRD	30.0															
Program Loan II	IBRD	30.0															
Tech. Assist. I	IDA	5.0															
Tech. Assist. II	IDA								7.0								
Tech. Assist. III	IDA												10.0*				
Family Health	IDA								8.0								
Family Health II	IDA												10.0				
Lending Program	IBRD	541.5	25.0	26.0	11.7	-	75.0	-	-	-	30.0	20.0	15.0	137.7	50.0	65.0	
	IDA	22.3	15.0	-	50.5	20.3	22.4	52.1	40.0	25.0	10.0	30.0	45.0	108.2	157.1	150.0	
	SFA	-	-	-	-	-	-	-	50.0	50.0	-	-	-	-	100.0	100.0	
	TOTAL	563.8	40.0	26.0	62.2	20.3	97.4	52.1	90.0	75.0	40.0	50.0	60.0	245.9	307.1	315.0	
	Number	24	1	2	5	2	2	3	5	4	2	3	4	12	17	18	
	(o/w IDA)	(2)	(-)	(-)	(3)	(2)	(1)	(3)	(4)	(2)	(1)	(2)	(3)	(6)	(12)	(12)	
	(o/w SFA)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(1)	(2)	(-)	(-)	(-)	(-)	(3)	(3)	
Lending Program in Constant FY85 Commitment $		..	50.1	32.2	74.8	23.2	104.5	52.1	84.0	65.5	32.9	39.0	44.5	284.8	273.6	266.0	
Commitment Deflator (FY85 = 100)		..	79.8	80.7	83.2	87.4	93.2	100.0	107.2	114.4	121.4	128.2	134.9	..	..	..	
Standby Projects	IBRD							-	-	30.0	20.0	-	..				
	IDA							-	25.0	10.0	10.0	35.0	..				
	TOTAL							-	25.0	40.0	30.0	35.0	..				
	Number								(2)	(2)	(2)	(2)					

* Standby Projects
.. Not Applicable

SFA : Special Facility for Africa

EA1SA
March 20, 1985

ZAMBIA - SUMMARY OF PROPOSED BANK GROUP AND OTHER OFFICIAL LENDING

Attachment 1b

	Thru FY79	FY80	FY81	FY82	FY83	FY84	Current FY85	FY86	FY87	FY88	FY89	FY90	FY80-84	FY85-89	FY86-90
Sectoral Distribution of Bank Group Commitments (%)															
Agriculture and Rural Dev.	8		42	41		23	62	17	47	25	40	42	24	37	33
Education	12			40							20		10	3	3
Industry	3		58			77		67		75			37	29	29
Power/Energy	43			19	21				53				6	13	13
Telecommunications	6												-	-	-
Transportation	13	100					38				40	25	16	13	11
Urban Development	3												-	-	-
Water Supply	-				79								7	-	-
Population Health	-							9				16	-	3	6
Program Loans	11												-	-	-
Technical Assistance	1							8				17	-	2	5
	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

	Actual						Projected								
CALENDAR YEAR	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1995
Bank Group Disbursements[a] (US$ Millions)															
IBRD o/s incl. undisbursed	436	423	427	435	429	407	462	439	414	388	385	372	353	348	334
excl. undisbursed	319	334	345	346	347	344	336	370	385	366	388	327	312	288	221
IBRD Gross Disbursements[b]	34	28	28	18	20	20	12	57	40	7	4	23	19	11	28
less: amortization	7	13	18	17	19	22	20	23	25	26	33	33	34	35	38
equals: net disbursements	27	15	10	1	1	-2	-8	34	15	-19	-28	-11	-15	-25	-10
less: interest & charges	25	29	31	26	25	26	27	26	29	31	29	27	26	25	20
equals: net transfer	2	-14	-21	-25	-23	-28	-34	8	-14	-50	-58	-38	-41	-50	-30
IBRD/IDA/SFA Gross Disbursements[b]	34	28	29	20	27	29	28	103	98	74	55	65	45	41	68
less: amortization	7	13	18	17	19	22	20	23	25	26	33	34	34	36	40
equals: net disbursements	27	15	11	3	9	7	8	80	73	48	22	31	11	5	28
less: interest & charges	25	29	31	26	25	26	27	27	30	32	31	29	29	28	23
equals: net transfer	2	-14	-20	-23	-16	-19	-19	54	43	16	-9	2	-18	-23	5
IBRD Exposure (Percent)															
IBRD Disbursement/Total Gross Disbursement	22.1	5.2	4.4	4.3	6.4	11.4	4.6	17.4	11.5	1.9	1.2	6.1	5.3	3.4	6.1
IBRD DOD/Total DOD[cd]	21.7	18.1	15.6	15.2	14.6	13.0	11.5	11.4	10.8	9.4	8.1	7.4	6.9	6.2	4.7
IBRD Debt Service/Total Debt Service[cd]	13.4	16.0	16.6	15.2	23.4	38.4	41.5	31.6	28.5	23.7	21.6	16.8	13.5	13.0	9.2
Commitments from Official Sources[e]															
Grants	24	35	30	26	30	42	90	100	106	112	119	126	134	142	179
o/w Canada			..	..	..	..	20								
EEC			0	0	3	..	10								
Finland			1	2	2	..	10								
Norway			1	1	1	..	12								
Sweden			26	12	12	..	15								
U.S.			0	2	3	..	20								
Concessional Loans	202	188	217	158	221	81	142	229	175	218	161	191	215	220	277
IDA/SFA	11	11	15	-	50	20	22	102	40	75	10	30	45	40	49
Bilateral	117	115	133	128	123	61	70	74	79	83	88	94	99	105	133
Multilateral	14	62	69	30	48	-	50	53	56	60	63	67	71	75	95
Non-Concessional Loans	76	353	92	107	65	30	105	80	84	90	126	120	126	147	186
IBRD	11	-	25	26	12	-	75	-	-	-	30	20	15	30	38
Bilateral	66	319	28	1	33	2	20	40	42	45	48	50	54	57	72
Multilateral	9	34	39	80	21	28	20	40	42	45	48	50	57	60	76
Total Official	302	576	339	291	316	153	337	409	365	420	406	437	475	509	642

[a] Per External Debt Reporting System and RMSM projections.

[b] Gross disbursements reflect the quick-disbursing nature of the mining (FY84), agriculture (FY85 and FY87), industry (FY86 and FY88) and energy (FY87) sector loans.

[c] On medium and long term loans only; excludes debt and debt service to IMF and for reduction of arrears (see Attachment 3c), which, when included, reduces IBRD exposure considerably.

[d] After rescheduling of bilateral and private debt in 1984-89 (see footnote a to Attachment 3c).

[e] Figures for 1984/1985 are based on donor statements at May 1984 Consultative Group Meeting. Principal bilateral lenders are F.R.G., U.S. and Japan; principal multilateral lenders are Af. Dev. Bank/Fund, EEC, EIB and IFC.

SFA = Special Facility for Africa

EA1SA
March 20, 1985

Attachment 2

TABLE 3A

ZAMBIA - SOCIAL INDICATORS DATA SHEET

	ZAMBIA			REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b	
	1960/b	1970/b	MOST RECENT ESTIMATE/b	MIDDLE INCOME AFRICA S. OF SAHARA	MIDDLE INCOME N. AFRICA & MID EAST
AREA (THOUSAND SQ. KM)					
TOTAL	752.6	752.6	752.6	.	.
AGRICULTURAL	397.4	399.5	401.6	.	.
GNP PER CAPITA (US$)	230.0	380.0	640.0	1112.9	1149.6
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF OIL EQUIVALENT)	..	301.0	443.0	529.0	622.1
POPULATION AND VITAL STATISTICS					
POPULATION,MID-YEAR (THOUSANDS)	3207.0	4159.0	6045.0	.	.
URBAN POPULATION (% OF TOTAL)	23.1	30.0	44.8	29.7	48.2
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			11.4	.	.
STATIONARY POPULATION (MILL)			37.0	.	.
POPULATION MOMENTUM			2.0	.	.
POPULATION DENSITY					
PER SQ. KM.	4.3	5.5	7.8	55.8	36.3
PER SQ. KM. AGRI. LAND	8.1	10.4	14.5	111.5	461.7
POPULATION AGE STRUCTURE (%)					
0-14 YRS	45.0	46.1	47.4	45.4	43.6
15-64 YRS	52.5	51.4	50.0	51.7	53.1
65 AND ABOVE	2.5	2.5	2.6	2.9	3.3
POPULATION GROWTH RATE (%)					
TOTAL	2.4	2.6	3.1	2.8	2.8
URBAN	5.3	5.2	6.5	5.2	4.5
CRUDE BIRTH RATE (PER THOUS)	50.6	49.6	49.5	47.0	40.4
CRUDE DEATH RATE (PER THOUS)	24.4	20.1	15.5	15.2	11.5
GROSS REPRODUCTION RATE	3.4	3.4	3.4	3.2	2.8
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	..	..	.	.
USERS (% OF MARRIED WOMEN)	..	..	..	..	22.2
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	99.0	96.0	87.0	91.6	97.3
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	87.0	87.0	93.0	98.2	110.8
PROTEINS (GRAMS PER DAY)	58.0	58.0	58.0	56.7	70.1
OF WHICH ANIMAL AND PULSE	14.0	16.0	14.0 /c	17.0	17.8
CHILD (AGES 1-4) DEATH RATE	38.0	29.0	20.0	18.7	14.6
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	39.7	44.6	50.9	51.7	57.5
INFANT MORT. RATE (PER THOUS)	164.0	137.0	105.0	102.7	101.5
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	37.0	42.0 /d	35.6	59.7
URBAN	..	70.0	86.0 /d	54.1	84.5
RURAL	..	22.0	16.0 /d	27.3	38.4
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	16.0	42.0 /d	..	..
URBAN	..	12.0	87.0 /d	..	..
RURAL	..	18.0	16.0 /d	..	..
POPULATION PER PHYSICIAN	9540.0	8140.0	7670.0 /e	11948.3	4345.1
POP. PER NURSING PERSON	9920.0 /f	2430.0	1730.0 /e	2248.9	1831.1
POP. PER HOSPITAL BED					
TOTAL	360.0	300.0	210.0 /e	986.9	632.9
URBAN	180.0 /f	..	350.0 /g	368.7	545.5
RURAL	470.0 /f	..	240.0 /g	4012.1	2513.5
ADMISSIONS PER HOSPITAL BED	..	..	31.0 /g	..	26.2
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	4.4	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	2.6	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	..	..	..	..	46.2
URBAN	27.5	..	..	..	77.7
RURAL	..	..	..	..	16.1

TABLE 3A

ZAMBIA - SOCIAL INDICATORS DATA SHEET

	ZAMBIA 1960/b	ZAMBIA 1970/b	ZAMBIA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME AFRICA S. OF SAHARA	MIDDLE INCOME N. AFRICA & MID EAST
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	42.0	89.0	96.0	91.0	88.3
MALE	51.0	99.0	102.0	90.5	102.5
FEMALE	34.0	79.0	90.0	73.6	73.6
SECONDARY: TOTAL	2.0	13.0	16.0	17.4	43.0
MALE	3.0	17.0	21.0	23.7	52.3
FEMALE	1.0	8.0	11.0	14.8	33.0
VOCATIONAL (% OF SECONDARY)	27.8	3.2	2.3	5.3	10.3
PUPIL-TEACHER RATIO					
PRIMARY	50.0	47.0	44.0 /e	38.6	30.3
SECONDARY	14.0	22.0	22.0 /e	24.3	23.1
ADULT LITERACY RATE (%)	28.5 /f	47.3	44.0	35.6	43.5
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	10.2	14.5	18.7 /h	20.7	17.8
RADIO RECEIVERS/THOUSAND POP	4.7	18.0	23.9	100.8	138.8
TV RECEIVERS/THOUSAND POP	..	4.1	10.6	18.5	46.1
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	5.0	13.7	19.9 /e	17.2	31.2
CINEMA ANNUAL ATTENDANCE/CAPITA	..	..	0.3 /h	0.3	1.7
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	1322.0	1621.0	2157.0	.	.
FEMALE (PERCENT)	33.3	32.6	32.3	33.8	10.8
AGRICULTURE (PERCENT)	79.0	73.0	67.0	57.1	42.4
INDUSTRY (PERCENT)	7.0	9.0	11.0	17.4	27.9
PARTICIPATION RATE (PERCENT)					
TOTAL	41.2	39.0	35.7	36.3	26.2
MALE	55.3	52.9	49.3	47.6	46.4
FEMALE	27.3	25.2	22.6	25.1	5.8
ECONOMIC DEPENDENCY RATIO	1.2	1.2	1.4	1.4	1.8
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	33.7	23.0 /i	..	..	..
HIGHEST 20% OF HOUSEHOLDS	58.2	63.0 /i	56.7 /h	..	..
LOWEST 20% OF HOUSEHOLDS	5.4	3.8 /i	3.6 /h	..	..
LOWEST 40% OF HOUSEHOLDS	13.0	10.1 /i	11.1 /h	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	247.0	525.3	274.8
RURAL	..	..	168.0	249.0	177.2
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	126.0	477.4	402.6
RURAL	..	..	85.0	186.0	284.9
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	25.0	..	..
RURAL	..	..	..	..	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1980 and 1982.

/c 1977; /d 1975; /e 1979; /f 1963; /g 1978; /h 1976; /i 1973.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time amount the country and

AREA (thousand sq.km.)
Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1981 data.
Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1981 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1980-82 basis); 1960, 1970, and 1982 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1981 data.

POPULATION AND VITAL STATISTICS
Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1982 data.
Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1982 data.
Population Projections
Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.
Stationary population - Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate=1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.
Population Momentum - Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the ultimate stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward, 1980 data.
Population Density
Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1981 data.
Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1981 data.
Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1982 data.
Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-82.
Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-82.
Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1982 data.
Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1982 data.
Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1982.
Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.
Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception to all married women. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION
Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.
Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970 and 1980 data.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961-65, 1970 and 1980 data.
Per Capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.
Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH
Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1982 data.
Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.
Access of Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.
Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.
Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.
Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING
Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.
Average number of persons per room - total, urban, and rural average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.
Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION
Adjusted Enrollment Ratios
Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.
Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.
Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.
Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION
Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses, and military vehicles.
Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.
Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.
Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas on mobile units.

LABOR FORCE
Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1982 data.
Female (percent) - Female labor force as percentage of total labor force.
Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.
Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.
Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.
Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the working age population (those aged 15-64).

INCOME DISTRIBUTION
Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS
The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.
Estimated Absolute Poverty Income Level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.
Estimated Relative Poverty Income Level (US$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.
Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1984

Population: 6.225 (mid-1983)
GNP Per Capita: US$580 (1983)

Attachment 3a

ZAMBIA - Economic Indicators

Indicator	Amount (million US$ at current prices) 1982	Annual Growth Rates (%) at Constant 1977 Prices a/ Actual 1979	1980	1981	1982	1983	Projected 1984 b/	1985	1986	1987	1988
NATIONAL ACCOUNTS											
GDP, Factor Cost	3493	-0.8	5.0	2.7	-2.1	-8.0	-2.0	2.1	3.2	1.9	2.6
GDP, Market Prices	3864	-3.0	3.0	6.2	-2.8	-2.0	-1.3	2.1	3.2	1.9	2.6
Agriculture	529	-5.4	-1.8	8.2	-11.7	8.4	9.7	4.0	4.0	4.0	4.0
Mining	426	-20.4	5.2	4.7	0.0	3.0	-8.0	4.0	9.0	-2.0	3.2
Other Industry	1010	1.9	1.2	5.1	-0.9	-5.1	-1.3	2.0	4.0	4.0	4.0
Services	1899	-0.3	5.4	6.5	-1.6	-4.3	-3.5	1.0	1.0	1.0	1.0
Consumption	3546	7.3	1.1	9.3	-8.8	-4.4	-1.5	1.0	1.7	2.1	2.1
Gross Investment	661	-43.8	64.6	-11.1	-23.5	-24.2	-4.2	15.7	10.3	5.2	5.8
Exports of GNFS	1067	-10.7	-3.1	-12.8	15.7	-9.7	-8.0	4.3	7.9	-1.2	0.3
Imports of GNFS	1410	-8.7	12.9	-16.0	-22.0	-15.6	-13.5	7.2	6.7	1.3	1.0
Gross Domestic Savings	318	17.1	-16.9	-48.2	-26.6	83.9	6.3	9.5	22.7	2.7	8.7
Gross National Savings	13	-9.3	-36.4	-47.2	-96.7	6376.2	-14.6	2.3	52.5	8.6	19.2
PRICES											
GDP deflator (1977 = 100)		137.3	153.5	164.5	174.6	207.1	237.6	302.9	348.4	383.2	421.5
Percent Change		21.9	11.8	7.2	6.1	18.6	14.7	27.5	15.0	10.0	10.0
Consumer Price Index (Low Income/Urban Percent Change)		9.7	11.7	14.0	12.5	19.6	20.0	..	..	..	..
Exchange rate (Kwacha per US$)		0.79	0.78	0.88	0.93	1.27	1.85	3.50	4.30	4.40	4.50

	Share of GDP at Current Market Prices a/ (percent) 1970	1975	1980	1985	1990	1995	Average Annual Increase (%) (at constant 1977 prices) a/ 1970-75	1975-80	1980-85	1985-90	1990-95
GDP, Factor Cost	85.4	92.6	92.8	85.0	85.0	85.0	4.7	-0.7	-2.4	2.4	2.3
GDP, Market Prices	100.0	100.0	100.0	100.0	100.0	100.0					
Agriculture	10.7	13.0	14.2	17.2	18.5	20.1	3.0	-1.1	-0.3	2.4	2.3
Mining	36.3	13.6	16.4	11.0	10.8	9.6	2.7	0.5	3.1	4.0	4.0
Other Industry	18.5	28.1	24.9	25.3	27.3	29.6	0.0	-3.0	0.1	4.6	0.0
Services	34.5	45.3	44.5	46.5	43.3	40.6	8.3	-0.2	-0.9	4.0	4.0
							2.9	0.4	-1.3	1.0	1.0
Consumption	54.6	79.0	80.7	86.9	84.7	82.8	2.3	0.0	-2.2	1.9	1.9
Gross Investment	28.4	40.5	23.3	14.3	17.2	18.7	4.1	-16.9	-12.9	6.1	4.0
Exports GNFS	54.0	36.3	41.4	26.3	25.7	25.8	0.5	-3.5	-2.5	1.4	2.4
Imports GNFS	37.1	55.8	45.4	27.5	27.6	27.3	-1.2	-8.9	-13.8	2.1	2.1
Gross Domestic Savings	45.4	21.0	19.3	14.4	20.9	24.2	-9.9	0.0	1.9	9.4	5.5
Gross National Savings	34.2	10.9	7.3	6.2	14.4	19.9	-13.7	-1.5	18.2	19.4	9.4

PUBLIC FINANCE	As % of GDP 1970	1975	1980	1983
Current revenue	34.1	30.1	26.8	25.3
Current expenditure	20.2	38.5	35.9	28.4
Surplus (+) or deficit (-)	13.9	-8.4	-9.1	-3.1
Capital expenditure	13.2	15.5	7.3	4.4
Foreign financing	0.7	6.4	4.6	2.2

OTHER INDICATORS	1970-75	1975-80	1980-85	1985-90	1990-95
Gross National Income growth rate (%)	0.0 c/	0.6 c/	-1.6	3.5	3.0
GNP growth rate (%)	2.8	-0.8	0.8	2.7	2.7
GNP per capita growth rate (%)	-0.1	-4.0	-2.7	-0.7	-0.6
Energy consumption growth rate (%)	..	..	..	..	..
ICOR	12.2	-65.5	32.9	6.5	7.8
Marginal savings rate (GNS/GNP)	0.5	1.0	0.2	0.7	0.6
Import elasticity	-0.3	12.7	5.8	0.9	0.9

a/ Projected years at constant 1982 prices.
b/ Preliminary actuals based on revised national accounts and balance of payments data, Central Statistics Office, January 1985.
c/ These five-year growth rates do not adequately reflect the fact that Gross National Income was, on average, 18 percent lower for the period 1975-80 as a whole than during 1970-74. This was due to a 42 percent decline in the copper price, in 1975 which resulted in a 26 percent decline in GNY from 1974 to 1975.
.. Not available.

EA1SA
March 20, 1985

Population: 6.225 (mid 1983)
GNP Per Capita: US$580 (1983)

Attachment 3b

ZAMBIA - External Trade

Indicator	Amount (million US$ at current prices) 1982	Annual Growth Rates (%) at Constant Prices — Actual 1979	1980	1981	1982	1983	1984	Projected 1985	1986	1987	1988	1989	1990
EXTERNAL TRADE													
Exports of Goods and NFS	1067	-10.7	-3.1	-12.8	15.7	-9.7	-8.0 e/	4.3	7.9	-1.2	0.3	1.1	1.5
Merchandise, f.o.b.	946	..	..	..	..	..	..	4.2	8.3	-2.0	-0.3	0.6	1.0
Copper	839							3.8	9.1	0.0	0.0	0.0	0.0
Cobalt	28							0.0	0.0	0.0	0.0	0.0	0.0
Lead and Zinc	32							0.0	-1.6	-72.5	-100.0	-	-
Agricultural Products	5							100.0	40.0	28.6	22.2	18.2	15.4
Electricity	20							0.0	-20.0	0.0	0.0	-25.0	0.0
Manufactured Goods	22							25.0	20.0	16.7	14.3	12.5	11.1
Non-Factor Services	121	..	..	..	..	..	..	5.0	5.0	5.0	5.0	5.0	5.0
Imports of Goods and NFS	1410	-8.7	12.9	-16.0	-22.0	-15.6	-13.5 e/	7.2	6.7	1.3	1.0	1.2	2.3
Merchandise, f.o.b.	1002	..	..	..	..	..	..	9.6	8.1	1.3	0.6	1.0	2.6
Food	54							-37.5	-20.0	-25.0	-33.3	0.8	1.0
Petroleum	179							0.0	0.0	0.0	-6.7	-7.1	1.6
Machinery and equipment	323							21.2	15.0	4.2	4.7	4.3	4.3
Others	446							14.9	9.8	1.4	2.5	1.9	1.9
Non-Factor Services	408	..	..	..	..	..	..	1.8	3.4	1.4	1.8	1.6	1.6
PRICES													
Export price index a/	-	30.5	1.5	-16.7	-13.0	8.3	-10.5	3.8	9.3	8.3	8.7	9.4	9.6
Import price index b/	-	11.2	8.3	-4.2	-1.8	-4.9	-3.5	3.8	3.7	6.6	5.5	6.1	5.1
Terms of trade index c/	-	17.4	-6.3	-13.0	-11.9	13.8	-7.3	0.1	5.5	1.6	3.0	3.1	4.2
Terms of trade index (1982 = 100)	-	139	130	114	100	114	106	106	111	113	117	120	125

Composition of Merchandise Trade (%) (at current prices)

	1970	1975	1980	1985	1990	1995
Exports	100.0	100.0	100.0	100.0	100.0	100.0
Primary	..	99.0	97.0	97.1	94.8	91.5
Manufactures	..	1.0	3.0	2.9	5.2	8.5
Mineral	97.6	96.9	96.5	92.3	89.4	83.3
Non-mineral	2.4	3.1	3.5	7.7	10.6	16.7
Imports	100.0	100.0	100.0	100.0	100.0	100.0
Food	10.4	7.5	5.3	3.6	1.3	1.2
Petroleum	4.3	13.1	17.6	21.9	16.9	16.3
Machinery and equipment	37.9	34.7	34.9	29.2	34.9	36.5
Others	47.7	44.7	42.2	45.3	46.9	46.0

Average Annual Increase (%) (at Constant Prices)

	1970-75	1975-80	1980-85	1985-90	1990-95
Exports	0.5 d/	-3.5 d/	-2.5 d/	0.9	2.0
Primary				0.3	1.0
Manufactures				14.8	15.0
Mineral				0.0	0.0
Non-mineral				11.1	15.1
Imports	-1.2 d/	-8.9 d/	-13.8 d/	2.2	2.3
Food				-18.0	1.0
Petroleum				-3.2	1.6
Machinery and equipment				5.9	3.2
Others				3.0	1.9

Value of Merchandise Exports

	Current Prices (US$Millions) 1982	1985	1990	1995	Constant 1982 Prices (US$,Millions) 1982	1985	1990	1995
Copper	839	715	1249	1823	839	737	811	811
Cobalt	28	49	72	96	28	42	42	42
Lead and Zinc	32	58	0	0	32	48	0	0
Agricultural Products	5	11	55	172	5	11	32	80
Electricity	20	32	26	17	20	21	13	9
Manufactures	22	26	77	197	22	27	54	108
Total	946	891	1478	2305	946	886	952	1050

a/ For 1979-82, the copper price index was used.
b/ For 1979-82, the MUV Index was used.
c/ Derived from copper price and MUV indices.
d/ Goods and Non-factor services. Constant price (volume) data are not available for merchandise trade.
e/ Preliminary actuals.
.. Not Available.

EA1SA
March 20, 1985

Population: 6.255 million (1983)
GNP Per Capita: US$ 580 (1983)

Attachment 3c

ZAMBIA - Balance of Payments, External Capital and Debt
(US$ millions)

Indicator	Actual					Projected							
	1979	1980	1981	1982	1983	1984 c/	1985	1986	1987	1988	1989	1990	1995
BALANCE OF PAYMENTS													
Exports of goods and services	1537	1617	1146	1080	1015	936	1014	1193	1277	1390	1535	1705	2673
of which: Merchandise f.o.b.	1410	1461	996	946	903	824	891	1055	1120	1214	1336	1478	2305
Imports of goods and services	1480	2123	1899	1698	1251	1120	1280	1420	1531	1629	1750	1905	2600
of which: Merchandise f.o.b.	757	1114	1054	1002	702	617	701	786	849	902	967	1043	1565
: Interest a/	179	297	235	248	198	209	233	256	270	278	297	331	319
Net transfers (excl. Off. Grants)	-68	-144	-101	-30	-10	-10	-40	-40	-40	-40	-40	-40	-40
Current account balance	-11	-649	-853	-648	-276	-224	-306	-267	-295	-279	-255	-240	33
Official Grants	35	30	26	30	42	90	100	106	112	119	126	134	179
Private direct investment	..	..	..	..	..	0	0	0	25	27	28	30	40
MLT loans (net) a/	342	446	220	258	128	229	279	290	274	252	212	145	39
Official	315	310	184	177	87	160	238	263	270	235	217	164	59
Private	27	136	36	81	41	69	41	27	4	17	-5	-19	-20
Other capital b/	-431	166	202	508	17	-175	-50	-50	-100	-100	-100	-100	0
Net IMF	96	8	367	-57	64	75	-8	-125	-191	-181	-119	-86	0
Net Financing Gap	-	-	-	-	-	-	-4	57	184	178	128	143	-267
Change in reserves (- = increase)	-31	-1	38	-91	25	5	-10	-10	-10	-16	-20	-26	-23
International reserves	86	87	49	140	115	110	120	130	140	156	176	202	318
Reserves as months imports	0.7	0.5	0.3	1.0	1.1	1.2	1.1	1.1	1.1	1.1	1.2	1.3	1.5
EXTERNAL CAPITAL AND DEBT													
Gross disbursements (MLT loans)	535	631	407	350	176	261	330	349	355	360	374	357	454
Concessional loans	101	273	109	172	70	123	154	195	224	199	193	167	228
DAC	70	214	80	64	44	52	62	80	86	74	76	72	100
Other Bilateral	-	23	-	91	3	17	15	9	11	12	12	13	17
IDA/SFA	1	2	2	7	9	16	46	58	67	51	42	26	40
Other Multilateral	30	33	27	10	13	38	32	48	60	62	64	56	70
Non-concessional loans	434	358	298	178	106	138	175	154	130	161	181	190	225
Official export credits	232	24	98	10	23	42	28	28	36	42	46	49	65
IBRD	28	28	18	20	20	12	57	40	7	4	23	19	28
Other multilateral	-	22	24	15	11	14	47	56	63	59	55	42	54
Private	174	284	158	133	53	69	43	29	25	55	57	80	78
External Debt													
MLT, outstanding and disbursed	1823	2188	2245	2394	2638	2923	3251	3585	3895	4177	4415	4560	4656
Official	1254	1550	1638	1737	2034	2250	2538	2845	3151	3416	3658	3822	4098
Private	569	638	607	657	604	673	714	740	745	762	757	738	557
Undisbursed debt	828	838	785	816	694	645	599	493	438	389	359	426	994
Short-term and Arrears	..	..	..	..	900	900	850	800	700	600	500	400	300
Use of IMF Credit	422	404	731	635	665	740	732	607	416	235	116	30	-
Net Gap Outstanding	-	-	-	-	-	-	-	-	52	236	415	543	685	487
Total Debt Out. and Disb. (incl. MLT)	..	..	..	..	4203	4563	4833	5044	5247	5427	5574	5675	5443
Debt Service													
Total MLT service payments a/	257	293	285	177	126	113	156	191	240	287	361	445	628
Interest	82	108	94	85	78	81	105	131	159	179	198	233	213
MLT Payments as % exports	16.7	18.1	24.9	16.8	12.4	12.1	15.3	16.0	18.8	20.7	23.5	26.1	23.5
Interest on short-term and reduction in arrears	62	163	7	105	30	68	113	108	153	143	138	133	30
Repayments and charges to IMF	52	82	85	153	212	137	166	223	244	214	139	97	-
Service on Net Gap Out	-	-	-	-	-	-	-	-	5	24	41	54	75
Total Debt Service (incl. MLT)	371	538	377	435	368	317	434	521	641	667	679	729	733
(as % of Exports)	24.1	33.3	32.9	40.3	36.3	33.9	42.8	43.6	50.2	48.0	44.2	42.8	27.4
Average interest rate on new loans (%)	6.7	6.5	8.4	6.9	5.1	7.7	6.5	7.2	7.1	7.8	6.9	7.4	3.4
Average maturity of new loan (years)	13.5	16.6	17.5	20.1	26.5	18.0	22.0	18.8	20.0	17.6	19.7	21.0	29.8

Maturity and Interest Structure of MLT Debt Outstanding	As % of MLT Debt Outstanding and Disbursed, End 1983
Maturities due within five years (1984-88)	52.6 Before Rescheduling (12.5% after Rescheduling)
Maturities due within ten years (1984-93)	95.8 " " (70.0% " ")
Interest due in first year (1984)	5.2 " " (3.1% " ")

a/ After rescheduling of all principal and interest due in 1984-89 to bilateral creditors on debt contracted prior to 1984 (including the 1983 Paris Club reschedulings), and of all principal due in 1984-89 to private creditors on debt contracted prior to 1984. Note: Debt service and net MLT loan figures for 1982 and 1983 reflect actual payments after rescheduling.
b/ Reduction in arrears (-) and errors and omissions
c/ Preliminary. Based on CSO data of January 1985
MLT = Medium and long-term loans.

EA1SA
March 20, 1985

PROPOSED PROGRAM OF ECONOMIC AND SECTOR WORK, FY85-87

The main thrust of the proposed program of economic and sector work, along with a discussion of past economic and sector studies and of the Government's receptivity to this work was discussed in the main text of the CPP (See paras. 98, 24, and 53, respectively). This attachment describes the issues each of the proposed studies would address. Studies are listed by the fiscal year of their commencement. In addition to the studies to be done by the Bank, there are "other relevant studies" which are currently ongoing, or will soon start; these are financed by ongoing projects, including the existing Technical Assistance project and are discussed following the agenda of Bank studies. A summary table is provided at the end of the Attachment showing the staff implications of the proposed ESW program.

FY85

1. Development Planning (on-going)

This study is assisting the Government develop a new format for its Annual Plan, as recommended by the Planning and Budgeting Study (FY83). A draft outline for the plan has been agreed at the technical level of Government; it will provide a forward looking macro-economic and financial framework within which the upcoming year's budget will be set. The new format will also provide a closer link between development objectives and policies on one hand and recurrent and capital expenditures on the other. Considerable Bank input is still required to develop the outline into a full document and ensure that recommended changes in institutional procedures are implemented. (Audience: Government, Bank, Staffing: EA1SA - 25; EA1DR - 20; PPD - 10).

2. Wage Policy and the Structure of Wages and Employment in Zambia (on-going)

This study is part of a collaborative work program between CPD and the Prices and Incomes Commission (PIC), which was agreed following the FY84 report on Issues in Prices and Incomes Policy. This study will examine the structure of public sector wages (government and parastatals) and identify tradeoffs between the level of wages and employment, as well as between different occupational groups. Its findings will assist in formulating wage policy and controlling the wage bill within the context of the need for adjustment in real wages and structural change in the economy. (Audience: Government, Bank, Staffing: CPDRM - 40).

3. Up-dating Note for CG

This note will update the balance of payments/financing gap scenario presented in the April 1984 CEM and will review recent progress in policy reform. It will be the main reference document for an emergency meeting of the Consultative Group, tentatively scheduled for April/May 1985, and will be used to inform the CG of the deterioration in Zambia's external position that occured this year and of the Bank's revised assessment of external resource requirements. (Audience: Consultative Group; Staffing: EA1SA - 10; EAPED-6).

4. Agricultural Pricing and Parastatal Efficiency (on-going)

This study examines policy and institutional reforms designed to improve institutional efficiency in resource use (through cost reduction, improved productivity, organizational autonomy and effective incentives). The study will also propose a suitable mechanism for determining producer prices for inputs and products. (Audience: Government, Agricultural Marketing, Parastatals and Bank; Staffing: EAPSA - 52; EA1SA - 2)

5. Training Survey and Review of Government Education Policy (FY85-86)

The study would assess training needs in various sectors of the economy, with emphasis on strengthening management, accountancy and technical skills. It would also review available information on training needs in agriculture and other key sectors. The study would lead to discussions on a future education project. (Audience: Govt, Bank; Staffing: EAPED - 43; EA1SA - 2)

6. Energy Strategy Paper

This paper will draw on the Energy Assessment Status Report (item 19) to set out a strategy for Bank assistance to the Energy sector, including institutional development, lending operations and future sector work. The strategy will be discussed with inter alia, the Ministry of Power, Transport and Communications, the National Energy Council and ZIMCO (the state holding company) and may provide the basis for a possible energy sector loan. (Audience: Bank, Government; Staffing: EAPEG - 6; EA1SA - 1)

7. Industry Strategy Paper (on-going)

This paper will draw on the Industrial Policy and Performance Report (FY84) and set out a strategy for Bank assistance to the industrial sector, including lending operations and the need for further studies beyond those currently envisaged to be financed under the Industrial Reorientation project (see items 28 and 29). (Audience: Bank; Staffing: INDSP - 5; EA1SA - 1)

FY86

8. Investment Program Review

This study will follow closely the work being done to improve development planning (item 1), but in contrast to focusing on the planning process, it will assess the appropriateness of the Government's investment program drawn up for the first time in the form of a forward-looking, three year rolling annual plan. The timing of this review would coincide with preparation of the 1986 budget (i.e., around September 1985) and would provide the basis for convening another meeting of the Consultative Group in early 1986. (Audience: Government, Bank, Consultative Group; Staffing: EA1SA - 20; EAPSA - 8; EAPED - 3; EAPT2 - 3; EAPEG - 3; EAPID - 8).

9. Country Economic Memorandum

This CEM would also be prepared in time for the 1986 C.G. meeting. As a special focus, it would report on institutional changes that are in progress or expected to occur in the near future, in particular, improvements in the planning and budgeting process, import licensing and foreign exchange allocation systems and external debt management. In terms of investigative economic work, the CEM would explore the resiliency of the economy to the decline in imports (which have declined by 15 percent per annum over the past decade) and attempt to explain why GDP has not declined more than it did (by only one percent per annum). (Audience: Bank, Government, Consultative Group; Staffing: EA1SA - 56; EAPSA - 4; EAPID - 6).

10. Strengthening of Transport Sector Planning

Three government agencies are involved in transport sector planning in Zambia (Planning Commission, Ministry of Power, Transport and Communications and the Ministry of Works, which is responsible for road construction and maintenance). However, no agency has overall responsibility, and as a result, there does not exist a coherent transport sector policy. This has resulted in uncoordinated investment programs in the past, characterized by crises management and knee-jerk responses to transport emergencies. There exists no process to screen investment proposals or to ensure a reasonable balance between rehabilitation and maintenance of transport infrastructure on one hand and new investments on the other. This study to be financed under the Railways IV project, would aim to strengthen transport planning by assessing existing planning

mechanisms and by drawing up a recommended training program. Follow up work by EAPT2 will require about 5 SW in FY86. (Audience: Government, Bank; Staffing; EAPT2 - 5).

11. Analysis of Census Data

The final results of the 1980 census are just now becoming available and should be analyzed to shed light on fertility and mortality trends. This work would complete the analysis of preliminary census results contained in the FY83 PHN Sector Review. (Audience: Government, UN Agencies and Bank; Staffing: PHN - 5).

FY87

12. Updating Note for CG

This note will update our assessment of Zambia's economic prospects, including the external debt situation and public investment program, and serve as the discussion paper for the CG meeting. (Audience: Consultative Group; Staffing: EA1SA - 12; EPDED - 5).

13. Efficiency Prices

Efficiency prices for Zambia were last estimated in 1980, based on 1979 data. Since then, major devaluations have occured and domestic prices have risen by 15-20 percent per annum. Also, significant changes have been made in tariff rates, in particular on raw materials and intermediate products. Furthermore, large rents continue to accrue to importers who are allocated scarce foreign exchange, but these rents were not adequately treated in the earlier study. New efficiency prices are needed for the Bank's own appraisal work. These estimates would also be useful for the Government, since it plans to establish a capacity for project evaluation in ZIMCO/INDECO under the Industrial Reorientation project (see item 28). Some collaboration with the National Commission for Development Planning may also be possible to carry out this study, but this needs to be confirmed. (Audience: Bank, ZIMCO, NCDP, Development Bank of Zambia, other donors; Staffing: EA1SA - 15.)

14. Development Impact of Tax Structure (FY86/87)

Zambia's tax structure contains many disincentives to production and savings which restrain economic growth beneath its potential. On the other hand, the Government has recently introduced some tax incentives which appear to have had a positive impact on agriculture and non-traditional exports, and the Government may be receptive to further tax reforms. This study would examine the tax structure from an incentive point of view and recommend other changes which could stimulate production and savings. Analysis would be made of (i) the effects of the Government's decisions to lower the tax rate on agricultural and non-traditional export income to a flat rate of 15 percent (versus a top marginal rate of 80 percent); (ii) the potential for increasing savings by switching the basis for calculating depreciation from historical to replacement cost basis; (iii) the restructuring of personal tax rates to reduce the disincentives

of high marginal rates, to eliminate the inequities of deductions for personal consumption items, and to examine the rationale for double taxation of dividend and interest income; and (iv) the potential for increasing agricultural production through an increase in leasehold fees (rent) due to Government; work on this last topic would coordinated with the Land Policy study (item 17). (Audience: Bank, Govt.; Staffing: EA1SA - 20, CPDRM - 20)

15. Agricultural Mechanization

Considerable resources have been directed to tractorization in Zambia both for estate farming and tractor hire services for smallholders. However, mechanization by use of oxen and animal drawn equipment has not "taken off" despite large numbers of livestock and Government ox training program. Currently, some large estate farmers are reverting from tractor power to more labor intensive methods, including use of oxen, partially perhaps due to unreliable fuel supplies. Hand labor productivity is relatively low and Zambian agriculture is also still relatively land extensive; consequently, animal mechanization is one means (and probably the least foreign exchange costly) of increasing labor productivity and income. The study will review the policy structure which contributed to tractorization and attempt to identify the policy(ies) that would lead to the greater use of animal power. It will also address the institutional structure that is designed to service this facility to identify impediments. At the same time, it will look at the design and the availability of alternative types of hand tools. (Audience: Government, Bank; Staffing: EAPSA - 20; EA1SA - 1)

16. Evaluation of Administrative Reforms

Many institutional "development administration" reforms will have been implemented by this time, including new procedures for translating development objectives into annual plans and budgets, establishment of a project monitoring system, improvements in external debt management, and foreign exchange budgeting and allocation. In addition, implementation of the Second Technical Assistance project will be underway aimed at improving economic management in the Ministry of Finance. This study would evaluate the effectiveness of the above efforts and identify any further reforms needed to round out this major overhaul of the Government's administrative systems. (Audience: Government, Bank; Staffing: EA1SA - 8, EAPIT - 15)

17. Land Policy

As in many Eastern African countries, a dualistic land tenure system comprising customary and leasehold arrangements exists. The tenurial system determines, to a certain extent, the access to credit and other agricultural services. Traditional tenure systems which are adequate for maintaining subsistence agriculture are inadequate to promote commercial agriculture and the existing conditions of leasehold tenure are inadequate to promote optimal land use, efficient production and long term land development. Further, there is a need to have a greater knowledge of the land resources to improve land use planning. A series of land issues need to be investigated including, inter alia; land tenure reforms - land transfers and registration; sub-leasing; land rents and nucleus estate

development policy. Another issue which should be addressed under a separate study is land use potential. It is hoped that an alternative funding source could be found for the latter study. (Audience: Government, Bank; Staffing: EAPSA - 40; EA1SA - 2)

18. Industrial Rationalization

Zambia's industrial sector was built up during a period of relative abundance of foreign exchange and is characterized by a high degree of dependence on imported inputs. However, increasing scarcity of foreign exchange has cut capacity utilization to very low levels, and many industries are no longer appropriate to Zambia's changed circumstances. There is a need to close uneconomic firms and channel investment into domestically based industries. This study would further and help interpret the economic evaluation of firms to be carried out by ZIMCO/INDECO (see item 28) and help develop a strategy for closing uneconomic firms and redeploying capital assets and staff into more productive activities. (Audience: ZIMCO, Government, Bank; Staffing: INDRE- 20, EAPID - 8; EA1SA - 2).

Other Relevant Studies

19. Energy Assessment Status Report (on-going)

This report will review progress in implementation of the recommendations of the Energy Assessment Report (FY83) and provide a factual update of the energy supply/demand balance in Zambia. In particular, it will deal with the issues of institutional planning in the sector, the need for rehabilitation of the power infrastructure and progress in the reform of energy pricing. The status report will identify needs for further technical assistance and suggest a broad framework and scale for energy investment over the next three to five years. (Audience: Government, Bank, Donor Community; Staffing: EGY - 10, EAPEG - 1, EA1SA - 1).

20. Forestry Subsector Strategy Study

This study, identified during appraisal of the Forestry III project, aims at analyzing the commercial forest and wood processing industries with the view to formulating a long-term development strategy and identifying an investment program for optimal utilization of existing forestry resources in the country.

21. Phaseout of Agricultural Finance Corporation

This study, identified during appraisal of the Fisheries project, is drawing up a plan for phasing out the operations of AFC and transfering its system of branch offices to the Zambia Agricultural Development Bank, which the Government intends to be the main source of official credit to the agricultural sector in the future.

22. Study of Fertilizer Usage

This study will examine the pattern and causes of the abnormally high use of fertilizer in Zambia. Implementation of its recommendations is a principal performance condition of the Agricultural Rehabilitation Project.

23. Evaluation of the Ministry of Agricultural and Water Development

Several reforms have been undertaken recently to reorient the Ministry's approach to research and extension, and an effort is being made to strengthen the Planning Division; but there is need to evaluate the impact of these changes on the operations of the Ministry as a unit. This study focuses on the appropriateness and efficacy of MAWD's organizational structure and its ability to evaluate its investment program in relation to resources that are likely to be made available. The findings of these evaluations will constitute the basis for streamlining MAWD's organizational structure, functions and investment portfolio.

24. M.A.W.D. Program of Studies

Following the Bank's 1982 Evaluation of the Planning Division of the Ministry of Agriculture and Water Development (MAWD), the Planning Division has been reorganized and a program of studies has been set in motion along lines recommended by the Bank. Studies currently underway include various sub-sector studies from which a long term investment program in agriculture will be drawn up; a study of the efficiency of provincial cooperative unions in agricultural marketing (this study parallels the Bank's own study of marketing parastatals — item 4); and a study of storage and transport costs. These studies complement the Bank's own sector work in agriculture and represent a good example of collaboration with host countries in carrying out relevant ESW. Through the course of regular preparation, appraisal and supervision missions, Bank staff are now regularly involved in identifying topics for study, drafting TOR for MAWD studies and reviewing draft reports.

25. Master Plan for Research and Extension

This study follows the Bank's 1983 report on agricultural research and extension services and is drawing up a master plan for implementing the recommendations of that report, i.e., reorienting the focus of research and extension services towards smallholders and strengthening delivery and feedback mechanisms. Completion of the plan is a condition of the Export Rehabilitation Project.

26. Productivity and Efficiency in the Mining Industry

This is a series of three studies, financed under the Export Rehabilitation and Diversification project, that will assist the mining company (ZCCM) develop a long-term financial and corporate strategy and evaluate the efficiency of current mining and metallurgical operations. Inter alia, these studies will (a) recommend measures for optimal use of existing facilities; (b) recommend an action program to increase mining controls, reduce dilution and increase labor productivity; (c) assist in

the planning for the shutting-down of economically unjustified operations; (d) introduce proper cost/benefit analysis for investments; and (e) formulate long-term investment strategies.

27. Investment Code

The Industrial Development Act of 1977 has been identified as a detriment to investment in Zambia due to its restrictive nature and lack of clarity in the incentives to be provided. This study is assisting the Government to draft new legislation more promotional in nature. Enactment of a new Act will be a major condition of the Industrial Reorientation project.

28. Parastatal Management

Sector work on industrial policies has gone far with the Industrial Policies report (FY84), and what is needed now is implementation of the many recommendations on the table. However, work is needed on improving the management and efficiency of public enterprises, including the establishment of a capacity for the economic evaluation of projects and improving management information systems. It is proposed that such work be undertaken by consultants financed under the Industrial Reorientation project; ensuing recommendations would form the basis for a possible second industrial sector loan.

29. Structure of Protection (Tariff Review)

In order to enable the Government to rationalize its trade policies and provide proper industrial incentives, a study will be undertaken of the structure of protection as a basis for future modifications in tariffs. The study will be financed under the proposed Industrial Reorientation Loan. Technical assistance will be provided to create the capability within Government to carry out similar and related studies in the future, including the calculation of efficiency prices.

30. Characteristics and Efficiency of Trucking Industry

The recent Transport Sector Memo (FY83) revealed that readily available information on the Zambian trucking industry is very limited. What information exists, however, suggests that the industry as a whole, and in particular the transport parastatals, is characterized by rather low capacity utilization and as a result high unit transport costs. This study examines the characteristics of the industry, in particular the distribution of activity between the private and public sectors, assesses efficiency, and makes recommendation for improvement.

31. Financial Implications of Education Reform

This review is currently being carried out by the University of Zambia and is financed under the TA credit. It will assess the financial implications of the Government's education reform program and recommend a long-term strategy for its implementation within the likely availability of future resources.

ZAMBIA
SUMMARY OF PROPOSED STUDIES: FY85-87
(STAFFWEEKS)

RUN DATE
30-Jan-85

ZAMBIA STUDY/REPORT TITLE	FY85 INDICATIVE STATEMENT	PROGRAM OBJECTIVES	FY85	FY86	FY87	TOTAL	FY OF COMPLETION	FUNC/ CLASS CODE	
ECONOMIC REPORTS (ERA)						0			
(3) Updating for C.B.*	-	C	16	0	0	16	85	1	
(9) CEM*	60	A,C	0	70	0	70	86	1	
(12) Updating for C.B.*		C			17	17	87	1	
						0			
SPECIAL STUDIES (ERA)						0			
(1) Development Planning	30	B	40	15	0	55	85	6.0	
(2) Wage Policy	-	A	40	0	0	40	85	8	
(8) Investment Program Review*	-	B,C	0	45	0	45	86	6.5	
(13) Efficiency Prices**	-		0		15	15	86	10	
(14) Dev. Impact of Tax Structure	XX	A	0		40	40	87	5	
(16) Evaluation of Admin. Reforms	-	B	0	0	23	23	87	6	1/
						0			
						0			
SECTOR REPORTS (SRA)						0			
						0			
Regional						0			
(4) Ag. Pricing & Parast. Efficiency*	40	A,D	41	13	0	54	86	11	
(15) Ag. Mechanization	-	D	0		21	21	88	12	
(17) Land Policy	-	A	0	0	42	42	87	11	
						0			
(5) Training Survey**	10	D	11	34	0	45	86	18	
(6) Energy Strategy Paper	9	D	7	0	0	7	85	17	
(10) Transport Planning Study:Follow-up	9	D	0	5	0	5	86	16	
						0			
COPD						0			
						0			
(7) Industry Strategy Paper	-	D	6	0	0	6	85	14	
(11) Analysis of Census Data**	-	D	0	5	0	5	86	19	
(18) Industrial Rationalization	-	D	0	0	30	30	87	15	
CPP	10	A,D	15	0	0	15	85	2	
CPP	-	A,D	0		10	10	87	2	
						0			
TOTAL	168.0		176	187	198	561			

1/ Also applies to 7.
* Studies in 'core program'.
** Studies which may be postponed or cut in size should there be need to reduce total staffweeks.
NOTE: Program Objectives A, B, C, D refer to objectives 1, 2, 3, 4, respectively listed in the Statement of Program Goals, World Bank Strategy, Section E.

ZAM
2 OF 2

OTHER RELEVANT STUDIES	SOURCE OF FINANCE	PROGRAM OBJECTIVE	FUNC/ CLASS
ENERGY			
(19) Energy Assessment Status	UNDP	D	17
AGRICULTURE			
(20) Forestry Subsector Strategy	For. III	D	13
(21) Phaseout of AFC	TA Credit	A,D	12
(22) Fertilizer Usage	Ag. Rehab.	D	11
(23) Evaluation Min. of Agric.	TA Credit	B	12
(24) MAND Program of Studies	Govt/bilat	A,C,D	11
(25) Research and Extension	TA Credit	D	12
MINING			
(26) Mining Efficiency Studies	Ex. Rehab.	D	15
INDUSTRY			
(27) Investment Code	TA Credit	A	14
(28) Parastatal Management	Ind. Reor.	D	15
(29) Tariff Review	Ind. Reor.	A	14
TRANSPORTATION			
(30) Trucking Study	TA Credit	D	16
EDUCATION			
(31) Financial Implic. of Ed. Reform	TA Credit	B,D	18

2/ Also applies to 12 and 13

30-Jan-85