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## ZAMBIA COUNTRY PROGRAM PAPER

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Postscript

103. The OPSC Review Meeting was held on April 23, 1985. The Region expanded on Zambia's economic crisis, in particular the now formidable debt problem generated in large part by the continued softness of the international copper market. The Government was credited for having performed well on the policy front, but in the worsening external environment, extraordinary efforts by the donor community were needed to help address the crisis.

104. The Region distributed to the OPSC an updated balance of payments table (copy attached) from that presented in Attachment 3c of the CPP. This new information prepared for the emergency interim meeting of the CG in June 1985 shows that the financing gap this year is about \$100 million more than earlier envisaged, while at the same time, the level of official development assistance in 1984 was less than hoped and, consequently, projections of official assistance have been revised downwards. Following signals at the recent Development Committee meetings that the OECD countries were ready to consider "sensible" proposals on various rescheduling options, the Chairman suggested that the case for multi-year rescheduling be presented to the CG; even assuming the most favorable treatment by creditors, however, Zambia will still be in considerable difficulty for at least the next 3-4 years. The Region noted that Bank Group lending would not be a large part of the solution, with net transfers of only \$34 million over the next four years compared to net transfers of \$240 million from other multilateral donors, and \$750 million (including debt relief) from bilateral donors. However, the Chairman felt that net disbursements to Zambia, which are large, is a more appropriate indicator of the Bank's contribution to the financing of a Borrower's capital account needs. The Region agreed that net disbursements should be the relevant indicator under normal circumstances, but argued that in Zambia's case, where the trade balance is not sufficient to cover even a portion of interest payments over the next four years, and where a major restructuring of debt is required, net transfers becomes the de facto indicator of significance.

105. The meeting accepted the CPP's proposal that Zambia not be considered creditworthy for IBRD lending before FY88 when the issue would be reviewed. On the other hand, the meeting noted the Region's claim that Government's progress to date in its reform program merits access to the Special Facility for Africa (SFA), and that the CPP's proposals for funding subsequent policy-based operations, especially the Industrial Reorientation and Agricultural Rehabilitation II projects, from the SFA should be considered when the relevant allocation criteria have been established.

106. In considering the necessary conditions for an improved balance of payments situation, the meeting considered whether non-copper exports could indeed grow at 13% per annum as projected in the CPP. The Region noted that it considered the 13% as a target figure, and that this appeared reasonable given the very low base, provided the environment allowed growth potential in industry and agriculture to be fully exploited. One important determinant in



achieving this would be some movement in the exchange rate, which the IMF believes is now considerably overvalued. The IMF representative reported that a mission now in Zambia is trying to agree on a program to negotiate some desired adjustments in the exchange rate. There are signs that Government is willing to discuss the issue seriously, and might propose an auction system for foreign exchange which would mean a very sharp depreciation. This would in turn have further implications for deriving a more realistic GNP per capita figure for Zambia, and for increased access to concessional assistance. The point was made that in view of the on-going rapid depreciation of the Kwacha, the Bank's methodology of using a three-year average exchange rate for calculating GNP per capita had led to an anomaly in this case, and that ERS and the Region should further discuss the approach to be taken.

107. In noting that the CPP proposed a high proportion of quick-disbursing operations and comparatively little new investment, the Chairman suggested that if growth targets are to be met, the need for new investment should not be overlooked. The Region responded that Zambia has a relatively large but underutilized productive base (particularly in the industrial sector), and that with an easing of the import constraint, this should allow a fairly rapid increase in economic growth as a result of policy-based operations. Also, there is a tremendous backlog of rehabilitation investment which must be met before new investment could yield its full potential.

108. Cost-sharing arrangements were agreed at 75% of total project costs (80% in the case of co-financed operations).

109. The Chairman advised that the CPP package should be submitted to the Managing Committee for review.

May 16, 1985

# OFFICE MEMORANDUM

DATE: April 18, 1985

TO: Operations Policy Sub-Committee

FROM: Luis de Azcarate, Director, CPD

EXT.: 60063

SUBJECT: ZAMBIA CPP: OPSC Review

1. Attached is an agenda and comments on major policy issues identified by CPD and PBD for consideration by the Sub-Committee. Suggested agenda items are:

- a) the policy framework for Zambian adjustment, and the Bank/IMF role in helping the Government to design and implement that framework;
- b) issues related to current and future creditworthiness for IBRD lending, and Zambia's eligibility for access to substantial funds from the Special Facility for Africa;
- c) reform efforts in the agricultural and industrial/manufacturing sectors, and expectations for increased production and growth;
- d) project cost sharing; and
- e) expansion of the Resident Mission.

2. The Review meeting will be held on Tuesday, April 23, 1985, at 3:30 p.m. in Room E-1208.

## Attachments

cc: Regional Office: Messrs. Kraske  
Wyss  
Gulhati  
Greene  
Ducker  
Messenger  
Gebhart  
Munthali

Messrs. Ryrie  
Jansen



## ZAMBIA COUNTRY PROGRAM PAPER

### Topics for Discussion

#### Recent Performance and Prospects

1. Since the last CPP review in 1981 there has been a dramatic deterioration in Zambia's economic situation. The most important factor in this deterioration has been the continuous downward slide in the price of copper, and its resulting impact of a \$2.45 billion shortfall in projected export earnings over 1982-84. Largely as a consequence, import volumes declined by 45 percent over the three years (following an earlier drop by 50 percent over 1974-81); GDP declined by an average of four percent per annum; and there is a growing backlog of rehabilitation and maintenance expenditures. Faced with these grave difficulties, the Zambian government has made commendable progress in implementing a range of policy reforms developed in agreement with the Bank through an effective ongoing dialogue, and through negotiations with the IMF on a stabilization program. Yet, as the CPP points out, the effect of these measures is essentially to arrest a further worsening of the situation. There is little prospect for any improvement in per capita income levels in the next decade.
2. The social and political implications of this poor economic picture are dismaying. With population growth at an extremely high 3.4% per annum, the sharp deterioration in terms of trade (associated with recent severe declines in copper prices) has led to a massive drop in per capita incomes affecting all segments of society. While workers in the mining industry were affected most, the decline in gross national income has also been felt in the rural areas in the form of reductions in critical government services and in the virtual disappearance of wage goods. The political situation is stable, but replete with pressing economic issues: the rising cost of living resulting from price decontrol and devaluation; the erosion of real wages; and the pace of economic liberalization. Nevertheless, the CPP notes that the President of the Republic 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. But it remains understood that the sustainability of the ongoing reform process will require "periods of consolidation". (para. 6 of the CPP).
3. The task of restructuring the Zambian economy, through a substantial increase in the output of non-mineral tradeables, is a daunting one. A key element will be the pursuit of an exchange rate policy which provides adequate incentives for producers of agricultural and industrial commodities. The CPP reports that in spite of large devaluations since 1983, there remains some overvaluation of the currency; the extent of this is subject to debate, but the Bank's analysis suggests that the existing rate would not unduly hamper long-run operation and development of major sectors of the economy. Nevertheless, there may well be a case for a more aggressive exchange rate policy to allow the necessary adjustment and increased output in the economy.



4. With this prognosis, there is a clear need for a coordinated approach by the Bank and the IMF, and by other major donors, in helping Zambia develop appropriate adjustment measures. The Region might expand on:

- its perception of longer-term development options for Zambia;
- the approach it plans to take with the IMF and the donor community in helping the Zambian Government to design policies to take advantage of these options; and
- the likelihood of a continued strong Government response to the difficult adjustment process.

#### Creditworthiness Outlook and Bank Group Lending

5. Zambia's creditworthiness is precarious, as evident in the projected DSRs ranging between 40% to 50% over 1985-90 (Attachment 3c) even after continuation of the current Paris Club rescheduling practices with respect to Zambia. It is doubtful that the export growth rate could be significantly raised to relieve this burden. The projected export growth of 0.9% per annum during 1985-90 reflects poor prospects for the copper industry, the principal export, but assumes a 15% annual growth rate in non-mineral exports. This rate would seem to be the feasible maximum predicated on sustaining the current momentum in policy reform. On the other hand, there is scope for further action to dampen repayments. Interest payments on rescheduled debt are a large component of the projected repayments. If these were to be capitalized through the Paris Club, it would reduce the FY90 DSR, for example, to about 32% compared to 43% as projected. We understand that a proposal for such a relaxation of the Paris Club terms, including multi-year rescheduling, to be presented in the forthcoming Consultative Group meeting, is under consideration by the Region, and they may wish to comment on this.

6. Zambia's repurchase obligations to the IMF account for more than 30% of projected debt service payments emanating from programs to date. Future IMF programs could meet part of the projected gapfill, but would also exacerbate subsequent debt service obligations. Zambia's plight would seem to highlight a more general problem which Bank Management may wish to take up with IMF Management, both at the country level and for Sub-Saharan Africa in general.

7. The proposed IBRD lending program (\$50 million) is significantly lower than the approved amount (\$110 million) following the Region's reassessment of Zambia's creditworthiness. Indeed, no IBRD operation has been proposed until FY88, by which time a fuller assessment of the efforts by the Zambian authorities to sustain policy reform and improve economic management can be made. On the other hand, the proposed IDA program (\$157 million) is higher than the approved program (SDR137 million). Given the state of IDA, this would presumably need to be accommodated through an intra-Regional reallocation. In addition, the Region has proposed an allocation of \$100 million from the Special Facility for Africa (SFA) to finance three sector rehabilitation/reorientation credits (Agriculture II, Industry, Energy) during FY86-87. Although the amount is large relative to the country's population

Debt  
Service  
Ratio

50

157  
10A

100  
SFA



size and to total resources of the SFA, the argument is based on the impressive progress the Zambian authorities have made in the direction of policy reform. This will need to be assessed in relation to the competing claims of other qualified borrowers.

#### Bank Assistance Strategy

8. The proposed Bank strategy focusses on measures to improve economic management, to revitalize the productive potential of the economy, and to stimulate longer-term development options given the inevitable decline of copper-mining activities. The CPP proposes a high proportion (33%) of quick-disbursing non-project assistance to support reform efforts in the agricultural and industrial/manufacturing sectors, and to help increase capacity utilization and generate a quick production response. New investment would be supported only if it will contribute directly to the much needed diversification of the economy or to ease long-term development constraints (para. 67 of the CPP).

9. The proposed lending program gives highest priority to agriculture, the sector with the best potential for growth and employment. The CPP notes that production rebounded strongly in 1983 and 1984 (by 8 and 9 percent respectively), in spite of poor rains in some of the major grain-producing areas; this is presumed to be tangible evidence that the price and tax incentives enacted during the past three to four years have already had an impact. However, even moderate growth in the sector would presumably depend on the adequacy of rehabilitation measures, and on the relevant parastatals achieving reasonable efficiency. The Region might discuss the prospect for agricultural growth, given the constraints which might be imposed by a perhaps inadequate institutional framework and technological base, the potential difficulty of export markets, and the need for significant increases in relative prices in the sector.

10. The new incentives structure created by the liberalization of prices is clearly designed to have its effect on production and investment through the response of the private sector. In addition to the few private projects developed by IFC, the Region might report on the potential of Zambia's domestic private sector, and Government's attitude toward a possible expansion of the role of foreign private investment (para. 85).

#### Other Items

11. Cost Sharing. The Region proposes that the present limit of 65% (75%) with cofinancing) should be raised to 80% of total project costs or foreign exchange costs, whichever is greater. Zambia's recent efforts to relieve the severe budget constraint and the argument for a downward revision of the per capita GNP level (to \$260), suggest that it would be consistent with other countries if the limit were set at 80% in the case of cofinancing, while the corresponding limit without cofinancing might be set at 75%.

12. Expansion of the Resident Mission. The CPP highlights the strategic role being played by the Resident Mission in supporting the Bank's efforts particularly in the important area of aid coordination, and recommends the posting of two additional higher-level staff to enhance this role (paras. 81-83).

13. Next CPP Review. The next full CPP would be scheduled in three years' time, with interim reporting by early 1987 on Government's progress in implementation of the reform program, the effectiveness of policy measures undertaken, and an updated assessment of creditworthiness.

Annex I compares the lending program for Zambia proposed in this CPP with programs previously approved. A revised table on capital subscriptions, in substitution of the CPP table on p.26, is also attached as Annex II.

Annex III presents a comparison of various country performance indicators.



ZAMBIA

|                                          |       | Actual |      |       | Current | Program |       |       |       |       | Five-Year Totals |         |         |
|------------------------------------------|-------|--------|------|-------|---------|---------|-------|-------|-------|-------|------------------|---------|---------|
|                                          |       | FY82   | FY83 | FY84  | FY85    | FY86    | FY87  | FY88  | FY89  | FY90  | FY82-86          | FY85-89 | FY86-90 |
| <u>Operations Program (No.)</u>          |       |        |      |       |         |         |       |       |       |       |                  |         |         |
| Approved, September 1981                 |       | 6      | 5    | 10    | 4       | 2       | ..    | ..    | ..    | ..    | 27               | ..      | ..      |
| Proposed, April 1985                     |       | 5      | 2    | 2     | 3       | 7       | 4     | 2     | 3     | 2     | 19               | 19      | 18      |
| <u>Lending Program (No.)</u>             |       |        |      |       |         |         |       |       |       |       |                  |         |         |
| Approved, September 1981                 |       | 3      | 2    | 5     | 3       | 3       | ..    | ..    | ..    | ..    | 16               | ..      | ..      |
| Std. Table IVa, Nov. 1984                |       | 5      | 2    | 2     | 2       | 6       | 3     | 3     | 2     | ..    | 17               | 16      | ..      |
| Proposed, April 1985                     |       | 5      | 2    | 2     | 3       | 5       | 4     | 2     | 3     | 4     | 17               | 17      | 18      |
| <u>Lending Program (Cur. \$m)</u>        |       |        |      |       |         |         |       |       |       |       |                  |         |         |
| Approved, September 1981                 | IBRD  | -      | 65.0 | 55.0  | 20.0    | 20.0    | ..    | ..    | ..    | ..    | 160.0            | ..      | ..      |
|                                          | IDA   | 50.5   | 22.0 | 27.5  | 30.0    | 35.0    | ..    | ..    | ..    | ..    | 165.0            | ..      | ..      |
|                                          | Total | 50.5   | 87.0 | 82.5  | 50.0    | 55.0    | ..    | ..    | ..    | ..    | 325.0            | ..      | ..      |
| Std. Table IVa, Nov. 1984                | IBRD  | 11.7   | -    | 75.0  | -       | 50.0    | 10.0  | 40.0  | 10.0  | ..    | 136.7            | 110.0   | ..      |
|                                          | IDA   | 50.5   | 20.3 | 22.4  | 32.1    | 50.0    | 20.0  | 25.0  | 10.0  | ..    | 175.3            | 137.1   | ..      |
|                                          | Total | 62.2   | 20.3 | 97.4  | 32.1    | 100.0   | 30.0  | 65.0  | 20.0  | ..    | 312.0            | 247.1   | ..      |
| Proposed, April 1985                     | IBRD  | 11.7   | -    | 75.0  | -       | -       | -     | 30.0  | 20.0  | 15.0  | 86.7             | 50.0    | 65.0    |
|                                          | IDA   | 50.5   | 20.3 | 22.4  | 52.1    | 40.0    | 25.0  | 10.0  | 30.0  | 45.0  | 185.3            | 157.1   | 150.0   |
|                                          | SFA*  | -      | -    | -     | -       | 50.0    | 50.0  | -     | -     | -     | 50.0             | 100.0   | 100.0   |
|                                          | Total | 62.2   | 20.3 | 97.4  | 52.1    | 90.0    | 75.0  | 40.0  | 50.0  | 60.0  | 322.0            | 307.1   | 315.0   |
| <u>Lending Program (Const. FY85 \$m)</u> |       |        |      |       |         |         |       |       |       |       |                  |         |         |
| Approved, September 1981                 | IBRD  | -      | 74.4 | 59.0  | 20.0    | 18.7    | ..    | ..    | ..    | ..    | 172.1            | ..      | ..      |
|                                          | IDA   | 60.7   | 25.2 | 29.5  | 30.0    | 32.6    | ..    | ..    | ..    | ..    | 178.0            | ..      | ..      |
|                                          | Total | 60.7   | 99.6 | 88.5  | 50.0    | 51.3    | ..    | ..    | ..    | ..    | 350.1            | ..      | ..      |
| Std. Table IVa Nov. 1984                 | IBRD  | 14.1   | -    | 80.5  | -       | 46.6    | 8.7   | 32.9  | 7.8   | ..    | 141.2            | 96.0    | ..      |
|                                          | IDA   | 60.7   | 23.2 | 24.0  | 32.1    | 46.6    | 17.5  | 20.6  | 7.8   | ..    | 186.6            | 124.6   | ..      |
|                                          | Total | 74.8   | 23.2 | 104.5 | 32.1    | 93.2    | 26.2  | 53.5  | 15.6  | ..    | 327.8            | 220.6   | ..      |
| Proposed, April 1985                     | IBRD  | 14.1   | -    | 80.5  | -       | -       | -     | 24.7  | 15.6  | 11.1  | 94.6             | 40.3    | 51.4    |
|                                          | IDA   | 60.7   | 23.2 | 24.0  | 52.1    | 37.3    | 21.9  | 8.2   | 23.4  | 33.4  | 197.3            | 142.9   | 124.2   |
|                                          | SFA   | -      | -    | -     | -       | 46.6    | 43.7  | -     | -     | -     | 46.6             | 90.3    | 90.3    |
|                                          | Total | 74.8   | 23.2 | 104.5 | 52.1    | 83.9    | 65.6  | 32.9  | 39.0  | 44.5  | 338.5            | 273.5   | 265.9   |
| Commitment Deflator (FY85=100)           |       | 83.2   | 87.4 | 93.2  | 100.0   | 107.2   | 114.4 | 121.4 | 128.2 | 134.9 |                  |         |         |

Note: November 1984 Review Group Decisions: FY85-89: IBRD \$60 million  
IDA SDR 155 million.

\* SFA - Special Facility for Africa.

STATUS OF IBRD CAPITAL SUBSCRIPTIONS

ANNEX II

| <u>Resolution</u><br><u>No. Adopted</u> | <u>Shares Allocated <sup>a/</sup></u> |                     |            |                 | <u>Amounts to be</u><br><u>Paid-in for</u><br><u>Unsubscribed</u><br><u>Shares (000's)</u> |                  | <u>Local Currency</u><br><u>Unreleased</u><br><u>for Shares</u><br><u>Subscribed</u> |
|-----------------------------------------|---------------------------------------|---------------------|------------|-----------------|--------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------|
|                                         | <u>Subscribed</u>                     | <u>Unsubscribed</u> |            |                 | <u>US\$</u>                                                                                | <u>Loc. Cur.</u> | <u>\$ (mil)</u>                                                                      |
|                                         | <u>No.</u>                            | <u>\$ (mil)</u>     | <u>No.</u> | <u>\$ (mil)</u> |                                                                                            |                  |                                                                                      |
| 346 1/4/80                              | 0                                     | 0                   | 1077       | 129.90          | 974.43 <sup>b/</sup>                                                                       | 0.00             | 8.77 <sup>c/</sup>                                                                   |
| 347 1/4/80                              | 0                                     | 0                   | 250        | 30.16           | 0.00                                                                                       | 0.00             | 0.00                                                                                 |
| 395 9/12/84                             | <u>0</u>                              | <u>0</u>            | <u>52</u>  | <u>6.27</u>     | <u>54.89</u>                                                                               | <u>494.00</u>    | <u>0.00</u>                                                                          |
| Total                                   | 0                                     | 0                   | 1379       | 166.36          | 1029.32                                                                                    | 494.00           | 8.77 <sup>c/</sup>                                                                   |

<sup>a/</sup> IBRD share value = \$120,635.

<sup>b/</sup> Of this amount, \$186,215 has been paid and \$788,213 is outstanding.

<sup>c/</sup> This amount was paid in full in January 1983 in the form of a Government promissory note, but the Bank has not asked for its release until the unpaid US\$ portion is paid and the shares are declared effective.



COMPARATIVE COUNTRY ANALYSIS

|                                        | <u>ZAMBIA</u>  | <u>BOLIVIA</u>    | <u>P.D.R.Y.</u> | <u>LIBERIA</u>    |                |                   |                |                   |
|----------------------------------------|----------------|-------------------|-----------------|-------------------|----------------|-------------------|----------------|-------------------|
| <u>Economic Structure</u>              |                |                   |                 |                   |                |                   |                |                   |
| Population 1983 (millions)             | 6.3            | 6.0               | 2.0             | 2.1               |                |                   |                |                   |
| GNP Per Capita 1983                    | 580.0          | 510.0             | 510.0           | 470.0             |                |                   |                |                   |
| % Agriculture in GDP 1982              | 13.7           | 17.0b/            | 12.0            | 36.0              |                |                   |                |                   |
| % Industry in GDP 1982                 | 37.2           | 27.0b/            | 27.0            | 28.0              |                |                   |                |                   |
| % Services in GDP 1982                 | 49.1           | 56.0b/            | 61.0            | 36.0              |                |                   |                |                   |
| Debt Service Ratio 1982                | 16.8a/         | 28.2              | 4.5             | 5.1b/             |                |                   |                |                   |
| <u>Economic Performance</u>            |                |                   |                 |                   |                |                   |                |                   |
| Real GDP Growth Rate 1970-82           | 1.1            | 3.7               | 3.0c/           | 0.9               |                |                   |                |                   |
| Gross Domestic Investment/GNP 1982     | 16.9           | 14.0b/            | 49.0            | 24.0              |                |                   |                |                   |
| Exports GNFS/GNP 1982                  | 27.4           | 14.0              | 12.0            | 50.0              |                |                   |                |                   |
| Current Account Balance/GNP 1982       | -16.6          | n.a.              | -20.0           | -9.0              |                |                   |                |                   |
| Gross National Savings/GNP 1982        | 0.3            | n.a.              | 26.0            | 9.0               |                |                   |                |                   |
| <u>Recent Social Indicators</u>        |                |                   |                 |                   |                |                   |                |                   |
| Population Growth Rate                 | 3.4            | 2.6               | 2.2             | 3.4               |                |                   |                |                   |
| % Change in Crude Birth Rate 1960-82   | -2.2           | -7.2              | -5.6            | -0.3              |                |                   |                |                   |
| % Change in Crude Death Rate 1960-82   | -36.9          | -28.7             | -33.9           | -30.6             |                |                   |                |                   |
| Infant Mortality Rate (per 1,000) 1982 | 105.0          | 126.0             | 140.0           | 91.0              |                |                   |                |                   |
| Life Expectancy (years) 1980-82        | 51.0           | 51.0              | 46.0            | 54.0              |                |                   |                |                   |
| Adjusted Education Enrollment Ratio    |                |                   |                 |                   |                |                   |                |                   |
| - Primary                              | 96.0           | 86.0              | 64.0            | 66.0              |                |                   |                |                   |
| - Secondary                            | 16.0           | 34.0              | 18.0            | 20.0              |                |                   |                |                   |
| Adult Literacy Rate (1980-82)          | 44.0           | 63.0              | 53.0            | 25.4              |                |                   |                |                   |
|                                        |                |                   |                 |                   |                |                   |                |                   |
|                                        | <u>FY80-84</u> | <u>FY85-89 d/</u> | <u>FY80-84</u>  | <u>FY85-89 e/</u> | <u>FY80-84</u> | <u>FY85-89 e/</u> | <u>FY80-84</u> | <u>FY85-89 e/</u> |
| <u>Lending Program f/</u>              |                |                   |                 |                   |                |                   |                |                   |
| Nominal IDA US\$M                      | 108.2          | 257.1             | 25.0            | 18.0              | 106.7          | 50.0              | 62.9           | 70.0              |
| Nominal IBRD US\$M                     | 137.7          | 50.0              | 50.0            | 100.0             | 0.0            | 0.0               | 37.0           | 0.0               |
| p.c.p.a. Lending US\$                  | 7.9            | 9.8               | 2.5             | 3.9               | 10.6           | 5.0               | 9.6            | 7.0               |
| p.c.p.a. Constant 1985 US\$            | 9.1            | 8.7               | 3.1             | 3.2               | 12.6           | 4.4               | 11.3           | 5.9               |

Sources: Zambia and PDRY CPPs  
 1984 World Development Report  
 Social Indicators Data Sheets, EPD, June 1984

a/ Actual payments after rescheduling

b/ 1981

c/ 1970-1981

d/ CPP proposal; the IDA figure includes a proposed \$100 million from the Special Facility for Africa(SFA).

e/ Table IVa

f/ IDA equivalent figures are not available as terms for SFA have not yet been decided.

IMF

OPSC Review Meeting - Zambia CPP

Note on Presentation to Consultative Group for Zambia

1. The Bank's presentation to the Consultative Group meeting in June will highlight the monumental financing task facing Zambia over the next five to seven years. As shown in the attached balance of payments table, Zambia's trade account will not generate a significant surplus for servicing debt until well into the 1990's. But debt service falling due on existing debt will amount to over \$800 million per annum in each of the next three years and will average nearly \$600 million per annum in 1988-90. These gross capital requirements are nearly twice as large as what could be expected from disbursements of existing and new official commitments. Maximum debt rescheduling from bilateral and private creditors will therefore be required for at least the next five years. However, this will only partially meet Zambia's residual financing requirements, and net transfers of nearly \$200 million per annum will be required from other sources. If these are obtained on commercial terms (e.g., 10 percent interest), they imply an average net borrowing requirement of \$240 million per annum in 1986-90. This compares with a financing gap of \$140 million per annum for the same period in the CPP.<sup>1/</sup>

2. At the Consultative Group meeting we expect to discuss the increase in Zambia's financing requirements since the last CG; the consequent need for additional amounts of concessional, fast-disbursing funds; and the need for more effective debt rescheduling. These would be discussed in the context of a report on the Government's policy reform program.

3. There are three implications for these discussions which we feel should be brought to the attention of the OPSC:

- i) The Bank will contribute only marginally to the solution of Zambia's financing requirements. The lending program in the CPP, including IBRD, IDA and SFA, would provide only \$34 million in net transfers during 1986-90.

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<sup>1/</sup> Since the CPP was prepared, new data indicate that grants and official commitments in 1984 were \$120 million lower than assumed. For the CG, we have lowered the base for projecting official assistance by \$45 million and have deleted an assumed \$30 million per annum from private sources. Together with the loss of disbursements from lower 1984 commitments and interest on a larger financing gap, these changes account for the \$100 million per annum difference between the projections in the CPP and CG documents.



- ii) The IMF is part of the problem. In 1986-90, Zambia is scheduled to pay over \$900 million to the IMF in repurchases and charges. This represents about 30 percent of total debt payments during this period (after rescheduling).
- iii) More effective debt rescheduling will require the cooperation of the Paris Club and other creditors. Last year Zambia was required to pay moratorium interest on rescheduled amounts, and the effective relief was less than needed. Furthermore, the standard conventions for debt rescheduling will provide only four years of net relief before debt service on rescheduled amounts equals or exceeds original maturities falling due (see 1989 and 1990 in table). This stands in stark contrast to the Bank's assessment that Zambia requires a 10 year period of strong adjustment and growth of non-mineral exports before this could contribute significantly to carrying the debt service burden.

Projected Balance of Payments  
(US\$ millions)

|                                                               | 1984 <sup>a/</sup> | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        | 1995        |
|---------------------------------------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Exports of Goods and Services                                 | 916                | 1014        | 1192        | 1277        | 1390        | 1535        | 1705        | 2673        |
| Imports of Goods, Services and Net Transfers (excl. interest) | 952                | 1087        | 1205        | 1302        | 1391        | 1493        | 1614        | 2322        |
| of which: Goods, f.o.b.                                       | 617                | 701         | 786         | 849         | 902         | 967         | 1043        | 1565        |
| <u>Balance Available for Debt Service</u>                     | <u>-36</u>         | <u>-73</u>  | <u>-12</u>  | <u>-25</u>  | <u>0</u>    | <u>42</u>   | <u>91</u>   | <u>351</u>  |
| Debt Service on Existing Debt <sup>b/</sup>                   | 280                | 726         | 713         | 704         | 615         | 489         | 402         | 170         |
| Reduction in Arrears                                          | ..                 | 0           | 100         | 100         | 100         | 100         | 100         | 0           |
| Accumulation of Reserves                                      | -5                 | 10          | 10          | 10          | 17          | 21          | 23          | 25          |
| <u>Gross Capital Requirements</u>                             | <u>311</u>         | <u>809</u>  | <u>835</u>  | <u>839</u>  | <u>733</u>  | <u>568</u>  | <u>434</u>  | <u>-156</u> |
| Disbursements of Existing Loans                               | 147                | 196         | 132         | 99          | 62          | 32          | 14          | 0           |
| New Capital Grants                                            | 50                 | 75          | 75          | 85          | 90          | 96          | 101         | 135         |
| Disbursements of New Loans <sup>c/</sup>                      | 8                  | 122         | 194         | 233         | 239         | 274         | 246         | 365         |
| less, Debt Service on New Loans                               | -                  | -           | 8           | 17          | 30          | 47          | 66          | 185         |
| Direct Foreign Investment                                     | -                  | 0           | 0           | 25          | 27          | 28          | 30          | 40          |
| Errors and Omissions                                          | -46                | 0           | 0           | 0           | 0           | 0           | 0           | 0           |
| Drawings from IMF                                             | 152                | 50          | 75          | 0           | 0           | 0           | 0           | 0           |
| <u>Residual Financing Requirements</u>                        | <u>-</u>           | <u>366</u>  | <u>366</u>  | <u>414</u>  | <u>346</u>  | <u>185</u>  | <u>110</u>  | <u>-511</u> |
| Debt Rescheduling                                             | (380)              | 287         | 269         | 235         | 195         | 129         | 100         | 0           |
| less, Debt Service resulting from Rescheduling                | -                  | -           | 27          | 52          | 87          | 114         | 162         | 199         |
| <u>Unidentified Net Transfers</u>                             | <u>-</u>           | <u>79</u>   | <u>124</u>  | <u>231</u>  | <u>238</u>  | <u>170</u>  | <u>172</u>  | <u>-312</u> |
| Net Borrowing                                                 |                    | 79          | 132         | 252         | 285         | 245         | 272         | -132        |
| less, Interest on Net Borrowing                               |                    | 0           | 8           | 21          | 46          | 75          | 99          | 180         |
| <u>Memorandum Items</u>                                       |                    |             |             |             |             |             |             |             |
| New Loan Commitments                                          | 164                | 302         | 252         | 300         | 278         | 302         | 328         | 445         |
| Official Commitments, incl. Grants                            | 204                | 377         | 327         | 385         | 368         | 398         | 429         | 580         |
| Debt Service After Rescheduling                               | 280                | 439         | 587         | 659         | 684         | 696         | 727         | 735         |
| <u>Debt Service as Percent of Exports</u>                     | <u>30.6</u>        | <u>43.3</u> | <u>49.2</u> | <u>51.6</u> | <u>49.2</u> | <u>45.3</u> | <u>42.6</u> | <u>27.5</u> |
| Debt Outstanding and Disbursed                                | 4457               | 4725        | 4934        | 5064        | 5266        | 5512        | 5650        | 6098        |
| Undisbursed Loans                                             | 638                | 572         | 454         | 404         | 384         | 407         | 546         | 1383        |

<sup>a/</sup> Preliminary.

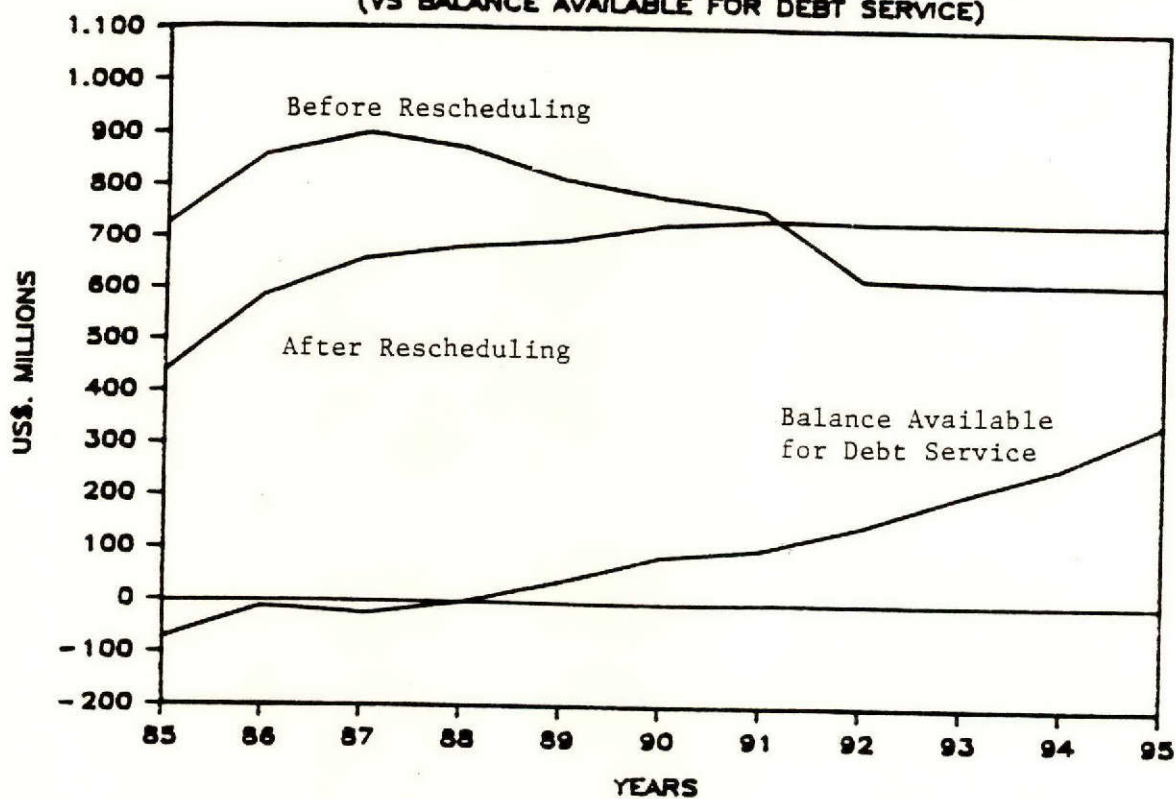
<sup>b/</sup> On loans committed prior to 1984 and on amounts rescheduled in 1983 and 1984.

<sup>c/</sup> Loans committed in 1984 and after. Assumes one-half of new bilateral and multilateral commitments are for quick-disbursing non-project assistance.

Note: See Attachments 3, 3a and 3b for details, definitions and major assumptions.



# DEBT SERVICE ON NEW AND EXISTING DEBT (VS BALANCE AVAILABLE FOR DEBT SERVICE)



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## Country Program Paper

Z A M B I A

April 2, 1985

Eastern and Southern Africa Regional Office

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March 29, 1985

COUNTRY PROGRAM PAPER

ZAMBIA

|                                        |                       | <u>FY80-84</u> | <u>FY85-89</u> | <u>FY86-90</u> |
|----------------------------------------|-----------------------|----------------|----------------|----------------|
| 1983 Population: 6.255 million         | IBRD                  | 137.7          | 50.0           | 65.0           |
| 1983 Per Capita GNP: US\$580 <u>a/</u> | IDA                   | 108.2          | 157.1          | 150.0          |
|                                        | SFA <u>b/</u>         | -              | 100.0          | 100.0          |
| Current Population                     | Total                 | 245.9          | 307.1          | 315.0          |
| Growth Rate: 3.4% p.a.                 |                       |                |                |                |
|                                        | 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:

|                               | <u>FY85-89 Lending Program</u> |                 | <u>Percentage Change</u> |
|-------------------------------|--------------------------------|-----------------|--------------------------|
|                               | <u>Approved</u>                | <u>Proposed</u> | <u>Proposed/Approved</u> |
| 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          | 7.9                            | 9.8             | 24                       |
| (Constant FY84 Commitment \$) | (7.1)                          | (8.7)           | 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 occurred. 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 will 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.<sup>1/</sup> 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.

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

<sup>1/</sup> Copper Price Forecasts (US cents per lb.), EPD

|                             | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1990</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Current Prices</u>       |             |             |             |             |             |             |             |             |
| June 1981 <sup>a</sup>      | 99          | 95          | 115         | (131)       | (150)       | 172         | (187)       | 258         |
| January 1985 <sup>b</sup>   | 99          | 79          | 67          | 72          | 62          | 65*         | 72          | 103         |
| <u>Constant 1980 Prices</u> |             |             |             |             |             |             |             |             |
| June 1981                   | 99          | 89          | 100         | (106)       | (113)       | 120         | (123)       | 135         |
| January 1985                | 99          | 83          | 72          | 81          | 72          | 71          | 73          | 77          |

<sup>a</sup> Used in 1981 CPP

<sup>b</sup> Used in this CPP

( ) Interpolated

\* Adjusted from EPD estimate of 68 cents.



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)

|                      | <u>1970</u> | <u>1974</u> | <u>1975</u> | <u>1980</u> | <u>1984</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| 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 its 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 occurred 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 administrative 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.<sup>2/</sup> 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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<sup>2/</sup> 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 occurred 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.<sup>3/</sup> 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 political 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.

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<sup>3/</sup> 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 committed 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 occurred 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 committed 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



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 mechanism 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.<sup>4/</sup>

#### 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 established 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.

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<sup>4/</sup> 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 severely 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 occurred 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 production. 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.<sup>5/</sup> 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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<sup>5/</sup> 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<br>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 occurred 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 constraints, 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).<sup>6/</sup> 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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<sup>6/</sup> 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.<sup>7/</sup> 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.<sup>8/</sup> 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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<sup>7/</sup> 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).

<sup>8/</sup> 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:

| <u>Projected Debt Service Ratios</u><br>(Percent of Exports of Goods and Services) |  | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1995</u> |
|------------------------------------------------------------------------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Public and Publicly Guaranteed Debt</u>                                         |  |             |             |             |             |             |             |             |
| Before Rescheduling                                                                |  | 44          | 36          | 33          | 28          | 24          | 21          | 16          |
| After Rescheduling <sup>a</sup>                                                    |  | 15          | 16          | 19          | 21          | 23          | 26          | 23          |
| Other Debt Service <sup>b</sup>                                                    |  | 11          | 9           | 12          | 12          | 12          | 11          | 4           |
| Repayments and Charges to IMF <sup>c</sup>                                         |  | <u>16</u>   | <u>19</u>   | <u>19</u>   | <u>15</u>   | <u>9</u>    | <u>6</u>    | <u>-</u>    |
| Total, Before Rescheduling                                                         |  | 71          | 66          | 69          | 62          | 52          | 45          | 24          |
| After Rescheduling <sup>a</sup>                                                    |  | 43          | 44          | 50          | 48          | 44          | 43          | 27          |

- <sup>a</sup> 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.
- <sup>b</sup> Interest on short term debt, reduction of commercial payment arrears and service on GAPFIL.
- <sup>c</sup> 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.<sup>9/</sup> 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 rehabilitation 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 insistence 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.

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<sup>9/</sup> 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

|                                   |        |                   |                 |                                             |                 | Amounts to be<br>Paid-in for<br>Unsubscribed<br>Shares (000's) |                  | Local Currency<br>Unreleased<br>for Shares<br>Subscribed |
|-----------------------------------|--------|-------------------|-----------------|---------------------------------------------|-----------------|----------------------------------------------------------------|------------------|----------------------------------------------------------|
| <u>Resolution<br/>No. Adopted</u> |        | <u>Subscribed</u> |                 | <u>Shares Allocated a/<br/>Unsubscribed</u> |                 | <u>US\$</u>                                                    | <u>Loc. Cur.</u> | <u>\$ (mil)</u>                                          |
|                                   |        | <u>No.</u>        | <u>\$ (mil)</u> | <u>No.</u>                                  | <u>\$ (mil)</u> |                                                                |                  |                                                          |
| 346                               | 1/4/80 | <u>0</u>          | <u>0</u>        | <u>1077</u>                                 | <u>0.97</u>     | <u>0.79</u>                                                    | <u>0.00</u>      | <u>8.77</u>                                              |
| 347                               | 1/4/80 | <u>0</u>          | <u>0</u>        | <u>250</u>                                  | <u>30.16</u>    | <u>0.00</u>                                                    | <u>0.00</u>      | <u>0.00</u>                                              |
| Total                             |        | 0                 | 0               | 1327                                        | 31.13           | 0.79                                                           | 0.00             | 8.77                                                     |

<sup>a/</sup> 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 occurred 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

|                                             | <u>FY80</u> | <u>FY81</u> | <u>FY82</u> | <u>FY83</u> | <u>FY84</u> |
|---------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Undisbursed balance<br>(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

|                                          | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> | <u>8+</u> |
|------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Zambia                                   | 3        | 8        | 25       | 40       | 56       | 71       | 81       | 88       | 100       |
| Eastern and Southern Africa <sup>a</sup> | 3        | 13       | 29       | 46       | 61       | 74       | 84       | 91       | 100       |

<sup>a</sup> 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

| <u>GOALS</u>                                                                                                                   | <u>INDICATORS OF PROGRESS</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. <u>Establish a policy environment conducive to a restoration of growth and diversification of the economy.</u>              | a) Compliance with agreed policy reforms and action programs contained in Export Rehabilitation and Diversification and Agricultural Rehabilitation projects.<br>b) Agreement on policy reforms for Industrial Reorientation and PHN projects.<br>c) Identification of policy reforms and action program for energy sector, Agricultural Rehabilitation II and Industrial Reorientation II projects.                                                                                                                                                                                                                                          |
| B. <u>Improve development administration and the capacity for policy formulation.</u>                                          | a) Agreement on content of Second Technical Assistance project and successful implementation of same.<br>b) Production of a forward looking Annual Plan by June 30 of each year, along lines recommended by Bank.<br>c) Carrying out agreed program of studies by Planning Unit in Ministry of Agriculture and Water Development.<br>d) Successful functioning of newly established National Energy Council.<br>e) Establishment of capacity for economic analysis of projects in ZIMCO.<br>f) Rationalization of institutions responsible for transport sector planning and policies.<br>g) Complete evaluation of Education Reform Program. |
| C. <u>Mobilize external resources and increase the rate of disbursements.</u>                                                  | a) Establishment of a project monitoring system to monitor aid flows and project implementation.<br>b) Periodic meetings of the Joint Monitoring Committee (aid coordination at the local level).<br>c) Preparation of a public investment program and meeting of Consultative Group in early 1986.<br>d) Disbursement of Bank/IDA sector loans on schedule (see 1. above).<br>e) Inclusion of sufficient counterpart funds for Bank projects in annual Government budgets.<br>f) Mobilize co-financing for World Bank projects in ratio of 2:1.                                                                                              |
| D. <u>Support the Government's efforts to:</u>                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 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<br>(US\$, Millions; period totals) |                   |              |                                               |
|------------------------------------------------------------------------|-------------------|--------------|-----------------------------------------------|
| (calendar years)                                                       | Actual<br>1980-84 | 1985<br>Est. | Proposed Program<br>IBRD/IDA/SFA<br>1986 - 90 |
| <u>IBRD</u>                                                            |                   |              |                                               |
| Net Capital Flows                                                      | 2                 | 34           | -58                                           |
| Net Transfers <sup>a</sup>                                             | -131              | 8            | -201                                          |
| <u>IBRD/IDA/SFA</u>                                                    |                   |              |                                               |
| Net Capital Flows                                                      | 38                | 80           | 185                                           |
| Net Transfers <sup>a</sup>                                             | -97               | 54           | 34                                            |

<sup>a</sup> 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.

|                                                      | <u>IBRD Exposure</u><br>(percent) |             |             |             |             |             |             |             |
|------------------------------------------------------|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                      | <u>1984</u>                       | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1995</u> |
| <u>IBRD Share of:</u>                                |                                   |             |             |             |             |             |             |             |
| Gross Disbursements                                  | 5                                 | 17          | 12          | 2           | 1           | 6           | 5           | 6           |
| Debt Outstanding and Disbursed                       | 12                                | 11          | 11          | 9           | 8           | 7           | 7           | 5           |
| Debt Service <sup>a</sup>                            | 11                                | 11          | 13          | 14          | 16          | 17          | 17          | 14          |
| (After Rescheduling) <sup>b</sup>                    | (41)                              | (32)        | (29)        | (24)        | (22)        | (17)        | (14)        | (13)        |
| <u>IBRD + IDA + SFA Share of Gross Disbursements</u> |                                   |             |             |             |             |             |             |             |
| MLT Loans                                            | 11                                | 31          | 28          | 21          | 15          | 17          | 13          | 15          |
| MLT Loans plus Grants                                | 8                                 | 24          | 22          | 16          | 11          | 13          | 9           | 11          |

<sup>a</sup> Excluding debt service to IMF and on short-term.

<sup>b</sup> 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 Rehabilitation 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:

| <u>Proposed FY86-90 Lending by Program Goal</u> |       |        |
|-------------------------------------------------|-------|--------|
| <u>Rehabilitation</u>                           | \$ 85 | (27%)  |
| Fertilizer Rehabilitation                       | 10    |        |
| Refinery Conversion                             | 15    |        |
| Energy Sector                                   | 25    |        |
| Highways IV                                     | 20    |        |
| Railways V                                      | 15    |        |
| <u>Diversification</u>                          | 40    | (13%)  |
| Coffee II                                       | 10    |        |
| Agricultural Credit                             | 10    |        |
| Agriculture (Undefined)                         | 20    |        |
| <u>Capacity Utilization</u>                     | 105   | (33%)  |
| Industrial Reorientation I                      | 50    |        |
| Industrial Reorientation II                     | 30    |        |
| Agricultural Rehabilitation II                  | 25    |        |
| <u>Long-Term Development</u>                    | 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 separate 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 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).



Population: 6.255 million (mid-1983)  
 Per Capita: US\$580 (1983)  
 Area: 752,614 square kilometers  
 Literacy Rate: 44.0 percent (1980)

Attachment 1a

**ZAMBIA - ACTUAL AND PROPOSED LENDING PROGRAM THROUGH FY90**  
 (US\$ Million)

|                                                   |           | Thru<br>FY79 |       |      |      |      |       | Cur-<br>rent<br>FY85 | Programs |       |       |       |       | Totals  |         |         | Reserve<br>Projects |
|---------------------------------------------------|-----------|--------------|-------|------|------|------|-------|----------------------|----------|-------|-------|-------|-------|---------|---------|---------|---------------------|
|                                                   |           |              | FY80  | FY81 | FY82 | FY83 | FY84  |                      | FY86     | FY87  | FY88  | FY89  | FY90  | FY80-84 | FY85-89 | FY90-90 |                     |
| 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                         | 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        |       |      |      |      |       |                      |          |       |       |       |       |         |         |         |                     |
| Retro. 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  |         |         |         |                     |
| Telecom I                                         | IBRD      | 32.0         |       |      |      |      |       |                      |          |       |       |       |       |         |         |         |                     |
| DFC I                                             | IBRD      | 15.0         |       |      |      |      |       |                      |          |       |       |       |       |         |         |         |                     |
| DFC 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          |       |      |      |      |       |                      |          | 7.0   |       |       |       |         |         |         |                     |
| Tech. Assist. II                                  | IDA       |              |       |      |      |      |       |                      |          |       |       |       | 10.0* |         |         |         |                     |
| Tech. Assist. III                                 | IDA       |              |       |      |      |      |       |                      |          |       |       |       |       |         |         |         |                     |
| 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       | -            | -     | -    | -    | -    | -     | -                    | 30.0     | 30.0  | -     | -     | -     | -       | 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<br>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<br>(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

EAISA  
 March 20, 1985



## ZAMBIA - SUMMARY OF PROPOSED BANK GROUP AND OTHER OFFICIAL LENDING

Attachment 1b

|                                                             | Thru<br>FY79 | FY80 | FY81 | FY82 | FY83 | FY84 | Cur-<br>rent<br>FY85 | FY86 | FY87 | FY88 | FY89 | FY90 | FY80-84 | FY85-89 | FY86-90 |
|-------------------------------------------------------------|--------------|------|------|------|------|------|----------------------|------|------|------|------|------|---------|---------|---------|
| <b>Sectoral Distribution of Bank Group Commitments (%)</b>  |              |      |      |      |      |      |                      |      |      |      |      |      |         |         |         |
| 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     |
| <b>Actual</b>                                               |              |      |      |      |      |      |                      |      |      |      |      |      |         |         |         |
| CALENDAR YEAR                                               | 1978         | 1979 | 1980 | 1981 | 1982 | 1983 | 1984                 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990    | 1991    | 1995    |
| <b>Bank Group Disbursements<sup>a</sup> (US\$ Millions)</b> |              |      |      |      |      |      |                      |      |      |      |      |      |         |         |         |
| IBRD o/s incl. undisbursed                                  | 436          | 423  | 427  | 435  | 429  | 407  | 462                  | 439  | 414  | 398  | 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 <sup>b</sup>                       | 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 <sup>b</sup>               | 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       |
| <b>IBRD Exposure (Percent)</b>                              |              |      |      |      |      |      |                      |      |      |      |      |      |         |         |         |
| 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 <sup>d</sup>                             | 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 <sup>d</sup>           | 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     |
| <b>Commitments from Official Sources<sup>e</sup></b>        |              |      |      |      |      |      |                      |      |      |      |      |      |         |         |         |
| 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 RSM 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

FAISA  
March 20, 1985



TABLE 3A

PAGE 1

| ZAMBIA<br>ZAMBIA                                               | - SOCIAL INDICATORS DATA SHEET          |        |                              |                                      |                                       |
|----------------------------------------------------------------|-----------------------------------------|--------|------------------------------|--------------------------------------|---------------------------------------|
|                                                                | REFERENCE GROUPS (WEIGHTED AVERAGES) /a |        |                              |                                      |                                       |
|                                                                | 1960/b                                  | 1970/b | MOST<br>RECENT<br>ESTIMATE/b | MIDDLE INCOME<br>AFRICA S. OF SAHARA | MIDDLE INCOME<br>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<br>(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. AGRIC. 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)                                      | ..                                      | ..     | ..                           | ..                                   | 22.2                                  |
| USERS (% OF MARRIED WOMEN)                                     | ..                                      | ..     | ..                           | ..                                   | ..                                    |
| FOOD AND NUTRITION                                             |                                         |        |                              |                                      |                                       |
| INDEX OF FOOD PROD. PER CAPITA<br>(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 (ZPOP)                                    |                                         |        |                              |                                      |                                       |
| 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<br>(% 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                                                                   |  | REFERENCE GROUPS (WEIGHTED AVERAGES) /a |         |                        |       |       |
|                                                                          |  | (MOST RECENT ESTIMATE) /b               |         |                        |       |       |
|                                                                          |  | MIDDLE INCOME                           |         |                        |       |       |
|                                                                          |  | AFRICA S. OF SAHARA                     |         |                        |       |       |
|                                                                          |  | N. AFRICA & MID EAST                    |         |                        |       |       |
|                                                                          |  | 1960/b                                  | 1970/b  | MOST RECENT ESTIMATE/b |       |       |
| <b>EDUCATION</b>                                                         |  |                                         |         |                        |       |       |
| 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  |
| <b>CONSUMPTION</b>                                                       |  |                                         |         |                        |       |       |
| 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   |
| <b>LABOR FORCE</b>                                                       |  |                                         |         |                        |       |       |
| 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   |
| <b>INCOME DISTRIBUTION</b>                                               |  |                                         |         |                        |       |       |
| 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                | ..    | ..    |
| <b>POVERTY TARGET GROUPS</b>                                             |  |                                         |         |                        |       |       |
| 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.

JUNE, 1984



## 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** - Extent of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1981 data.

**GDP PER CAPITA (US\$)** - GDP 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 fertility and mortality 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 stocks. 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, on 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 to 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 and 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 LD'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".



Population: 6.225 (mid-1983)  
GNP Per Capita: US\$580 (1983)

Attachment 3a

## ZAMBIA - Economic Indicators

| Indicator                                                 | Amount<br>(million US\$ at<br>current prices) | Annual Growth Rates (%) at Constant 1977 Prices a/ |                   |         |         |         |           |                                                             |         |         |         |         |
|-----------------------------------------------------------|-----------------------------------------------|----------------------------------------------------|-------------------|---------|---------|---------|-----------|-------------------------------------------------------------|---------|---------|---------|---------|
|                                                           |                                               | Actual                                             |                   |         |         |         | Projected |                                                             |         |         |         |         |
|                                                           |                                               | 1979                                               | 1980              | 1981    | 1982    | 1983    | 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<br>(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/<br>(percent)     |                                               |                                                    |                   |         |         |         |           |                                                             |         |         |         |         |
|                                                           |                                               | 1970                                               | 1975              | 1980    | 1985    | 1990    | 1995      | Average Annual Increase (%)<br>(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   |           | 3.0                                                         | -1.1    | -0.3    | 2.4     | 2.3     |
| Agriculture                                               | 10.7                                          | 13.0                                               | 14.2              | 17.2    | 18.5    | 20.1    |           | 2.7                                                         | 0.5     | 3.1     | 4.0     | 4.0     |
| Mining                                                    | 36.3                                          | 13.6                                               | 16.4              | 11.0    | 10.8    | 9.6     |           | 0.0                                                         | -3.0    | 0.1     | 1.6     | 0.0     |
| Other Industry                                            | 18.5                                          | 28.1                                               | 24.9              | 25.3    | 27.3    | 29.6    |           | 8.3                                                         | -0.2    | -0.9    | 4.0     | 4.0     |
| Services                                                  | 34.5                                          | 45.3                                               | 44.5              | 46.5    | 43.3    | 40.6    |           | 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 <sup>c/</sup>                                  | 0.6 <sup>c/</sup> | -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     |           |                                                             |         |         |         |         |

<sup>a/</sup> Projected years at constant 1982 prices.

<sup>b/</sup> Preliminary actuals based on revised national accounts and balance of payments data, Central Statistics Office, January 1985.

<sup>c/</sup> 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.



Population: 6.225 (mid 1983)  
GNP Per Capita: US\$580 (1983)

Attachment 3b

## ZAMBIA - External Trade

| Indicator                          | Amount<br>(million US\$ at<br>current prices) | Annual Growth Rates (%) at Constant Prices |      |       |       |       |                     |           |       |       |        |       |      |
|------------------------------------|-----------------------------------------------|--------------------------------------------|------|-------|-------|-------|---------------------|-----------|-------|-------|--------|-------|------|
|                                    |                                               | Actual                                     |      |       |       |       |                     | Projected |       |       |        |       |      |
|                                    |                                               | 1979                                       | 1980 | 1981  | 1982  | 1983  | 1984                | 1985      | 1986  | 1987  | 1988   | 1989  | 1990 |
| <b>EXTERNAL TRADE</b>              |                                               |                                            |      |       |       |       |                     |           |       |       |        |       |      |
| Exports of Goods and NFS           | 1067                                          | -10.7                                      | -3.1 | -12.8 | 15.7  | -9.7  | -8.0 <sup>a/</sup>  | 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 <sup>a/</sup> | 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  |
| <b>PRICES</b>                      |                                               |                                            |      |       |       |       |                     |           |       |       |        |       |      |
| Export price index <sup>a/</sup>   | -                                             | 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 <sup>b/</sup>   | -                                             | 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 <sup>c/</sup> | -                                             | 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 (%)<br>(at current prices) |       |       |       |       |       | Average Annual Increase (%)<br>(at Constant Prices) |         |          |         |         |
|-------------------------|-------------------------------------------------------------|-------|-------|-------|-------|-------|-----------------------------------------------------|---------|----------|---------|---------|
|                         | 1970                                                        | 1975  | 1980  | 1985  | 1990  | 1995  | 1970-75                                             | 1975-80 | 1980-85  | 1985-90 | 1990-95 |
| Exports                 | 100.0                                                       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 0.5 d/                                              | -3.5 d/ | -2.5 d/  | 0.9     | 2.0     |
| Primary                 | ..                                                          | 99.0  | 97.0  | 97.1  | 94.8  | 91.5  | ..                                                  | ..      | ..       | 0.3     | 1.0     |
| Manufactures            | ..                                                          | 1.0   | 3.0   | 2.9   | 5.2   | 8.5   | ..                                                  | ..      | ..       | 14.8    | 15.0    |
| Mineral                 | 97.6                                                        | 96.9  | 96.5  | 92.3  | 89.4  | 83.3  | ..                                                  | ..      | ..       | 0.0     | 0.0     |
| Non-mineral             | 2.4                                                         | 3.1   | 3.5   | 7.7   | 10.6  | 16.7  | ..                                                  | ..      | ..       | 11.1    | 15.1    |
| Imports                 | 100.0                                                       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | -1.2 d/                                             | -8.9 d/ | -13.8 d/ | 2.2     | 2.3     |
| Food                    | 10.4                                                        | 7.5   | 5.3   | 3.6   | 1.3   | 1.2   | ..                                                  | ..      | ..       | -18.0   | 1.0     |
| Petroleum               | 4.3                                                         | 13.1  | 17.6  | 21.9  | 16.9  | 16.3  | ..                                                  | ..      | ..       | -3.2    | 1.6     |
| Machinery and equipment | 37.9                                                        | 34.7  | 34.9  | 29.2  | 34.9  | 36.5  | ..                                                  | ..      | ..       | 5.9     | 3.2     |
| Others                  | 47.7                                                        | 44.7  | 42.2  | 45.3  | 46.9  | 46.0  | ..                                                  | ..      | ..       | 3.0     | 1.9     |

|                       | Current Prices (US\$Millions) |      |      |      | Constant 1982 Prices (US\$Millions) |      |      |      |
|-----------------------|-------------------------------|------|------|------|-------------------------------------|------|------|------|
|                       | 1982                          | 1985 | 1990 | 1995 | 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 |

<sup>a/</sup> For 1979-82, the copper price index was used.

<sup>b/</sup> For 1979-82, the MUV Index was used.

<sup>c/</sup> Derived from copper price and MUV indices.

<sup>d/</sup> Goods and Non-factor services. Constant price (volume) data are not available for merchandise trade.

<sup>e/</sup> Preliminary actuals.

.. Not Available.



| Indicator                         | Actual |      |      |      |      | Projected          |      |      |      |      |      |      |      |  |  |
|-----------------------------------|--------|------|------|------|------|--------------------|------|------|------|------|------|------|------|--|--|
|                                   | 1979   | 1980 | 1981 | 1982 | 1983 | 1984 <sup>a/</sup> | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1995 |  |  |
| <b>BALANCE OF PAYMENTS</b>        |        |      |      |      |      |                    |      |      |      |      |      |      |      |  |  |
| 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 <sup>a/</sup>          | 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) <sup>a/</sup>     | 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 <sup>b/</sup>       | -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  |  |  |
| <b>EXTERNAL CAPITAL AND DEBT</b>  |        |      |      |      |      |                    |      |      |      |      |      |      |      |  |  |
| Gross disbursements (MLT loans)   | 535    | 631  | 407  | 380  | 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 |  |  |
|                                   |        |      |      |      |      |                    |      |      |      |      |      |      |      |  |  |

## Interest due in first year (1984)

5.2 " " (3.1% " " )

MLT = Medium and long-term loans.

EAISA  
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: EAISA - 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 occurred this year and of the Bank's revised assessment of external resource requirements. (Audience: Consultative Group; Staffing: EALSA - 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; EALSA - 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; EALSA - 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; EALSA - 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; EALSA - 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: EALSA - 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: EALSA - 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: EAlSA - 12; EPDED - 5).

#### 13. Efficiency Prices

Efficiency prices for Zambia were last estimated in 1980, based on 1979 data. Since then, major devaluations have occurred 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: EAlSA - 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: EAlSA - 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; EAlSA - 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: EAlSA - 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; EAISA - 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; EAISA - 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, EAISA - 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 transferring 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.







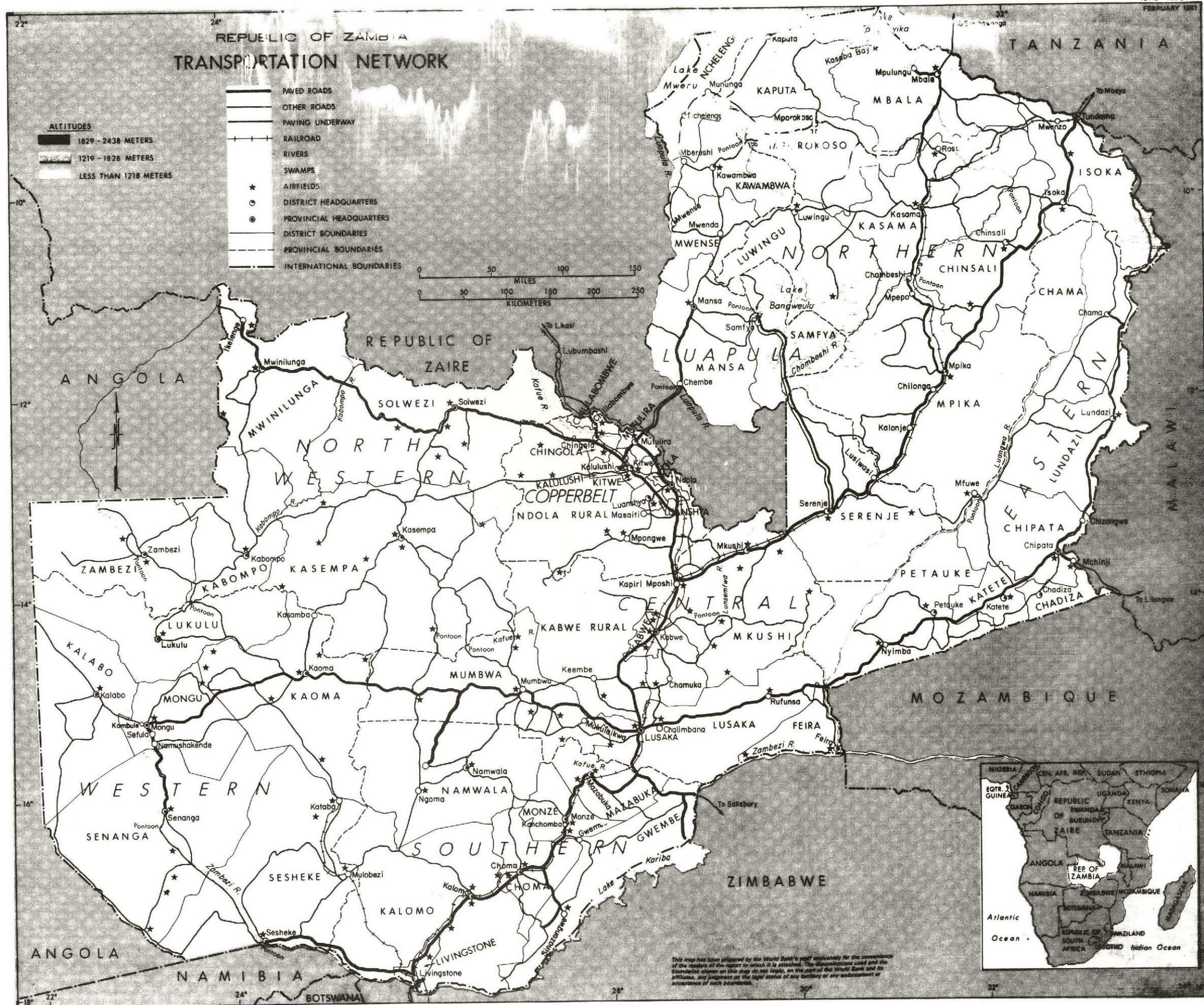
ZAM  
2 OF 2

| 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) MAWD 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







1983 ANNUAL MEETING

BRIEFING PAPER--ZAMBIA

KEY POINTS

Summary

1. Prime Minister Mundia will probably wish to discuss the country's present economic crisis and seek the Bank's assistance through fast-disbursing loans and credits and through reconvening the Consultative Group for Zambia. We are prepared to support this with appropriate lending in agriculture and industry and a C.G. meeting early next year, but, due to the country's precarious creditworthiness situation, only if the recent progress on policy reform is continued. The Prime Minister is Chairman of the African Caucus at this year's meetings.

*Need  
Policy  
Reform*

Recent Economic Developments

2. Zambia has been plagued with periodic economic problems during the past several decades because of its heavy dependence on mining (copper) and on imports of consumption and industrial goods. The most recent of these problems was initiated in the mid-1970s by a sharp drop in copper prices and has dragged on since, as these prices weakened further. Economic policies, until recently, were exacerbating the problem by supporting unsustainable levels of consumption and imports, which in large part were financed by external borrowing and accumulation of arrears in external payments. By the end of 1982, the country's foreign exchange and financial situations had become acute and its access to external credits had dried up, causing the authorities unilaterally to declare a moratorium on debt servicing.

3. The seriousness of the present crisis has caused the authorities to take a hard look at the causes of these difficulties and to focus on the limited options remaining open to them. They have put together, with IMF and Bank support, a package of very tough policy measures designed to restore economic stability and bring about structural reform. In addition to an initial 20 percent currency devaluation (vis-a-vis the SDR) and adoption of periodic exchange rate reviews, the package includes removal of price controls, increases in agricultural producer prices, elimination of subsidies, ceilings on wage increases, and higher interest rates. In



addition, cost cutting programs have resulted in substantial savings in the copper industry. On the institutional side, reforms are underway in planning and budgeting and in agriculture. Most importantly, a Special Economic Unit -- made up of senior government policymakers reporting directly to a subcommittee of Cabinet, chaired by the President -- has been established with the view to facilitating economic decisions. Thus far this Unit has been very effective.

4. These policy reforms provided the framework for an IMF standby and a highly successful Paris Club debt rescheduling earlier this year. In support of these efforts, the Zambian authorities have requested that the Bank provide non-project assistance and are looking to the Bank for increased technical assistance to help implement their policy reforms. In addition, they have asked the Bank to organize a Consultative Group (CG) meeting.

5. Our ability to respond to the Government's request is circumscribed by the limited amount of IDA resources available and by the country's precarious creditworthiness position. We are further constrained as regards IDA by Zambia's relatively high per capita income. On the Bank side, any further lending would have to be conditioned on strict observance by Zambia of its responsibilities as regards servicing of Bank loans and on tough, consistent pursuit of policies and programs to restructure and diversify the economy. On this basis we are considering a US\$70 million loan to rehabilitate the mining sector.

6. We have agreed to convene a CG meeting in March/April 1984, which is the earliest possible date since the Government has only just begun to prepare its development strategy and investment program. Success of the CG will depend upon the presentation of a sound medium-term recovery program, including the required policy reforms and a sensible public investment program.

September 22, 1983



BIOGRAPHICAL INFORMATION

DELEGATION OF ZAMBIA\*

Right Honorable Nalumino Mundia

Prime Minister and Minister of  
Finance  
(Governor of the Bank)

Mr. Fred Kazunga

Permanent Secretary  
Ministry of Finance

Mr. Bitwell Kuwani

Governor, Bank of Zambia

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The Right Honorable Nalumino Mundia

Nalumino Mundia was born on November 21, 1927 in the Kalabo District. He studied at the University of Delhi, where he represented the Central African Students in India. He also attended a university in Atlanta, Georgia in 1957. He is a founding member of the United National Independence Party (UNIP), which is President Kaunda's party, and has held the posts of Minister of Local Government; Minister of Labor and Social Development; Minister of Commerce, Industry and Tourism; and Chairman of the Youth and Sports Subcommittee of the Central Committee of UNIP. He is a Member of Parliament and became Prime Minister in 1981. On January 13, 1983, he was given the additional responsibility of Minister of Finance. He is married and has five children.

Mr. Fred Kazunga

A professional accountant, he is probably the longest-serving senior official in the Ministry of Finance (except for a brief tour of duty with the Zambia National Commercial Bank). He served as Senior Under Secretary before his appointment to the present position.

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\*Anticipated composition of delegation.



Mr. Bitwell Kuwani

Mr. Kuwani is serving his second term at the Bank of Zambia, having first served as Governor from 1972-76, before which he had served as an Executive Director of Barclays Bank (Zambia) and Managing Director of Zambia State Insurance Corporation.



ZAMBIA

Lending Program for FY83-86

|                                            | FY83 |     | FY84 |      | FY85  |       | FY86 |     | TOTAL       |             |
|--------------------------------------------|------|-----|------|------|-------|-------|------|-----|-------------|-------------|
|                                            | Bank | IDA | Bank | IDA  | Bank  | IDA   | Bank | IDA | Bank        | IDA         |
| <u>Agriculture &amp; Rural Development</u> |      |     |      |      |       |       |      |     | <u>30.0</u> | <u>60.4</u> |
| Agricultural Services                      |      |     |      |      | 15.0  |       |      |     |             | 15.0        |
| Agricultural Import                        |      |     |      |      | 30.0  |       |      |     | 30.0        |             |
| Rural Water                                | 16.0 |     |      |      |       |       |      |     |             | 16.0        |
| Forestry III                               |      |     | 22.4 |      |       |       |      |     |             | 22.4        |
| Fisheries                                  |      |     | 7.0  |      |       |       |      |     |             | 7.0         |
| <u>Industrial Development</u>              |      |     |      |      |       |       |      |     | <u>90.0</u> | <u>14.3</u> |
| Coal Engineering                           | 4.3  |     |      |      |       |       |      |     |             | 4.3         |
| DFC III                                    |      |     |      |      | 20.0* | 10.0* |      |     | 20.0        | 10.0        |
| Mining Rehabilitation                      |      |     | 70.0 |      |       |       |      |     | 70.0        |             |
| <u>Technical Assistance</u>                |      |     |      |      |       |       |      |     |             | <u>7.0</u>  |
| Technical Assistance II                    |      |     |      |      | 7.0*  |       |      |     |             | 7.0         |
| <u>Transportation</u>                      |      |     |      |      |       |       |      |     |             | <u>20.0</u> |
| Railway IV                                 |      |     |      |      |       |       | 20.0 |     |             |             |
|                                            | 20.3 |     | 70.0 | 29.4 | 50.0  | 32.0  | 20.0 |     | 120.0       | 101.7       |

\*Standby



# OFFICE MEMORANDUM

DATE: April 4, 1983

1868 TO: Files

FROM: W. A. Wapenhans

EXTENSION: 74285

SUBJECT: ZAMBIA - Meeting Between Dr. Kenneth Kaunda, President of Zambia,  
and Mr. A. W. Clausen, President, World Bank

1. Mr. Clausen met with President Kaunda on March 31, 1983 at 4.30 p.m. at the Four Seasons Hotel. Other principal persons present included, for Zambia, Mr. Kamanga, Member, Central Committee; Mr. Goma, Minister, Foreign Affairs; Mr. Kuwani, Governor, Central Bank; Mr. Mulaisho, Special Assistant to the President for Economic Affairs; and, for the World Bank, Mr. W. A. Wapenhans, Regional Vice President, Eastern Africa. The meeting lasted approximately 45 minutes.

2. After welcoming Mr. Clausen, President Kaunda expressed his appreciation for the financial assistance and the economic advice his Government had received from the World Bank. He assured Mr. Clausen that the recently introduced austerity measures were adopted not because they needed to be part of an IMF standby agreement, but because these decisions were in the best interest of the country. He stressed that this had been especially difficult to do in an election year. He felt that more needed to be done, especially with regard to better organization of economic enterprises and in fostering a commitment to hard work.

3. Reviewing the unfavorable global environment, Mr. Clausen stressed that adjustments in the face of scarce resources were needed in practically all economies. A country such as Zambia, being dependent on a single commodity for almost all its exports, was obviously even more in need of adjustment and diversification. This was especially important since Zambia needed to restore and sustain its external creditworthiness. President Kaunda, in agreeing with Mr. Clausen, emphasized the importance of agriculture and a well functioned transport system for diversification. Mining presented very special problems but domestic industries could also be made profitable and externally competitive. While resources were plentiful in Zambia, they remained to be developed. Irrigation was a case in point; the current lack of rainfall might once again cause Zambia to import foodgrains.

4. There followed a brief review of Government-Bank cooperation in improving debt management, the preparation of a medium-term recovery program, and the possibility of providing industrial development finance in addition to the mining rehabilitation support to assure higher use of existing capacity. President Kaunda confirmed that his Government would be seeking debt rescheduling from the Club of Paris, as well as commercial banks. He described as painfully embarrassing Zambia's present inability to meet its external obligations, especially



remittances payable to pensioners, etc. He also expressed his wish for the Bank to convene the Consultative Group to mobilize external support for Zambia's recovery program.

5. Mr. Clausen underlined the importance of prompt debt service payment to the Bank as a critical component of restoring Zambia's creditworthiness. Unless Zambia would keep itself current with the Bank, it would be difficult for us to help Zambia to the extent we otherwise could. President Kaunda stressed that he accepted Mr. Clausen's point both as "a matter of principal and of practicality". The Governor of the Central Bank added that some \$6 million in debt would be paid on the Tuesday following Easter. Because of the holidays, the Banks in Europe would not act on payment instructions until April 5, but movement should occur on the Zambian accounts with the Bank on that date.

6. Mr. Wapenhans reviewed the status of project implementation and underlined the need for prompt use of existing commitments. Since 1978, nearly \$170 million had been committed, but less than \$30 million had, in fact, been withdrawn. While disbursement was not necessarily a good measurement of performance, it was clear that the absence of counterpart funds had greatly retarded the rate of use of committed funds. He invited the Zambian Government to carefully review existing arrangements and commitments and, if warranted, consider modifications to projects and procedures to ensure effective and efficient use of the resources already committed. Mr. Clausen advised President Kaunda that the Board had recently approved a special action program which allowed for greater flexibility also in the case of commitments already made.

cc: Messrs. Stern  
Kraske  
Reese  
Wyss

WAWapenhans:rsvh



# OFFICE MEMORANDUM

3/30 and  
3/31

DATE: March 28, 1983

TO: Mr. A.W. Clausen

THROUGH: Mr. Ernest Stern

FROM: Willi A. Wapenhans *log.*

EXTENSION:

SUBJECT: Briefing Material for Your Meeting with President Kenneth Kaunda

Attached is a briefing note and some biographical information for your meeting with Dr. Kenneth Kaunda, President of Zambia, at 4:30 p.m. on Thursday, March 31st. I shall accompany you to the meeting at the Four Seasons Hotel on Pennsylvania Avenue.

AMorris:efs



3/31  
430

March 30, 1983

Mr. A. W. Clausen

Enclosed is a briefing memorandum for your meeting with President Kaunda of Zambia on Thursday, March 31.

I am very sorry to miss meeting President Kaunda as I am on my way overseas. In view of the close relationship I have established with him, I would appreciate it if you could give him my special regards and regrets.



Hans A. Wuttke

/vtf



RECEIVED

1983 MAR 30 PM 2:42

OFFICE OF THE PRESIDENT



# Kaunda lugs Zambia's debt problem to US

But 'KK' talks in Washington to focus on Namibia, Angola

By David Winder  
Staff correspondent of  
The Christian Science Monitor

President Kenneth Kaunda, Zambia's first and only president, comes to Washington this week with all the prestige of one of Africa's most notable elder statesmen, but burdened by the heavy baggage of problems in his economically troubled state.

The son of a Christian minister in a country that still honors Dr. David Livingstone, the explorer-missionary, Dr. Kaunda holds to a vision of a moderate, nonracial state. He calls his political philosophy "humanistic socialism." Others in Lusaka call it the "gospel according to Kaunda."

After nearly 20 years in office, Kaunda's landlocked country is in a parlous economic state with one of the worst debts in the third world.

But the view from Washington is that President Kaunda has not come with hat in hand. Rather his March 29-April 2 visit is seen as a recognition by Washington that for all his country's drawbacks, Kaunda remains one of the luminaries in the third world.

Talks between the Zambian President and Washington officials are expected to focus mainly on major foreign policy issues.

The United States is courting Zambia for support on a US-backed plan to get Cuban troops out of Angola and South African troops out of Namibia as a preliminary step to Namibian independence.

At the same time, Zambia's economic problems are a source of concern to both Washington policymakers and to the International Monetary Fund.

According to the World Bank, Zambia's external debt was some \$2.3 billion in 1981, a large figure for a country of 6 million people. Some 24 percent of its foreign exchange earnings goes toward servicing that debt.

Some diplomatic sources in Washington say Zambia's deteriorating economic situation is the result of mismanagement and the depressed world prices for copper, on which the prosperity of this African state had flourished soon after independence.

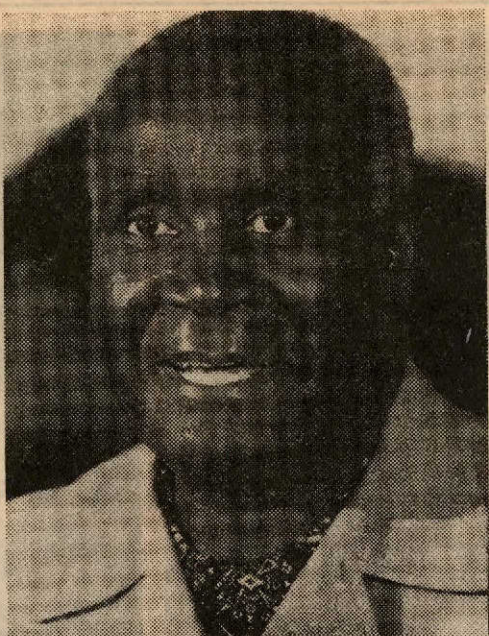
Although an adroit politician at home — he has survived 19 years in office, including a 1980 coup attempt — Kaunda has miscalculated on a number of key fronts, according to those who follow southern Africa closely.

Politically, they say, he has failed to reap any tangible benefits from his willingness to meet with South African leaders. His last meeting, in April last year, in a mobile trailer parked in thorn-tree studded veld in Botswana with South African Prime Minister Pieter W. Botha did nothing to change Pretoria's course on such matters as a Namibian solution or releasing political prisoners. At the same time, it brought cries of "sellout" from his peers.

One observer at the recent meeting in Mozambique of the Southern African Development Coordination Council, an alliance of nine black states committed to reducing economic dependence on South Africa, noted that Zambia adopted a low profile at the talks, presumably because of black African displeasure over Zambia's contacts with South Africa.

Kaunda's hopes of reducing economic dependence on South Africa, while maintaining a dialogue, have also not materialized.

It was against Western advice in the 1970s that Kaunda went ahead with the Chinese-built Tazara railway between the Zambian copper belt and the Tanzanian port of Dar es Salaam. The plan was to divert Zambian exports eastward to avoid reliance on the South African-controlled southern African rail network. But the line has been so hampered by maintenance problems that less than 40



Sven Simon

## Kaunda: third-world 'luminary'

percent of Zambia's traffic goes by this route.

And with the Benguela Railroad to Angola in the West constantly disrupted by guerrillas, Zambia has reverted to its earlier dependence on South African railways and ports to get out its overseas exports.

Zambians had hoped to benefit economically from an end to the war in 1980 in neighboring Zimbabwe (formerly white-ruled Rhodesia). The reopening of its southern route through Zimbabwe for the shipment of copper and cobalt exports through South African ports was regarded as the most important factor in reviving the economy.

In fact, Zambia is worse off today than at any time since independence. It has neglected most segments of the economy, particularly agriculture, and counted too heavily on copper and cobalt exports, which bring in 90 percent of its foreign exchange earnings.

The country's economic planners had thought copper and cobalt prices would remain high. But the copper market crashed in 1974-75, and is still in a depressed state. World cobalt prices have also fallen markedly.

But many economists blame much of Zambia's problems on its inefficient largely state-run economy.

Like its northern neighbor Zaire, Zambia has incurred the displeasure of the IMF in failing to meet past conditions on borrowing and tighter fiscal management.

But Washington officials say there now is a recognition among Zambia's leaders that it must get its economic house in order. For example, Zambia devalued its currency by 20 percent against the special drawing rights to which it was pegged at the beginning of the year. It has also raised interest rates, reduced some price controls, while increasing the prices of such basic commodities as cooking oil, rice, and soap by up to 20 percent.

This was done to land a new financial arrangement with the IMF. Negotiations are in the final stages and the package is expected to come to some \$230 million for one year.

**Monitor contributor Alexander MacLeod reports from London:**

President Kaunda enjoys as lustrous a reputation in Britain as in Africa — if the attention focused on the Zambian leader's visit to Britain last week is any measure.

Kaunda, known as "KK" in Zambia, steered Prime Minister Margaret Thatcher toward one of her early political successes — the 1979 independence talks that shaped Rhodesia's transition into Zimbabwe — and the prime minister went to great lengths last week to show her appreciation.

Mrs. Thatcher personally authorized nearly £10 million (\$14.6 million) in British aid for the ailing Zambian economy. The prime minister was also mindful that Kaunda was in the vanguard of heads of government condemning Argentina's invasion of the Falkland Islands last year.

She did not like Kaunda's advice last week that Britain move faster on talks with Argentina over the Falklands, but she listened. Kaunda also warned her that Western financial support for South Africa was dangerous.





Library of Congress photos

## it sounds

ial Revolution.

ton, artist of the west; Owen  
t seller "The Virginian"; and  
political cowboy, who in the  
myth.

it catalog, "found something  
West in general and the cow-

cowboy an entertainer and a  
Early silent films such as  
Painted Woman" portrayed  
ro; later, cowboys developed  
ry Cooper's "High Noon," or  
such as Roy Rogers.

, Madison Avenue is sure to  
y" exhibit shows a startling  
ing cowboy-salesmen. There  
ses and Buckaroo-brand ap-  
pitches for cigarettes, boots,  
leman-rancher cowboys turn



The cowboy was the good guy in 1904 drama 'The Virginian'

up in ads by clothing designers such as Ralph Lauren and  
Oleg Cassini.

In the end, Taylor says, there's only one thing conspicu-  
ously absent from a century's worth of cowboy books, mov-  
ies, and ads: cows.

"In the myth," he sighs, cowboys "seldom, if ever, work  
cattle."

The exhibit will be open in Washington through Oct. 2.  
Then the show goes on the road, making stops in San Antonio,  
Texas; Denver; Calgary in Alberta, Canada; and San Jose,  
Calif.

From page 1

## Jordan doubts US resolve

with them of the Israeli-occupied West Bank  
and Gaza Strip — will only be sealed once  
PLO chief Arafat and King Hussein meet. The  
meeting promises to be not only a "decisive"  
but also a "very blunt" confrontation.

Mr. Arafat had been scheduled to meet  
with the King March 28 but at the last moment  
changed his plans. No new date has been set  
for Mr. Arafat's visit. At time of writing offi-  
cials in Amman expected the PLO chief to ar-  
rive soon.

Some observers say King Hussein could be  
threatened if he enters into Middle East peace  
negotiations without the support of the PLO  
and the moderate Arab states.

A failure to revive the peace process, how-  
ever, could leave the Arabs with no diplo-  
matic alternative and may encourage Israel  
to solve the Palestinian issue by converting  
Jordan with military means into an East  
Bank Palestinian state, according to analysts  
here.

"Faced with the choice," says Tarek  
Masarweh, a prominent Jordanian newspa-  
per columnist, "it is more honorable to be oc-  
cupied by Israel than to be marked as a  
traitor."

Mr. Masarweh, like many of his Jordanian  
brothers, is reluctant to see King Hussein be-  
coming the Arabs' chief negotiator with  
Israel.

"The 1974 Rabat Arab summit resolution  
declaring the PLO — and not Jordan — the  
sole representative of the Palestinian people

came for me as a blessing from heaven. Why  
should we now take a risk? It would be ridicu-  
lous for us to have peace with Israel and be at  
war with the PLO and the Arabs," he said.

Faced with the potential demise of the  
Reagan proposals, which call for Palestinian  
self-rule in the Israeli-occupied territories "in  
association" with Jordan, many in Amman  
are searching for a way to blame the failure  
on Israel and the US.

Among the formulas being considered:

- The announcement of a joint Jordanian-Palestinian delegation at the end of Arafat-Hussein talks. This delegation would be ready to enter into peace negotiations once Israel withdraws from Lebanon and freezes its settlement activities.

- A statement by King Hussein that he has done his utmost but has been defeated by US unwillingness to guarantee pressure on Israel.

- A visit to Washington by the Jordanian monarch during which he declares his willingness to negotiate after all Israeli forces have left Lebanon and Israel has demonstrated its goodwill by stopping all settlement activities.

Sources close to the King opt for this last formula, arguing that it would clearly throw the ball back into the American court.

Yet both senior Jordanian and PLO officials warn that no one can guess what will be said once Mr. Arafat and King Hussein meet behind close doors.

Jordanian officials expect the King to take a hard line with Mr. Arafat, demanding a written statement from the PLO chief endorsing his entry into negotiations with Israel.



## OFFICE MEMORANDUM

3/30 and 3/31

DATE: March 29, 1983

TO: Mr. A.W. Clausen, President

FROM: C. Eugene Webb, Ombudsman *CEW*

EXTENSION: 75472

SUBJECT: Bernard A. Gagne: Only Zambian on Bank Staff

As you may recall, during our last conference we discussed the problem of placement within the Bank.

In view of the visit of President Kaunda, I believe I should mention to you a particularly difficult placement case involving the only Zambian citizen on the Bank staff, Mr. Bernard A. Gagne. His name may come up.

Mr. Gagne has been on the Bank staff for three years and efforts are currently being made to place him in a position appropriate for his unusual experience, which spans more than a quarter of a century on-the-spot in Africa.

Mr. Gagne was a senior officer and adviser in Zambia's education system ('72 - '79); lecturer and co-founder of the Institute of Education in Zambia ('67 - '70); principal of a teacher training college in Zambia ('60 - '67); and in the commercial sector in an education equipment supply company ('70 - '72). Mr. Gagne has also served as a teacher in Lesotho ('54 - '60).

Mr. Gagne is fluent in English, his native language, and in French.

In short, Bernard Gagne has very unusual linguistic and field experience. Of that everyone with whom I have discussed his case agrees. What we have not been able to do is to find an assignment which fits Gagne's unusual background.

One possibility is for him to be a member of a team to provide Gabon with technical assistance on a reimbursable basis.

The exigency of time has caused me to address this memorandum directly to you, but copies are being simultaneously sent to Messrs. Kaji and Paijmans, with whom I have also discussed the problem of finding a proper place for Mr. Gagne.

cc: Messrs. Kaji  
Paijmans  
Wapenhans

CEWebb:cc

1860



SECRET

CONFIDENTIAL

1983 MAR 29 AM 11:51

OFFICE OF THE ATTORNEY GENERAL

cc: Messrs. Katz

a broker place for Mr. Caine.

Katz and Caine, after whom I have also discussed the problem of finding a place for him, are both very intelligent and very capable.

The existence of the two cases led me to address this memorandum

person after receiving assistance on a temporary basis.

One possibility is for him to be a member of a team to provide

Caine, a financial background.

After we have not been able to do so to find an assignment which fits his experience. Of this experience after whom I have discussed the case with

in 1981, Richard Caine was a very intelligent individual and very

clever.

Mr. Caine is fluent in Russian, has a strong background, and is

well versed in the area of (1,24 - 1,25).

education background which includes (1,20 - 1,21). Mr. Caine has also worked in the area of (1,20 - 1,21) and in the commercial sector in the area of education in the area of (1,21 - 1,22). His background of a research background education system (1,22 - 1,23). Research and co-founder of the Institute

Mr. Caine was a member of the staff and worked in the area of

centrally on-the-job in the area.

for his financial experience, which shows more than a number of years of efforts are currently being made to place him in a position which fits

Mr. Caine has been on the bank staff for three years and

will come up.

only Russian spoken on the bank staff, Mr. Richard A. Caine, has been mentioned to you a background which fits the case and is a very

in the area of the area of President Kennedy, I believe I should

the problem of placement within the bank.

As you may recall, during our last conference we discussed

Richard A. Caine: Only Russian on bank staff

12513

C. Eugene Webb, Chairman

Mr. A.M. Stassen, President

March 28, 1983

OFFICE MEMORANDUM

THE MEMORANDUM CONTAINS INFORMATION OF A CONFIDENTIAL NATURE



## OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: March 30, 1983

FROM: Hans A. Wuttke

SUBJECT: ZAMBIA: Your Meeting with His Excellency, The President of Zambia,  
Dr. Kenneth D. Kaunda, on Thursday, March 31

1. IFC maintains a very good relationship with the Government and its portfolio is substantial involving 8 investments for a total exposure of US\$58.3 million equivalent (of which US\$28.5 million is disbursed), which is the highest in any country in Sub-Sahara Africa. Much of the above involvement has been in the mining sector (cobalt and copper) in which IFC has worked closely with the Government and the mining companies for over 7 years.

2. In spite of the country's difficult economic situation, IFC is developing a few business opportunities which are described in paragraphs 7-9.

3. The major part of IFC's commitment is with Zambia Consolidated Copper Mines, Limited (ZCCM). ZCCM is the most important industrial enterprise in Zambia, providing over 90% of the country's total foreign exchange earnings. IFC has made two investments in ZCCM for a total of US\$57 million. The first, a loan of US\$28 million, of which US\$8 million was sold to a participant, was approved in 1979, and increased the Company's cobalt production capacity from 4,000 tpa to 6,600 tpa. The second was a loan of DM 70 million (US\$29 million equivalent), approved in December, 1981, to help finance the Tailings Leach Stage 3 project (TL3), which is intended to increase ZCCM's finished copper production by about 35,000 tpa (6% of current production).

4. ZCCM has incurred substantial losses in the past two years, due mainly to depressed world copper prices. However, ZCCM's financial results have improved recently due to cost-cutting measures and the recent 20% devaluation of the kwacha. The Company and Government are anxious to proceed with the TL3 project, which remains a very attractive project and is important for ZCCM to maintain its production volume. IFC and other TL3 lenders have been discussing with the Company steps needed to improve ZCCM's financial condition and allow disbursements of TL3 loans to begin. IFC's attitude in this matter will be important to other TL3 lenders. We wish to assist ZCCM, but it is equally important that ZCCM improve its financial condition. Besides an improvement in profitability, it is also important that the subordination of Government's US\$170 million equivalent of loans to ZCCM be finalized to strengthen the Company's equity base. The results of the proposed Paris Club rescheduling should also be known. Our objectives in working with ZCCM are the same as those of IBRD, which is currently considering a mining rehabilitation loan to assist ZCCM.



#### Other Portfolio Matters

5. While most of the other companies in which IFC has invested have been operating profitably, their operations (as most other Zambian enterprises) have been constrained by Zambia's shortage of foreign exchange. IFC's three outstanding loans are currently in arrears, in amounts totalling US\$4.5 million (of which ZCCM accounts for US\$4.1 million), due to shortage of foreign exchange. We expect these loans to be brought current once the proposed IMF facility is available, and Government finalizes the Paris Club arrangements for rescheduling certain of its foreign debt, both of which are expected in April.

6. The ethanol project, which was approved by the Board in June, 1982, has been cancelled due to falling gasoline consumption and related problems at Zambia's refinery.

#### New Prospects

7. Zambia Hotel Properties Ltd. (ZHP). Negotiations are completed and we are preparing to present to the Board an IFC loan of US\$7.5 million to help finance a US\$30.1 million project which would add a 192-room extension to the existing 198-room Hotel Intercontinental Lusaka (IHL), and also rehabilitate the existing IHL and its sister hotel, the 88-room Musi-o-Tunya near Livingstone, overlooking the Victoria Falls. The project is particularly attractive in adding much needed first-class hotel rooms in Lusaka at an overall cost of only US\$71,000 per room, which is very reasonable by international standards.

8. To ensure the viability of ZHP and the project, Government has agreed to remove 5-star hotels from Government price control, and also to allow ZHP to retain 50% of its export earnings for its operational requirements.

#### Pulp and Paper Project

9. We are discussing with Government a proposed pulp and paper project. We consider the current proposal made to Government too large and too expensive given local market conditions, and at Government's request we are sending a mission to discuss a revised project concept.



STATEMENT OF IFC INVESTMENTS IN ZAMBIA  
(as of February 28, 1983, in \$ million)

| <u>Year</u> | <u>Company</u>                   | <u>Type of Business</u>     | <u>Original Commitment</u> |               |              | <u>Held by</u> | <u>Total</u>       |
|-------------|----------------------------------|-----------------------------|----------------------------|---------------|--------------|----------------|--------------------|
|             |                                  |                             | <u>Loan</u>                | <u>Equity</u> | <u>Total</u> | <u>IFC</u>     | <u>Undisbursed</u> |
| 1972        | Zambia Bata Shoe Co. Ltd.        | Shoe manufacturing          | 0.85                       | 0.23          | 1.08         | 0.23           | -                  |
| 1973        |                                  | and tannery                 | 1.20                       | -             | 1.20         | -              | -                  |
| 1975        | Century Packages Ltd.            | Packaging materials         | 0.88                       | 0.21          | 1.09         | 0.43)          | -                  |
|             |                                  |                             |                            |               |              | )              | -                  |
| 1976        | Development Bank of Zambia       | Development finance company | -                          | 0.54          | 0.54         | 0.54           | -                  |
| 1979        | Zambia Consolidated Copper Mines | Cobalt production           | 28.00                      | -             | 28.00        | 49.46)         | 29.45              |
| 1981        |                                  | Copper production           | 29.45                      | -             | 29.45        | )              |                    |
| 1980        | Kafue Textiles of Zambia Ltd.    | Textiles and fibers         | 7.60                       | -             | 7.60         | 7.60           | 0.29               |
|             |                                  |                             |                            |               |              |                |                    |
|             | <u>Total</u>                     |                             | <u>67.98</u>               | <u>.98</u>    | <u>68.96</u> | <u>58.26</u>   | <u>29.74</u>       |



## ZAMBIA

### Dr. Kenneth David Kaunda, President

President Kaunda was born on April 28, 1924 in Chinsali, Northern Province. He attended the Lubwa Mission School in Chinsali and the Munali Secondary School in Lusaka, and returned to Lubwa as a teacher. In 1949, he was elected Secretary of the African National Congress (then the only political party) and in 1953, its Secretary General, when he moved to Lusaka. In October 1958, he formed the Zambia African National Congress (ZANC) and was appointed its President. ZANC was declared illegal in 1959 and Kaunda was restricted to Kabompo in the North-Western Province. He was released the following year and took over leadership of the newly-formed United National Independence Party (UNIP). In October 1962, he was elected to the Legislative Council as a member for Luapala constituency and became Minister of Local Government and Social Welfare in a coalition government of UNIP and Mr. Nkumbula's African National Congress. When elections were held in January 1964, UNIP was returned with an overwhelming majority, and Kaunda became the first Prime Minister of Northern Rhodesia. Three months later, Kaunda led a delegation to the London Independence Conference to request independence for Zambia without another election, which the British Government approved. On August 24, 1964, the Legislative Assembly elected him as the first President-Designate of the Republic of Zambia, which came into being two months later. Kaunda married Betty Banda (daughter of a storekeeper) on August 24, 1946, and they have nine children.



BRIEFING NOTE FOR MEETING  
WITH PRESIDENT KAUNDA  
ON MARCH 31, 1983

Background

1. President Kaunda is here on a state visit for discussions with President Reagan and the U.S. Administration. His talks with the U.S. will most likely turn on the question of Namibia's independence, in which President Kaunda has tried to be helpful as an intermediary. He has consistently supported a moderate (non-violent) solution to this problem and insists that expulsion of the Cubans from Angola not be coupled with the Namibia issue. He may also wish to discuss recent developments in Zimbabwe, which were reportedly a major topic of his talks with Prime Minister Thatcher.

2. The President espouses a social/political/economic philosophy called "Zambian Humanism". This philosophy extols the value of the common man and directs that all social, political and economic actions be oriented toward the establishment of a "man-centered society that avoids the exploitation, alienation and other evils of capitalism". It tries to combine the qualities of traditional tribal life and the advantages of modern technology and is highly egalitarian, with strong religious undertones. President Kaunda has written extensively in an attempt to explain Zambian Humanism to the world. His philosophical and other thinking was strongly influenced by Gandhi.

3. You will meet President Kaunda at dinner the evening of March 30, at the home of Katherine Graham, Publisher of the Washington Post. On the following day, you will meet with him at 4:30 p.m. at the Four Seasons Hotel, 2800 Pennsylvania Avenue, where he will be staying. Mr. Wapenhans will accompany you to the meeting. We do not know who will attend the meeting on the Government's side, but it is likely that Mr. D.C. Mulaisho, Special Assistant to the President for Economic Affairs will be present. Other members of the delegation who might be present include Mr. Rubin Kamanga, Member of the Central Committee of the Party (number two person on the delegation); Mr. L. Goma, Minister of Foreign Affairs; Mr. W. Phiri, Special Assistant to the President for Political Affairs; and Mr. J.C.M. Pumabantu, Special Assistant to the President for Press Affairs.

The Economy

4. President Kaunda is greatly concerned about the critical economic and financial situation his country is facing and will no doubt want to know what the Bank is prepared to provide in the way of assistance. He is quite likely to discuss his country's need for additional aid with the U.S. administration and with the managing director of the IMF, whom he will see also during his visit here.

5. Zambia's economic problem is essentially structural: a lack of export diversification and an excessive dependence on imports, which renders the economy highly sensitive to the world price of copper. Exports



of copper have regularly generated over 90 percent of export proceeds and, in the past, a high percentage of budget revenues. Commercially exploitable copper resources are nearing depletion, with a remaining life of about twenty years at current production levels and a soaring production cost as the ore becomes less accessible. With low copper prices prevailing for the past few years, Zambia has suffered chronic foreign exchange shortages, and large budget deficits, resulting in declining capacity utilization and falling GDP. Current account deficits in the balance of payments averaged 10 percent of GDP in 1975-80 and reached 20 percent in 1981. The deficit in 1982 was probably of the same magnitude as that of 1981.

6. Economic policy, which in the past has been dominated by the interests of the mining and mining-dependent urban sectors, exacerbated the country's economic problems by favoring imports and penalizing exports and by failing to provide the incentives required for maintaining efficiency and raising output in the productive sectors. The competitiveness of Zambian goods has been eroded by a highly overvalued exchange rate; producer prices have been kept low to benefit the urban consumer, thereby discouraging agricultural production; and heavy subsidies have been provided on maize and on fertilizer to the detriment of the national budget.

7. When copper prices weakened in the mid-1970's, Zambia could no longer afford the large subsidies or the high level of imports, and policy adjustments were needed to restore equilibrium to the economy. However, rather than face the political consequences of making such adjustments, the authorities relied on external borrowing and on the accumulation of arrears on remittance, debt and import payments.

8. Copper prices continued to fall in 1982 and with these prices at their lowest since World War II, Zambia's financial situation had become critical. In addition, because of the inability of the parties to agree on an economic program for 1982, an extended fund facility from the IMF agreed in 1981 was cancelled after SDR 300 million of the total of SDR 800 million was drawn. By year-end, the country's external debt (at US\$4.2 billion, including US\$650 million in arrears and US\$650 million in IMF drawings) had reached a staggering 130 percent of GDP and 340 percent of exports, and debt service projections for 1983 were well above the 50 percent of exports experienced in 1982. Because of the worsening economic situation, external credit sources had dried up and the Government was left with little room to maneuver. M

9. The rapid build-up of debt in the past few years and the rather bleak prospects for recovery in world copper prices raise serious questions as to Zambia's creditworthiness. Even with optimistic assumptions about future capital inflows, the need to reduce import arrears and repay contractual debt, including IMF drawings, will leave little foreign exchange for imports and other needs over the medium-term. Without successful economic diversification, the longer-term outlook for Zambia is one of secular economic decline and deterioration in creditworthiness. It is only through an integrated program of policy actions and investments outside the mining sector that creditworthiness can be maintained. In the short and medium-term, debt rescheduling, access to the IMF standby and to



non-project lending by the donor community would assist in maintaining external liquidity. This could be successful, however, only if the Government adheres to tight fiscal and external payments discipline.

10. There are now strong indications that the Government is willing to address the difficult issues facing the economy. In January 1983, it took a number of tough decisions, including: (i) a 20 percent devaluation of the Kwacha vis-a-vis the SDR, with the appropriateness of the new rate to be reviewed in six months; (ii) the lifting of price controls except on a few essential commodities; (iii) a temporary wage freeze for all but the lowest paid workers; and (iv) an increase in interest rates to encourage saving and better allocate available capital resources. It had earlier raised agricultural producer prices by substantial amounts. At the same time, the authorities suspended repayments of principal on all foreign debt and requested debt rescheduling under the Paris Club. Also, after several months of discussions, the Government has agreed with the IMF on a stand-by arrangement. In addition to the exchange rate, income policy and interest rate measures already adopted by the Government, the stand-by program includes measures to reduce the public sector budget deficit, with particular emphasis on eliminating subsidies, and limits on domestic credit to the Government and the mining industry, as well as limits on imports. This agreement is expected to be considered by the IMF Board in mid-April.

#### Principal Issues

##### A. Diversification and the Future of Copper Mining

11. It is clear that Zambia must reduce its dependence on copper and strengthen and diversify its agricultural and industrial sectors. The measures already taken should provide for greater financial stability in the near-term, but a definite strategy and a policy package for longer-term structural change has yet to be worked out. We are currently working with the Government on clarification of the strategy and development of the policy package. We hope that this will be ready for presentation to a Consultative Group meeting early next year, which would mobilize greater support from the donor community.

12. The Bank's lending program and economic and sector work aim at and are conditioned on developing and implementing a medium-term action program in Zambia. Our assistance strategy is to support diversification, particularly into agriculture, which has good potential in Zambia, but also into manufacturing, while shoring up the debilitated mining sector. The Bank has recently supported agricultural projects in the Eastern and Southern Provinces, and a Smallholder Dairy project. We are considering a project to expand agricultural services and other projects to support the development of cash crops. We are assisting the Ministry to strengthen its Planning Unit, and have an export promotion and import substitution strategy study underway. For some time now we have been supporting the Development Bank of Zambia, which makes loans to the manufacturing sector. We are also assisting the Government lower its oil import bill by supporting projects to raise the efficiency of oil refining and of Zambia's one operating coal mine. Because it is clear that diversification will take considerable time and that the copper industry will remain the country's principal source of foreign exchange for several years to come,



we intend to support rehabilitation of the mining industry to restore productive capacity and improve efficiency.

B. Creditworthiness and Policy Reform

13. We have conditioned our support on a commitment of the Government to a set of policy reforms which would provide the framework for stability and future growth. The Government has now reached agreement on a stand-by arrangement with the IMF, and we have reached agreement with the Government on a Memorandum of Development Objectives and Policies that sets forth a package of economic measures which the Government intends to adopt, some of which, in fact, have already been implemented. These measures will lead to improved creditworthiness, and thereby permit continued Bank lending.

14. Recommendation - You should inform President Kaunda that the Bank is prepared to move ahead with the Copper Mining Rehabilitation loan provided we can agree on measures to ensure the financial stability of Zambia Consolidated Mines, Limited (ZCCM). High production costs at some mines may threaten ZCCM's financial stability, despite the January devaluation and the cost-saving measures introduced recently by the Company, and it is likely that some of the higher cost mines may have to be closed.

C. Debt Rescheduling

15. The Government has asked the Bank for assistance in preparing for a Paris Club meeting on debt rescheduling which is essential to improving its borrowing capacity. Some assistance has already been given by the staff in preparing required debt data, and we are also prepared to advise the Government on its presentation to the Paris Club.

16. Recommendation - With regard to debt rescheduling, you should remind President Kaunda that the Bank is unable to reschedule its loans to Zambia. While we would be prepared to make a statement at the Paris Club meeting, the Government would be well-advised to approach the Paris Club on the basis of a realistic medium-term recovery plan, including an export and import substitution strategy for agriculture and a multi-year financial plan.

17. Service payments on Bank loans and credits have been paid, but there have been frequent occasions of repayments being considerably overdue. Zambia's withdrawal rights were suspended on October 1, 1982, but were restored on October 5, 1982 when all overdue payments were received. Zambia is presently on notice that if currently overdue service payments totaling US\$11,781,719.29 equivalent are not received by April 1, 1983, withdrawal rights on approved commitments will be suspended.

18. You should also impress upon President Kaunda the importance of prompt settlement of obligations owed the Bank. This will be the first test of Zambia's creditworthiness for further Bank lending. It is an essential prerequisite for our developing an active lending program in support of Zambia's current reform efforts.



D. Consultative Group

19. The Government has also asked the Bank to convene the Consultative Group for Zambia. This is very much supported by a number of observers who feel that Zambia should receive the attention of the international community along the lines of the recent effort on the Sudan. We are prepared to do this, but a considerable amount of preparation, including prior bilateral consultations, would be required to make the meeting a success.

20. Recommendations - You should tell President Kaunda that a most important prerequisite for a Consultative Group meeting would be for the Government to present a consistent and coherent medium-term economic program, including a resource-constrained public sector investment program. We would be prepared to work with the authorities in developing such a program. A recent economic mission to Zambia engaged Government officials in initial discussions of the outlines of such a program. Successful debt rescheduling and a donor-supported medium-term recovery program are also important determinants of future growth of Bank lending.

Bank Lending

21. Zambia clearly needs increased Bank support to carry out a strategy of economic diversification involving basic structural changes. The Bank has been asked for quick-disbursing assistance to rehabilitate the industrial sector and for a structural adjustment loan. We expect that President Kaunda will raise these subjects. Given the limitations on IDA resources and Zambia's relatively high per capita income, \$590 in 1981, the prospects for IDA lending are dim. It is essential, therefore, that Zambia continue to take measures to ensure its creditworthiness for Bank lending. Our work on the rehabilitation of the copper industries does embrace policy measures designed to do just that. Agreement on the policies is essential for our being able to proceed with the copper rehabilitation loan.

22. Insofar as non-project assistance is concerned, for the time being we believe it is more appropriate to stay with high-priority investments and quick-disbursing projects. Preliminary discussions have been held on a possible industrial sector loan. Such support would be feasible once the policy framework evolves that would ensure proper incentives for the sector, an investment program has been devised, and we can more clearly define those aspects of industrial diversification we can best support.

23. We view the recent agreement with the IMF as a significant step forward toward ensuring the country's creditworthiness and establishing the base for needed longer-term structural change. The agreement to difficult conditions of the IMF operation, which include devaluation, elimination of most price controls and reduction of producer and consumer subsidies indicate the seriousness with which the Government views the present economic crisis and its willingness to take politically onerous actions. You may want to commend President Kaunda and his Government for undertaking these reforms. The President has, on occasion, expressed his concern about "linkage" between Bank Group lending and agreement with the IMF on policy



reforms. He may raise this issue with you, since we did specify agreement with the Fund as one of the prerequisites for proceeding with the Copper Mining Rehabilitation Loan. This reflects the fact we agreed with the Fund's basic analysis and saw the measures in the stand-by as essential first steps to ensuring the country's creditworthiness program.

24. Recommendation - You should convey the above to the President. Do not raise the possibility of an SAL. If he raises the issue, indicate that structural adjustment as such is supported by the entirety of our operations, but that a structural adjustment loan is premature at this time. We will keep it in mind as the policy framework evolves, creditworthiness is restored, and it emerges as an appropriate lending instrument in the Zambian setting.



# OFFICE MEMORANDUM

DATE: March 29, 1983

TO: Mr. A.W. Clausen, President

FROM: C. Eugene Webb, Ombudsman *CEW*

EXTENSION: 75472

SUBJECT: Bernard A. Gagne: Only Zambian on Bank Staff

1860

As you may recall, during our last conference we discussed the problem of placement within the Bank.

In view of the visit of President Kaunda, I believe I should mention to you a particularly difficult placement case involving the only Zambian citizen on the Bank staff, Mr. Bernard A. Gagne. His name may come up.

Mr. Gagne has been on the Bank staff for three years and efforts are currently being made to place him in a position appropriate for his unusual experience, which spans more than a quarter of a century on-the-spot in Africa.

Mr. Gagne was a senior officer and adviser in Zambia's education system ('72 - '79); lecturer and co-founder of the Institute of Education in Zambia ('67 - '70); principal of a teacher training college in Zambia ('60 - '67); and in the commercial sector in an education equipment supply company ('70 - '72). Mr. Gagne has also served as a teacher in Lesotho ('54 - '60).

Mr. Gagne is fluent in English, his native language, and in French.

In short, Bernard Gagne has very unusual linguistic and field experience. Of that everyone with whom I have discussed his case agrees. What we have not been able to do is to find an assignment which fits Gagne's unusual background.

One possibility is for him to be a member of a team to provide Gabon with technical assistance on a reimbursable basis.

The exigency of time has caused me to address this memorandum directly to you, but copies are being simultaneously sent to Messrs. Kaji and Paijmans, with whom I have also discussed the problem of finding a proper place for Mr. Gagne.

cc: Messrs. Kaji  
Paijmans  
Wapenhans

CEWebb:cc



1983 MAR 29 AM 11:51

CHIEF OF THE PRESIDENT

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OFFICE OF THE MINISTER  
MINISTRY OF FINANCE  
P.O. BOX 50062  
LUSAKA

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639  
MF/101/22/30

13th April, 1983

Mr. A. W. Clausen,  
President,  
World Bank,  
Washington DC.,  
U.S.A.

Dear Mr. Clausen,

Thank you very much for your letter of 18th March, 1983 in which you welcomed me to the Board of Governors of the World Bank. I am most grateful for your warm welcome and promise that I will do my best to contribute to further the effective operation of this important international financial organisation as the appointed Governor for Zambia.

I look forward to visiting Washington soon and in particular to having an opportunity to discuss with you personally on the operations of this important body.

Thank you again for your kind words.

Yours sincerely,

Nalumino Mundia  
PRIME MINISTER  
AND  
MINISTER OF FINANCE

OFFICE OF THE MINISTER

1983 APR -5 PM 10:10

RECEIVED





13th April, 1983

MEV101/22/30

Mr. A. W. Clausen,  
President,  
World Bank,  
Washington DC.,  
U.S.A.

Dear Mr. Clausen,

Thank you very much for your letter of 18th March, 1983 in which you welcomed me to the Board of Governors of the World Bank. I am most grateful for your warm welcome and promise that I will do my best to contribute to further the effective operation of this important international financial organisation as the appointed Governor for Zambia.

I look forward to visiting Washington soon and in particular to having an opportunity to discuss with you personally on the operations of this important body.

Thank you again for your kind words.

Yours sincerely,

  
Nkomo Mumba  
PRIME MINISTER  
AND  
MINISTER OF FINANCE

OFFICE OF THE PRESIDENT

1983 MAY - 2 PM 4: 14

RECEIVED



March 18, 1983

Dear Mr. Prime Minister:

It is indeed good to know that you have been appointed Governor for Zambia on the Board of Governors of The World Bank. Congratulations!

The Executive Directors, Officers and Staff join me in extending to you a warm welcome. We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you here in Washington in the near future.

Sincerely,

A. W. Clausen

The Honourable  
Nalumino Mundia  
Prime Minister and  
Minister of Finance  
P.O. Box 50062  
Ridgeway  
Lusaka, Zambia

cc: Mr. W. Smith  
Mr. Kraske  
Mr. Alizai

RMFleming:ets



# OFFICE MEMORANDUM

DATE: April 4, 1983

1868  
TO: Files

FROM: W. A. Wapenhans *log.*

EXTENSION: 74285

SUBJECT: ZAMBIA - Meeting Between Dr. Kenneth Kaunda, President of Zambia,  
and Mr. A. W. Clausen, President, World Bank

1. Mr. Clausen met with President Kaunda on March 31, 1983 at 4.30 p.m. at the Four Seasons Hotel. Other principal persons present included, for Zambia, Mr. Kamanga, Member, Central Committee; Mr. Goma, Minister, Foreign Affairs; Mr. Kuwani, Governor, Central Bank; Mr. Mulaisho, Special Assistant to the President for Economic Affairs; and, for the World Bank, Mr. W. A. Wapenhans, Regional Vice President, Eastern Africa. The meeting lasted approximately 45 minutes.

2. After welcoming Mr. Clausen, President Kaunda expressed his appreciation for the financial assistance and the economic advice his Government had received from the World Bank. He assured Mr. Clausen that the recently introduced austerity measures were adopted not because they needed to be part of an IMF standby agreement, but because these decisions were in the best interest of the country. He stressed that this had been especially difficult to do in an election year. He felt that more needed to be done, especially with regard to better organization of economic enterprises and in fostering a commitment to hard work.

3. Reviewing the unfavorable global environment, Mr. Clausen stressed that adjustments in the face of scarce resources were needed in practically all economies. A country such as Zambia, being dependent on a single commodity for almost all its exports, was obviously even more in need of adjustment and diversification. This was especially important since Zambia needed to restore and sustain its external creditworthiness. President Kaunda, in agreeing with Mr. Clausen, emphasized the importance of agriculture and a well functioned transport system for diversification. Mining presented very special problems but domestic industries could also be made profitable and externally competitive. While resources were plentiful in Zambia, they remained to be developed. Irrigation was a case in point; the current lack of rainfall might once again cause Zambia to import foodgrains.

4. There followed a brief review of Government-Bank cooperation in improving debt management, the preparation of a medium-term recovery program, and the possibility of providing industrial development finance in addition to the mining rehabilitation support to assure higher use of existing capacity. President Kaunda confirmed that his Government would be seeking debt rescheduling from the Club of Paris, as well as commercial banks. He described as painfully embarrassing Zambia's present inability to meet its external obligations, especially



remittances payable to pensioners, etc. He also expressed his wish for the Bank to convene the Consultative Group to mobilize external support for Zambia's recovery program.

5. Mr. Clausen underlined the importance of prompt debt service payment to the Bank as a critical component of restoring Zambia's creditworthiness. Unless Zambia would keep itself current with the Bank, it would be difficult for us to help Zambia to the extent we otherwise could. President Kaunda stressed that he accepted Mr. Clausen's point both as "a matter of principal and of practicality". The Governor of the Central Bank added that some \$6 million in debt would be paid on the Tuesday following Easter. Because of the holidays, the Banks in Europe would not act on payment instructions until April 5, but movement should occur on the Zambian accounts with the Bank on that date.

6. Mr. Wapenhans reviewed the status of project implementation and underlined the need for prompt use of existing commitments. Since 1978, nearly \$170 million had been committed, but less than \$30 million had, in fact, been withdrawn. While disbursement was not necessarily a good measurement of performance, it was clear that the absence of counterpart funds had greatly retarded the rate of use of committed funds. He invited the Zambian Government to carefully review existing arrangements and commitments and, if warranted, consider modifications to projects and procedures to ensure effective and efficient use of the resources already committed. Mr. Clausen advised President Kaunda that the Board had recently approved a special action program which allowed for greater flexibility also in the case of commitments already made.

cc: Messrs. Stern  
Kraske  
Reese  
Wyss

WAWapenhans:rsvh



*Action reading*

## OFFICE MEMORANDUM

1806

TO: Mr. A. Clausen

FROM: T. T. Thahane *THH*

SUBJECT: Request to Meet President Kaunda of Zambia on March 31, 1983

DATE: March 1, 1983

*this is OK on calendar*

1. The Ambassador of Zambia has just called to inform me that President Kenneth Kaunda of Zambia will make an official visit to the U.S. towards the end of March and he would like to meet with you at 4:30 p.m. on March 31, 1983. Since Blair House is under renovation, the meeting will take place at the President's Hotel which will be communicated later.

2. I understand the President will meet Mr. de Larosiere before you.

cc: Mr. Stern  
Mr. Wapenhans



*Mr. Wapenhans  
preparing brief -  
& only he will  
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# OFFICE MEMORANDUM

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1862 TO: Mr. A. W. Clausen DATE: March 30, 1983  
FROM: Hans A. Wuttke  
SUBJECT: ZAMBIA: Your Meeting with His Excellency, The President of Zambia,  
Dr. Kenneth D. Kaunda, on Thursday, March 31

1. IFC maintains a very good relationship with the Government and its portfolio is substantial involving 8 investments for a total exposure of US\$58.3 million equivalent (of which US\$28.5 million is disbursed), which is the highest in any country in Sub-Sahara Africa. Much of the above involvement has been in the mining sector (cobalt and copper) in which IFC has worked closely with the Government and the mining companies for over 7 years.
2. In spite of the country's difficult economic situation, IFC is developing a few business opportunities which are described in paragraphs 7-9.
3. The major part of IFC's commitment is with Zambia Consolidated Copper Mines, Limited (ZCCM). ZCCM is the most important industrial enterprise in Zambia, providing over 90% of the country's total foreign exchange earnings. IFC has made two investments in ZCCM for a total of US\$57 million. The first, a loan of US\$28 million, of which US\$8 million was sold to a participant, was approved in 1979, and increased the Company's cobalt production capacity from 4,000 tpa to 6,600 tpa. The second was a loan of DM 70 million (US\$29 million equivalent), approved in December, 1981, to help finance the Tailings Leach Stage 3 project (TL3), which is intended to increase ZCCM's finished copper production by about 35,000 tpa (6% of current production).
4. ZCCM has incurred substantial losses in the past two years, due mainly to depressed world copper prices. However, ZCCM's financial results have improved recently due to cost-cutting measures and the recent 20% devaluation of the kwacha. The Company and Government are anxious to proceed with the TL3 project, which remains a very attractive project and is important for ZCCM to maintain its production volume. IFC and other TL3 lenders have been discussing with the Company steps needed to improve ZCCM's financial condition and allow disbursements of TL3 loans to begin. IFC's attitude in this matter will be important to other TL3 lenders. We wish to assist ZCCM, but it is equally important that ZCCM improve its financial condition. Besides an improvement in profitability, it is also important that the subordination of Government's US\$170 million equivalent of loans to ZCCM be finalized to strengthen the Company's equity base. The results of the proposed Paris Club rescheduling should also be known. Our objectives in working with ZCCM are the same as those of IBRD, which is currently considering a mining rehabilitation loan to assist ZCCM.



#### Other Portfolio Matters

5. While most of the other companies in which IFC has invested have been operating profitably, their operations (as most other Zambian enterprises) have been constrained by Zambia's shortage of foreign exchange. IFC's three outstanding loans are currently in arrears, in amounts totalling US\$4.5 million (of which ZCCM accounts for US\$4.1 million), due to shortage of foreign exchange. We expect these loans to be brought current once the proposed IMF facility is available, and Government finalizes the Paris Club arrangements for rescheduling certain of its foreign debt, both of which are expected in April.

6. The ethanol project, which was approved by the Board in June, 1982, has been cancelled due to falling gasoline consumption and related problems at Zambia's refinery.

#### New Prospects

7. Zambia Hotel Properties Ltd. (ZHP). Negotiations are completed and we are preparing to present to the Board an IFC loan of US\$7.5 million to help finance a US\$30.1 million project which would add a 192-room extension to the existing 198-room Hotel Intercontinental Lusaka (IHL), and also rehabilitate the existing IHL and its sister hotel, the 88-room Musi-o-Tunya near Livingstone, overlooking the Victoria Falls. The project is particularly attractive in adding much needed first-class hotel rooms in Lusaka at an overall cost of only US\$71,000 per room, which is very reasonable by international standards.

8. To ensure the viability of ZHP and the project, Government has agreed to remove 5-star hotels from Government price control, and also to allow ZHP to retain 50% of its export earnings for its operational requirements.

#### Pulp and Paper Project

9. We are discussing with Government a proposed pulp and paper project. We consider the current proposal made to Government too large and too expensive given local market conditions, and at Government's request we are sending a mission to discuss a revised project concept.



STATEMENT OF IFC INVESTMENTS IN ZAMBIA  
(as of February 28, 1983, in \$ million)

| <u>Year</u> | <u>Company</u>                   | <u>Type of Business</u>        | <u>Original Commitment</u> |                 |                 | <u>Held by IFC</u> | <u>Total Undisbursed</u> |
|-------------|----------------------------------|--------------------------------|----------------------------|-----------------|-----------------|--------------------|--------------------------|
|             |                                  |                                | <u>Loan</u>                | <u>Equity</u>   | <u>Total</u>    |                    |                          |
| 1972        | Zambia Bata Shoe Co. Ltd.        | Shoe manufacturing and tannery | 0.85                       | 0.23            | 1.08            | 0.23               | -                        |
| 1973        |                                  |                                | 1.20                       | -               | 1.20            | -                  | -                        |
| 1975        | Century Packages Ltd.            | Packaging materials            | 0.88                       | 0.21            | 1.09            | 0.43)              | -                        |
|             |                                  |                                |                            |                 |                 | )                  | -                        |
| 1976        | Development Bank of Zambia       | Development finance company    | -                          | 0.54            | 0.54            | 0.54               | -                        |
| 1979        | Zambia Consolidated Copper Mines | Cobalt production              | 28.00                      | -               | 28.00           | 49.46)             | 29.45                    |
| 1981        |                                  | Copper production              | 29.45                      | -               | 29.45           | )                  |                          |
| 1980        | Kafue Textiles of Zambia Ltd.    | Textiles and fibers            | 7.60                       | -               | 7.60            | 7.60               | 0.29                     |
|             |                                  |                                | <u>        </u>            | <u>        </u> | <u>        </u> | <u>        </u>    | <u>        </u>          |
|             | <u>Total</u>                     |                                | <u>67.98</u>               | <u>.98</u>      | <u>68.96</u>    | <u>58.26</u>       | <u>29.74</u>             |



March 18, 1983

Dear Mr. Prime Minister:

It is indeed good to know that you have been appointed Governor for Zambia on the Board of Governors of The World Bank. Congratulations!

The Executive Directors, Officers and Staff join me in extending to you a warm welcome. We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you here in Washington in the near future.

Sincerely,

A. W. Clausen

The Honourable  
Malumino Mundia  
Prime Minister and  
Minister of Finance  
P.O. Box 50062  
Ridgeway  
Lusaka, Zambia

cc: Mr. W. Smith  
Mr. Kraske  
Mr. Alizai

HM Fleming:ets

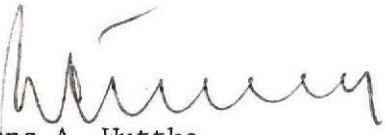


January 15, 1982

Mr. Clausen:

Re: ZAMBIA

Enclosed I am sending you a copy of a letter from the Minister of Finance of Zambia concerning the IFC loan of DM 70.0 million which was approved by the Board recently. You will remember the deliberations in this reference at the Board meeting on December 3, 1981.

  
Hans A. Wuttke

Enclosure

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OFFICE OF THE PRESIDENT





OFFICE OF THE MINISTER OF FINANCE

P.O. Box RW62

Ridgeway

Lusaka

Zambia

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11th December, 1981

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JAN 05 1982

Mr. Hans A. Wuttke,  
Executive Vice President,  
International Finance Corporation,  
Washington DC  
UNITED STATES.

cc: Pormon  
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Dear Hans,

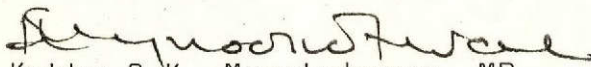
I am indeed greatly delighted at the positive decision the Executive Board took which you were so kind to convey to me through a telex I received on the 5th December, 1981.

The loan of Deutsche Mark 70.0 million will certainly make a significant contribution in bolstering the company's copper production levels which have in the recent past shown a continued decline. Any such increase in production levels, even at the prevailing low copper prices, will assist the economy a great deal to increase the foreign exchange earnings which can be used to import the necessary inputs for increased industrial capacity utilisation and the attendant benefits of generating employment opportunities in the economy.

✓ I am indeed a happy man and I am greatly indebted to the Board.

May I take this opportunity to wish you and your family a happy Christmas and prosperous New Year.

Yours sincerely,

  
Kebby S.K. Musokotwane, MP  
MINISTER



## OFFICE MEMORANDUM

TO: Mr. A. W. Clausen

DATE: December 4, 1981

FROM: Hans A. Wuttke

SUBJECT: ZAMBIA - NCCM

Following yesterday's discussion of the NCCM project in Zambia, you will recall that I mentioned to you that we had maintained close cooperation with the Bank in this matter. In future, we would try to bring this out even more clearly in the Board reports. However, even in this case, I should perhaps mention that we have referred to this cooperation at a number of places. I attach a copy of our report in which I have underlined such sections. For convenience they can be found on page 5 of the President's Report and pages 3, 8, 10 and 25 of the Appraisal.

Attachment

MAKALizai:ed

12-9-81  
Mr. Wuttke  
Thanks. Hans!  
I should have plus  
explained Board  
at the discussion  
A



October 26, 1981

His Excellency  
Dr. Kenneth Kaunda  
President of the Republic  
of Zambia  
State House  
P.O. Box 153  
Lusaka, Zambia

Dear Mr. President:

Since our Resident Mission in Lusaka was established in 1974, I believe that both Zambia and The World Bank have found it to be of mutual benefit in facilitating the Bank's day-to-day relationship with your Government and contributing to Zambia's development efforts.

Thus, I am pleased to inform you that, after a careful search for a suitable successor to our last Resident Representative, Mr. Azizul Jalil, we have, with the agreement of Your Excellency's Government, appointed Mr. Kingsley Y. Amoako. Mr. Amoako, who assumed his duties as Resident Representative on September 21, 1981, is a Ghanaian national and has been a member of The World Bank since 1974. Since graduating from the Bank's Young Professionals Program in 1975, he has served in a variety of assignments. As country economist he has been involved in the study of African development problems and has gained particular experience in this area.

I believe that the appointment of Mr. Amoako to continue the Bank's residential representation in Zambia is testimony of the mutual belief of your Government and The World Bank Group in a continued close cooperative relationship between us. We expect him to play an important role in furthering this relationship and helping to deepen our understanding and appreciation of your country's problems and the Government's



His Excellency  
Dr. Kenneth Kaunda

-2-

October 26, 1981

development policies and programs with a view to creating the framework for the Bank's assistance to Zambia. I have no doubt that you, Your Excellency, your ministers and other officials of your Government will extend the same assistance and cooperation to Mr. Amoako as his predecessors so readily received.

Sincerely,



A. W. Clausen

cc: Hon. Kebby Musoketwane, M.P.  
Minister of Finance  
Ministry of Finance  
P.O. Box 50062  
Lusaka, Zambia

cc: Mr. Clausen's Office (2)  
Messrs. Stern, Wapenhans; Abdulai (EDS)  
Kraske, (EALOR), Amoako (EAFZM)

CMunthali/DGReese/JKraske:alh