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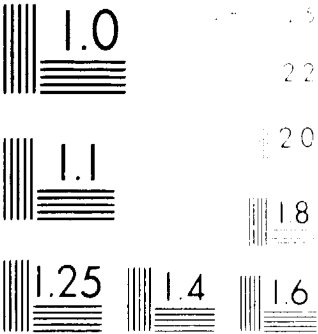

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

11997

REPUBLIC OF ZAMBIA

REPORT AND RECOMMENDATIONS ON EXPORT PROMOTION*

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UNIDO/IO/R.28

WORLD BANK/UNIDO
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Provinces, districts; urban and rural areas in Zambia

The boundaries shown on maps do not imply official endorsement or acceptance by the United Nations.

INTRODUCTION

This report contains the findings of a mission to Zambia which took place May 15 to June 6, 1982 by Denis M. Gallagher, Consultant, Technical Assistance Programme, Coras Trachtala/Irish Export Board. It was undertaken at the request of the Government of Zambia and financed by the World Bank/UNIDO Co-operative Programme. It has served as a contribution to the overall findings and recommendations of the World Bank Industrial Policies Mission that visited Zambia concurrently with the author and Hugo Molina, staff member of the World Bank/UNIDO Co-operative Programme.

Terms of Reference

The Terms of Reference for the assignment may be summarized as follows:

- To analyze Zambia's past performance in manufactured exports;
- To review existing Government incentives including Government-supported export promotion activities; and
- To identify the major constraints and recommend policy reforms which could help enhance the ability of Zambian firms to develop and diversify manufactured exports.

A copy of the Terms of Reference is at Annex VIII.

Methodology

The methodology used in the preparation of this report included:

(i) Desk research;

(ii) Collection and review of official data;

(iii) Interviews and discussions with relevant Government officials,

(iv) Field visits and discussions with individual parastatal/private firms;

(v) Detailed discussions with public and private financial institutions.

Format

The report is divided into three parts. The first part gives an overall assessment of recent developments in the Zambian economy; reviews historical trends of Zambia's exports, concentrating on a selected group of manufactured exports; and describes and assesses current Government incentives to the exporting community.

Part two contains a brief financial analysis of three of Zambia's largest exporting firms, including the major constraints faced by exporters, and assesses the structural weaknesses within the existing incentive system.

Part three presents possible policy reforms to enhance Zambia's climate for exporting.

The monetary unit in Zambia is the kwacha (K).

Part I

1. THE ZAMBIAN ECONOMY

Detailed analysis of Zambia's historical economic performance is not within the scope of this report. Reference to various World Bank reports, in particular the 1981, ' Country Economic Memorandum Zambia (Report No. 3007 - ZA)', should be consulted to obtain further details of the present state of the Zambian economy.

The following description is intended to provide the setting within which Zambia's export performance, policies and incentives may be more fully understood.

General

The Republic of Zambia is a large land-locked country situated in Central/Southern Africa. Zambia has common borders with eight surrounding states and is sparsely populated with approximately 6.2 million people in an area of 752,614 sq. km.

The country gained its independence in 1964 and established a one-party state dedicated to the principles of Humanism and Socialism. Zambia is an active member of the UN, OAU, Commonwealth and ACP group associated with the European Economic Community.

The Economy

Zambia's economy is based on copper, the mining of which dominates economic activity in the state. Mineral exports in 1980 accounted for over 97% of total exports and are the major earner of foreign exchange.

Zambia's economic growth measured at GDP during the first decade after independence grew at an average rate of 2.3%.[1] However, since 1974 the general world recession has severely dampened demand and price of copper on the London Metal Exchange (LME). This has contributed to a negative annual growth rate of -1.17%.[2]

The Government debt services ratio is growing rapidly, the 1981 estimate (including repayment to the IMF) is above 30%.[3] The balance of payments situation continues to deteriorate, and the current account balance for

1981 had a deficit of K478 million.[4] The accumulated payment arrears were approximately K632 million in May 1982, and the time period for expected payment of foreign exchange creditors for imported goods was thirty (30) months.

Population and Employment

The population is 6.027 million with an annual growth rate of 3.3%.[5] Per capita income has declined steadily since independence, the average annual decline for years 1974 - 1931 is - 10.0% at GDP.[6] The number of Zambians in paid employment (1981) was 371,630 with an estimated labour force of 1,824,200. During the years 1977 - 1981 Zambians employed grew by 26,310 while labour force grew by an estimated 238,200.[7]

Manufacturing

In the first decade after independence, 1964/74, the sector's contribution to GDP grew at 10% per annum.[8] The years 1974/78 saw an average annual decline of - 4.4%.[9] Since 1978, real growth has stagnated showing a modest decline of -0.8% in 1980/81.[10] The sector contributed 11.2% to GDP in 1981.

Capacity utilisation of plant varies enormously with a realistic estimate of 30 - 50% within the sector. The primary reason cited by a cross section of management is the lack of foreign exchange. While this is certainly true, contributory factors, such as lack of preventative maintenance and ineffective stock-keeping played a significant role in the low utilisation of productive capacity.

Agriculture

Zambia is recognised as having good agricultural potential. In 1981, agriculture contributed K172 million (1970 prices) or 12.7% of GDP. This showed a healthy increase of 9.8% over the sector's 1980 contribution.[11]

The Government has recognised that setting producer prices significantly below world and border prices has dampened agricultural productivity.

This sharp upturn in the sector's fortunes is a direct result of the gradual but steady increase in producer prices set by Government in the past few years.

1 World Bank Report No. 3007-ZA
Zambia Country Economic Memorandum, 1981.

2 Mission estimates, Economic Report, National Commission of Development Planning 1981.

3 Ibid

4 Ibid

5 Ibid

6 Mission estimates Zambia National Accounts.

7 National Commission of Development Planning 1981

8 World Bank Report No. 3007-ZA ibid.

9 Ibid

10 National Commission of Development 1981.

11 Ibid.

2. MANUFACTURED EXPORTS

The Products

Statistical data on the value, trends and market destinations of Zambia's principal manufactured exports is very weak. To obtain a reasonably clear picture on the size, structure and past growth of Zambia's exporting community, it was felt that only exporters who consistently exported in excess of K50,000 per annum during the years 1977/80 would come under review.

Examination of the statistical data provided by Government sources and company visits to a number of Zambian manufacturing firms revealed a very small export base. There are only six (6) product groups which have recorded consistent export sales and some growth over the last five years. They are:-

(1) sugar, molasses
(2) crushed stones, lime
(3) explosives
(4) cement
(5) copper cables (wire)
(6) menswear

The data and company visits did reveal sporadic exporting of products such as wood (railway sleepers), tyres, battery components and bottles, but either due to pressure of domestic demand, lack of imported inputs or company mis-management, there is little sustained export activity in these products.

Table 1 shows the value of manufactured exports for the years 1977/80.

As the Table illustrates consistent export growth has been achieved in only four of the six product groups. All the above groups except menswear, are based primarily on domestic inputs and all except crushed stones/lime represent export activity by a single firm.

TABLE I

SELECTED MANUFACTURED EXPORTS

K

		1977	1978	1979	1980
1.	Sugar	17,202	67,500	450,398	1,374,506
	Molasses	49,355	142,808	232,464	685,550
2.	Crushed stone	1,974,672	231,227	24,000	-
	Lime	221,434	34,503	31,685	43,916
3.	Explosives	32,387	518,442	546,833	-
4.	Cement (ii)	1,419,537	1,235,843	3,852,658	1,818,952
5.	Copper cable	283,180	454,129	472,624	532,927
6.	Menswear	29,827	14,060	18,885	102,598
	SUB-TOTAL (i)	4,027,594	2,698,512	5,629,547	4,558,444
	(iii)	5,394,000	1,748,000	1,633,000	2,379,000
	TOTAL	9,421,594	4,446,512	7,262,547	6,937,444

Sources:- (i) Department of Foreign Trade
Ministry of Commerce & Industry
(ii) Company Visits
(iii) SITC categories 5-9 (excluding 6.8)

The most disturbing fact revealed in the analysis of actual manufactured exports for the years 1977/80 is not only their relative insignificance (see Table 11) as a percentage of total Zambian exports, but their comparison against the stated export potential perceived by Zambian firms themselves.

In 1979, the International Trade Centre (ITC/UNCTAD GATT), undertook a survey of all known and potential exporters in Zambia. The survey identified 113 firms who stated they were interested in exporting, and 353 products which those companies considered exportable. The gap between actual and potential in Zambia is enormous. The lack of foreign competition through quantity restrictions on imports, the absence of border price comparisons and the highly protected and lucrative domestic market has generated an air of unreality within the Zambian industrial community.

Table II below segregates statistical information on exports for the years 1977/80 which was supplied by the Ministry of Commerce and Industry and the Central Statistics Office, Lusaka. The breakdown of the data accords with the World Bank report ' Accelerated Development in Sub-Saharan Africa' 1981 which classified manufactured exports as SITC categories 5 through 9, excluding section 6.8.

As previously noted, statistical data available in Zambia is very weak, often contradictory and should be treated with caution.

Due to inconsistent data collection and processing within Zambia, coupled with differing sources of information presented to the Mission team, some explanation of Table II is required.

Two product groups Sugar/Molasses and Crushed Stones are classified in SITC categories - 0 - and - 2 - respectively. These are then tabulated outside the standard manufacturing classification of SITC 5 - 9. Likewise, included within SITC categories 5 - 9 (excluding 6.68) are such by-products as chemicals which are re-exports from Zambian refineries or the heavy lo.. making fertilizer plant. Also, in 1980 category SITC 9 contains by Zambian standards a significant export of gold bars.

Taken together with the small and sporadic exports of products cited earlier, the above statistics might tend to distort the picture of the true extent of the development of manufacturing exports. For the years 1977/1980 manufactured exports have ranged between 0.5 - 1.0 % of total exports and have yet to attain a value above K 10 Million per year.

TABLE II

TOTAL ZAMBIAN EXPORTS

K

Section Code	1977		1978		1979		1980
0	- 3,815,147	0	- 8,176,945	0	- 938,778	0	- 2,357,275
1	- 5,783,276	1	- 3,388,465	1	- 1,739,143	1	- 2,713,550
2	- 8,620,314	2	- 11,162,680	2	- 7,707,126	2	- 23,843,838
3	- 2,094,059	3	- 11,061,550	3	- 13,235,266	3	- 21,285,851
4	- 100,032	4	- 28,082	4	- -	4	- 70,377
5	- 2,455,840	5	- 2,107,612	5	- 1,245,646	5	- 683,666
6	- 4,409,796	6	- 1,322,135	6	- 4,656,633	6	- 2,675,294
	- 140,696						
6.68	-(663,185,000)	6.68	- (608,960,000)	6.68	-(893,685,000)	6.68	- (859,840,000)
	(16,225,958)		(34,679,338)		(129,891,000)		(75,647,000)
7	- 252,261	7	- 423,691	7	- 487,318	7	- 558,885
8	- 123,887	8	- 152,051	8	- 167,201	8	- 217,608
						9	- 749,805
TOTAL	707,202,000	TOTAL	681,462,000	TOTAL	1058,750,000	TOTAL	990,643,000
(5-9)	7,380,000 (1.04%)	(5-9)	4,005,000 (0.587%)	(5-9)	6,556,000 (0.619%)	(5-9)	4,885,000 (0.493%)

Export Markets

The market distribution of actual manufactured exports is almost entirely to surrounding African states. An analysis of the export markets for the product groups under review is given below:-

1. Sugar/Molasses

In reviewing the trade data supplied by Government sources and discussions with the management of the Zambia Sugar Co., the sole exporter of these products, it was found that Burundi and to a lesser extent Zaire proved the most lucrative markets for Zambian refined sugar. Malawi and Zimbabwe to the south are major sugar producers and competition from these countries as well as the Republic of South Africa would preclude penetration of the southern markets.

The major market for molasses is the UK. This is under some threat, however, if the proposed ethanol plant project is undertaken, which will require diverting this product to be used as an input in the production of ethanol fuel.

It was further learned from discussions with the management of Zambia Sugar Co., that an estimated 10 - 15,000 tons of refined sugar are illegally exported to Zaire annually, 2/3 times the volume of all recorded exports. A major incentive to this illicit trafficking is the low Government control domestic price which bears no relationship to market prices prevailing in Zaire.

2. Crushed stone/lime

Again the major markets for crushed stone and lime are Zaire to the north and Malawi and Botswana to the south. There are five firms in the Copperbelt province which service the Zairean market in crushed stone and lime. Two other firms, the largest being the parastatal, Crush Stones Sales Ltd., are located in the Lusaka region and service the southern markets.

Exports have declined alarmingly in recent years due to lack of production from poorly maintained and aging plants. The parastatal firm, Crush Stones Sales Ltd., has seen its costs rise to an uncompetitive level for the southern markets resulting in a very unsatisfactory situation of pending Government subsidy to cover losses incurred in exporting to these markets.

3. Explosives

Until recently there had been a healthy level of exports to Zaire by the sole explosives producer, Kafironda Ltd., located in the Copperbelt province. However, this has now completely ceased due to a number of factors which include:-

(i) Lack of foreign exchange
(ii) High costs
(iii) Difficulty in securing payment from Zairean buyers.

4. Cement

A similar pattern of exporting to both the northern markets (Zaire, Burundi/Ruanda) and Malawi to the south has developed for the country's cement producer, Chilanga Cement Ltd. The Northern markets are supplied by Chilanga's modern works, while Malawi is serviced from the older headqua Chilanga just outside Lusaka.

The transport costs involved in the export of cement are high by the nature of the product. Therefore, to remain price competitive, Chilanga is forced to export at just above variable cost. Since domestic demand is depressed due to the fall off in construction activity in Zambia, exports allow Chilanga to maintain relatively high output which is required in this continuous process industry.

5. Copper Cables

Metal Fabricators of Zambia Ltd. (Zamefa), are by international standards a medium sized producer of both semi-processed copper rods and an extended range of copper wire cables.

Zamefa, which is a parastatal firm with a large private sector shareholding, was the only company visited by the mission which included an export marketing strategy in the preparation of its corporate plan and objectives (including new investment decisions). The company's export marketing activities are directed towards:

Exisiting	New
Malawi	Nigeria
Tanzania	Egypt
Kenya	
Zimbabwe	
Rumania	

Zamefa has consistently increased its exports to surrounding African markets and participates in a Government sponsores 'barter' arrangement with Rumania. Due to a planned doubling of production capacity, the firm has actively sought market penetration in Nigeria and Egypt.

6. Menswear

The leading exporter of quality mens and boys ready to wear is Serioes Ltd., a private foreign owned enterprise. The firm has developed a small but consistent level of exports of civilian dress to neighbouring markets concentrating on Kenya, Tanzania and Zaire. Additional export orders are actively sought from these and other regional markets for the company's line of uniforms.

Serioes is developing a new capacity with a foreign partner to produce fashion ladies wear for the European market. The success of this operation will be crucially dependent on establishing favourable arrangements for duty free importation (in bond) of raw material.

3. CURRENT GOVERNMENT INCENTIVES TO EXPORTERS

1. The Industrial Development Act, 1977

The Industrial Development Act, 1977 contains specific, if limited, incentives for Zambia's exporting enterprise. These include:

(I) Relief from any tax or customs duty payable on importation of machinery used in the production of export products;

(II) Relief from Income Tax;

(III) Adjustment in any Export tariffs which apply;

(IV) Relief from import tariffs on raw materials;

(V) Preferential treatment in regards to the import licensing system.

The granting of the incentives contained in the Act are at the discretion of the Minister of Commerce & Industry. As such, and in the absence of detailed statutory or administrative mechanisms ensuring the granting of these incentives for a reasonable length of time, uncertainty prevails greatly diminishing the incentives to the exporters as contained in the Act.

It is understood that a revised Industrial Development Act has been drafted and is about to be presented to Parliament. Unfortunately, the Mission was unable to obtain a copy of the draft and can only hope that the act contains much more explicit incentives and streamlined administration systems to encourage exporters to strengthen Zambian efforts of export development and diversification.

2. Export Subsidies

The government of Zambia has instituted a system of cash subsidies to exporters. The finance authorized in the Government Budget for the years

1980 - 1982 was:

1980 - K200,000
1981 - K100,000
1982 - K100,000 (estimate).

Actual expenditure figures for FY 1980 revealed that only K35,000[1] was appropriated for export subsidies. In discussions with officials of the Department of Foreign Trade it was stated that only two (2) parastatal firms had received any cash subsidy and that private sector enterprises were unlikely to receive favourable consideration. Likewise, it was impossible to obtain a written statement of the criteria used in selecting which firms were to receive cash subsidies.

Due to the fact that Government revenue generating capacity has become increasingly strained in recent years, it is thought unlikely that financial allocations for increased export subsidies can be realised in the forseeable future.

3. Foreign Exchange Credit Scheme

The Government of Zambia has recently introduced a foreign exchange credit system as a financial inventive to the exporting community. This follows a speech by His Excellency President Kaunda on the 14 December 1981 which stated:-

' This lack of alertness to the export opportunity is understandable considering the transportation and other problems that we have had in the past. But this indifference must end now if we are to survive. From now on it's EXPORT OR PERISH'.

The credit scheme as outlined in the budget address of the Minister of Finance, 29 January 1982, called for 'the introduction of foreign credit system by which any exporter who earns foreign exchange will be given credit up to 50% of the net foreign exchange earned.'

[1] Ministry of Finance: Financial Report 1981, Lusaka.

This scheme is intended to replace a previous system instituted by the Bank of Zambia whose object was to allow retention by exporters through their commercial banks of 10% of the F.O.B. value of their exports. In practice, the Bank of Zambia and the commercial banks established a 'gentleman's agreement' by which the commercial banks would retain a major portion of export earned foreign exchange (75-100%) to cover previously approved letters of credit for the imports of those individual exporters.

Following the January 1982 Budget Address, the Bank of Zambia (see Annex II) has issued an administrative order which deviates considerably from the wording of the 1982 Budget Address. The Bank of Zambia's order also established a fundamentally different administrative arrangement with the commercial banks than that previously applied under the old 10% scheme.

In the first regard, the Bank of Zambia's order states that '50% of the total foreign exchange proceeds received from exports will be credited to the exporters. Two points need to be highlighted:-

(i) the 1982 Budget Address explicitly states that the concept of net foreign exchange will be used in the credit system.

(ii) the Minister's wording also implied an element of discretion in allowing 'up to 50%' to be credited to any exporter earning foreign exchange.

The administrative arrangements established with the commercial banks states that all foreign exchange must initially be paid over to the Bank of Zambia. A register has been opened recording the 50% credit which is intended to be used to by-pass the foreign exchange queue. This 'queue' results from the fact that the issuing of import licences is not linked to the availability of foreign exchange needed to cover approved letters of credit. The intention of the Bank of Zambia remains unclear on two points:-

(i) Will exporters who have qualified in the foreign exchange credit scheme still be subjected to import licensing on the use of their foreign exchange earnings in addition to their normal allocations of foreign exchange?

(ii) Does the Bank of Zambia intend to deduct from these exporters normal and regular request for foreign exchange cover of their letters of credit, the amount credited to them from the new scheme?

The element of uncertainty introduced in regard to the relationship between the new foreign exchange credit system and 'normal' administrative allocation of foreign exchange for the import needs of exporters greatly diminishes the incentives to these exporters from the new scheme. Further, the replacement of the concept of net foreign exchange which is the difference in foreign exchange used in the production and the F.O.B. value of the export unit is unwise. The maintenance of the 'net concept' encourages the use of domestic resources by rewarding those exporters who reduce the import content of their export products.

In later sections, possible new strategies to enhance the 'net concept' as well as streamlining of the administrative system of the new credit scheme will be examined.

4. Priority Status and the Allocation of Foreign Exchange

The 1977 Industrial Development Act allows for 'preferential treatment with respect to the granting and processing of import licences', 'to any enterprise which satisfies the Minister that it exports a substantial amount of its products'.

The issuance of an import licence is a prerequisite in Zambia's administrative system to the allocation of foreign exchange. This is done by the import licensing unit of the Ministry of Commerce & Industry acting under instruction from the Ministerial Foreign Exchange Committee. This high level Ministerial Committee was constituted by a presidential directive in 1981 to supercede a Technical Committee of Permanent

Secretaries which had been administratively accomodated in the Ministry of Commerce and Industry.

The scope and policy direction of the Ministerial Committee in the allocation of foreign exchange is defined as follows:
(paper presented by Ministry of Commerce and Industry - Annex III)

(a) it is responsible for all foreign exchange allocation and not only allocation for imports.

(b) being constituted at such a high level it has a policy making and coordinating prerogative that was not within the reach of the former Technical Committee.

(c) Its Secretariat is a permanent body with the status of a Ministry section and is responsible for the implementation of all decisions made by the Ministerial Committee.

(d) The Committee determines the commodities to be imported in addition to the value limit by selecting commodities from a list submitted by the applicants.

The Ministerial Committee has directed the Import Licensing Unit to give priority in the issuing of import licences and to the Bank of Zambia in appropriating foreign exchange in three areas (see Annex III):-

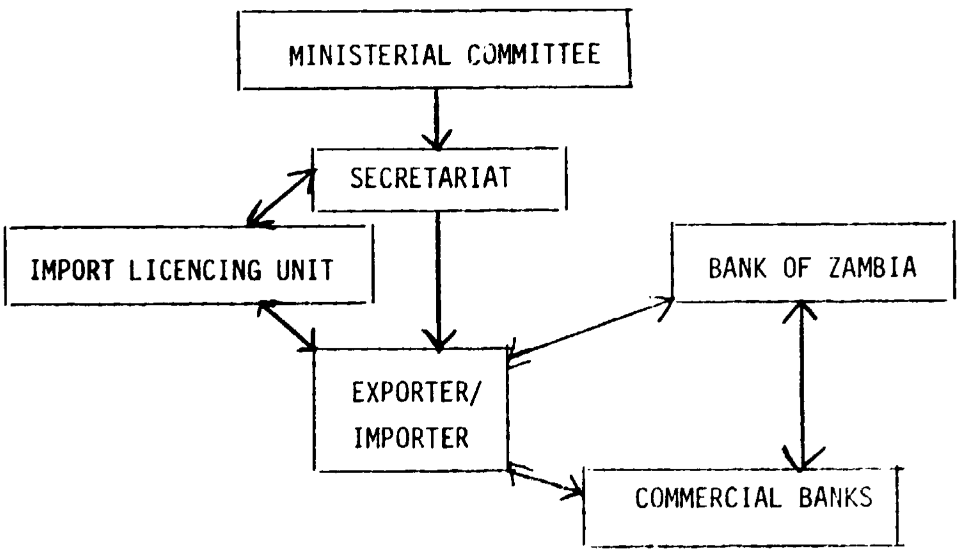
(i) essential commodity producers/importers
(ii) essential commodity support industries
(iii) other (pre-selected) priority areas

The essential commodities include, foodstuffs, cooking oil, soaps/detergent, crude oil, fertiliser, medicine etc. and the support industries receiving priority are largely services and packaging to ensure the production and distribution of essential commodities.

The priority areas selected are largely in the manufacturing sector which due to employment or revenue generation are considered 'indispensable to the national economy'. Additional criteria in selecting between individual firms is based on the level of employment and type of investment deemed by the committee to contribute significantly to the economy.

The Exporter

The practical effect or incentive this system provides to the exporter remains to be seen. The day to day bureaucratic hurdles to overcome in obtaining import licences seems to have been overlooked in addition to securing available foreign exchange from the Bank of Zambia. This issue will be reviewed in some detail in later sections. The following diagram illustrates the present situation:-



In the ranking of the areas to receive priority in the allocation of foreign exchange, after the needs of essential commodities and support industries have been met, the status of 'exporting companies' remains low. Of the twelve (12) areas and eighty four (84) companies given priority status by the Committee, the six export companies are grouped number twelve (12), the last to receive consideration.

The Ministerial Committee recognises that quantity restrictions (QR's) through import licensing is a cumbersome mechanism to control the level of imports. However, instead of moving towards a more uniform system of tariffs, the Committee intends to take a more direct control of importers themselves:-

> "The Committee is of the opinion that a effective control over importing can be exercised by closer control over importers rather than individual transactions".

The Committee intends to use a computerised registration system as a data base to rank and reduce the number of importers. Thus in the name of 'more equitable distribution of foreign exchange' the room for flexibility and enterprise in the business community will continue to be curtailed through a more sophisticated administrative allocation system.

Zambian Export Promotion Council (ZEPC)

The Zambian Export Promotion Council (ZEPC) is the national institution whose purpose is to advise and assist the Ministry of Commerce and Industry in the promotion and development of Zambian exports.

When first created by Ministerial decree in 1977/1978, the immediate tasks set out for it by the Minister of Commerce and Foreign Trade were:-

(i) To promote and encourage Zambian exports;
(ii) To encourage the establishment of export oriented industries;
(iii) To organise the provision of information and government support services;
(iv) To arrange for the training and development of Zambian personnel suitable for export promotion;
(v) To coordinate the country's export activities.

Structure

The ZEPC organisational structure comprised:-

General Council - whose Chairman was the then Minister of Commerce and Industry and Vice Chairman the Permanent Secretary of that Ministry. The membership was drawn from the heads of economic Ministries, trade organisations and individuals interested in trade promotion.

Technical Committees: Six technical committees were formed to oversee (1) Manufactures (2) Agriculture (3) Trade Facilitation (4) Transport (5) Export Incentives (6) Export Financing.

Secretariat: The formation of the ZEPC coincided with the upgrading to Departmental Status of the Foreign Trade Section of the Ministry of Commerce and Industry. A large number of personnel within the Department of Foreign Trade also assume duties within the ZEPC Secretariat. The Director of the Dept. of Foreign Trade is the Executive Secretary of the ZEPC.

Activities

The general council of the ZEPC met twice annually during 1978/79 to discuss recommendations arising from the technical committees. There is no record of a council meeting since 1979. The technical committees have been largely inactive for a number of years, and the ZEPC has been reduced in status and operational effectiveness.

It is unclear whether the continuing provision of the (1) Trade Information Service (2) Publication of the "Zambia Export News"; (3) Marketing Assistance in Trade Fairs/Exhibitions and (4) Training, are carried out under the auspices of the secretariat of the ZEPC or the Department of Foreign Trade.

Staff and Budget

As previously outlined, the ZEPC has no full time staff. The organisational chart of the Department of Foreign Trade is provided in Annex V.

The Budget of the ZEPC is provided as an annual sub-head provision of the Department of Foreign Trade. Even taking into account the absence of staff renumeration, office accommodation and general utilities, the funds provided are dismally small:-

1980	K 18,000	
1981	K 16,500	
1982	K 20,000	(estimates)

Additional funds are provided through the Department of Foreign Trade for a variety of export promotion activities. These include:-

Trade Fairs and Exhibitions	1980	-	K 200,000	
	1981	-	K 180,000	
	1982	-	K 170,000	(estimates)
Trade Delegations	1980	-	K 18,000	
	1981	-	K 11,000	
	1982	-	K 20,000	(estimates)
Trade Fair Grant in Aid	1981	-	K 30,000	
	1982	-	K 30,000	(estimates)
Export Subsidy	1980	-	K 200,000	
	1981	-	K 100,000	
	1982	-	K 100,000	(estimates)

The Exporter

The current structure and activities of the ZEPC provide little assistance and less incentive to the Zambian export community to pursue export opportunities. The provision of technical assistance of trade promotion advisers from the International Trade Centre and the Commission of the European Communities has had some beneficial effects in regard to the provision of a Trade Information Service and various export orientated development projects. Further recommendations to streamline trade documentation in particular await government reaction.

The most prominent area of activity is the participation in Trade Fairs and Exhibitions, which also use the lion's share of funding provided for marketing assistance to Zambian exporters. A list of trade fairs at which Zambia participated are contained in Annex VI

However, it was found through discussions with a representative cross section of Zambian exporters that little or no benefit was derived from participation in such trade fairs. It was thought that participation in national exhibitions in surrounding countries was motivated primarily by prestige and political reasons without any clear commercial objectives being used. This was confirmed in discussions with officials of the Department of Foreign Trade.

Finally it must be noted that individuals working within the Department of Foreign Trade and some overseas trade attaches, most notably in Zaire, provide useful assistance and receive much praise from the exporting community. However, the export promotion activities of the ZEPC and the Department of Foreign Trade are generally dismissed as ineffective.

Policy recommendations to enhance Government sponsored export promotion activities are contained in Section III. The objectives, range of activities and guidelines for optimal organisational structures for Government sponsored export promotion organisation is contained in Annex VII.

Part II

4. MAJOR CONSTRAINTS

1. The Export Firms

In chapter 2, table II, a breakdown was given of six product groups which have shown some growth in exports. The following subsections attempt to illustrate the cost constraints for the three leading Zambian firms involved in exporting. For each firm an analysis is provided for:

(i) Capacity Utilisation
(ii) Cost of Production
(iii) Imported materials as a percentage of total materials used
(iv) Exports as a percentage of the total value and volume of sales
(v) Comparison of export price/domestic price; and average total and variable cost per each unit of production.
(vi) Foreign exchange.

The financial data for each of the firms was obtained through a completed questionnaire provided to the World Bank Mission team. There are serious inconsistancies both in the information contained in the questionnaires and in their comparison with data provided by the Ministry of Commerce and Industry, the Central Statistics Office, Lusaka and through the Mission team's interviews with senior management of the firms.

Nevertheless, the analysis of the cost of production and the foreign exchange requirements of the firms can be used to illustrate the high cost operations of these companies. Likewise, the relationship between the foreign exchange used in production and that obtained through export sales is crucial to certain policy recommendations contained in Section III.

A) Chilanga Cement Co.

Capacity Utilisation

- Production of portland cement at the Chilanga Cement factories is approaching 70% of installed capacity. Though this is high by Zambian standards, discussions with the management reveal that major constraints to increasing production were the depressed domestic demand and the relative poor state of the Chilanga works as compared to the company's modern Ndola plant. Re-habilitation of the older Chilanga plant is being hampered by the inability of the Bank of Zambia to release foreign exchange provided through a European Investment Bank (EIB) loan.

Cost of Production

- Nearly 70% of the total production costs are made up of material, labour, and miscellaneous (thought to be primarily power and transport). Nevertheless, the firm is profitable on the domestic market where unit price covers total unit cost leaving a profit margin of 19%.

  Management has recently applied to its Board for a price increase in excess of 20%. The primary objective is to match anticipated inflation and generate sufficient internal savings to accelerate the plant rehabilitation project.

Imported Materials

- Imported inputs represent about 10% of variable cost. Likewise, imported materials which make up 14% of total materials used in production is required chiefly for the packaging of bagged portland cement.

Exports

- The export price charged by Chilanga Cement exceeds variable cost by 23%. While this still represents a loss at total unit cost, it would be reasonable to continue exporting in anticipation of an exchange rate adjustment thereby increasing the profitability of exports. A more important aspect is the use of exports as a mechanism to sustain production during a time of depressed domestic demand for this continuous process industry.

Since Chilanga Cement is essentially a domestic resource user, the foreign exchange use in production represents about 5% of total unit costs. Therefore, any increase in exports is likely to allow Chilanga Cement to become an important foreign exchange earner to the Zambian economy.

CHILANGA

A) Capacity Utilization (tonne)

Products			Full	Actual
Portland Cement	1980/1981	68%	460,000	315,000
	1981/1982	69%	460,000	319,000

B) Cost of Production (1980/1981)

%	K'000 Total	Unit	
(33.7)	7331	23.27	Materials
(9.3)	2037	6.46	Local Svces/Supplies
(18.4)	4008	12.72	Miscellaneous
(16.4)	3580	11.36	Labour
(8.9)	1940	6.15	Depreciation
(6.7)	1462	4.64	Interest
(6.4)	1396	4.43	Indirect Tax
100	21754	69.03	

c) Imported Materials as % Total Materials (1980/1981)

	K'000
Imported	1029
Domestic	6302
Total	7331
%	(14)

D) Exports as % Total Sales/Volume

	1980/1981 Sales	Vol	1980/1981 Sales	Vol
Domestic	20414	263.5	22661	266.5
Export	1932	46.5	2366	52.5
Total	22346	315.0	25027	319.0
%	(8.6)	(14.7)	(9.4)	(16.4)

E) Export Product (Bagged Portland Cement)

K/MT

Export Price	K 42
Domestic Price	K 85
Unit Cost (Tot)	K 69
Unit Cost (Var)	K 34

Export Price % of

Unit Cost (Tot)	(0.60)
Unit Cost (Var)	(1.23)

F) Foreign Exchange Used In Production

Unit Forex Cost	K 3.25
% Total Cost	4.7%
% Var. Cost	9.5%
% Export Price	7.7%

B) Zambia Sugar Co.

Capacity utilisation

- Production capacity at the Zambia Sugar Co. plants at Ndola and Nakambala are relatively high by the Zambian "norm". Management has estimated that installed plant capacity has a potential to be increased by as much as 25%. However, increased utilisation of plant depends on the availability of raw sugar cane which is subject to periodic climatic constraints. Further, the existing cane plantation at Nakambala can be developed to yield only an additional 50,000 tonnes of raw cane per annum.

Cost of Production

- The analysis of the cost of production in the accompanying table reveals a fairly high level of labour intensity and long term indebtness. Miscellaneous costs were described by management to the Mission team as containing the cost of plant repairs, haulage, marketing and interest on short-term finance. (working capital)

The scarcity of working capital is caused by a strict price control of refined sugar on the domestic market. Both domestic and export price per tonne of refined sugar, reveals a profit margin of less than 3% when compared to total unit costs. With significant short and longterm debt, the Government imposed price restrictions presents a danger to the profitability and viability of the firm.

Imported Materials

- According to the information supplied in the above mentioned questionnaire, imported inputs represent 10% of variable costs. Imported materials used for packaging represent 22% of total materials used in production.

Exports

- The export price of refined sugar is stated to be the same as the domestic price both of which are above total and variable costs per tonne.

Unlike the price charged on the domestic market, the export price is determined by market demand and will continue to be only marginally profitable at the current exchange rate. It should be noted that the price of cane sugar is usually governed by special agreements between producer and consumer countries and only a small percentage is traded on the 'free' world market.

Zambia Sugar Co. is a high domestic resource user evidenced by the low foreign exchange content in the production of refined sugar. While increased exports would allow the firm to become a major foreign exchange earner, even at the current exchange rate, this is unlikely for three reasons:

(i) Sugar consumption in Zambia is estimated by management to be increasing at 7.5% per year. With continuing Government policy directing the firm to satisfy local demand, production for export is being curtailed.

(ii) The development potential of existing plantation is limited and the cost in developing new areas for plantation is beyond the firm's financial resources.

(iii) Both exports of molasses and refined sugar are currently threatened by the proposed ethanol plant project. It is thought likely that production, which had been export orientated, will now be diverted to be used as the raw material for what must be considered as a questionable development project.

ZAMBIA SUGAR

A) Capacity Utilization

Plant	1980/1981	Full	Actual (tonne)
Nakambala	66	48,000	31,738
Ndola	83.8	76,000	63,761
Estate	68.2	150,000	102,318

B) Cost of Production (Refined Sugar) (1980/1981)
Average for both Plants

%	Total	Unit	
(10.7)	4.122	43.17	Materials
			Local Svces/Supplies
(42.1)	16.158	169.20	Miscellaneous
(22.2)	8.511	89.12	Labour
(10.4)	3.991	41.80	Depreciation
(12.8)	4.912	51.44	Interest
(1.7)	0.659	6.90	Indirect Tax
(100)	38.353	401.63	

C) Imported Materials as %
of Total Materials (Refined Sugar)

Imported	10.05
Domestic	33.12
TOTAL	43.17
%	(23)

D) Exports as % (Refined Sugar) *
Total Sales/Volume

	Sales (K'000)	Volume (tonnes)
Domestic	39.075	93044
Export	.762	1365
TOTAL	39.837	94409
%	(1.9)	(1.4)

*Statistical Data from questionnaires is not in accord with published Government Data, or Company interview.

E) Export Product (Refined Sugar)
K/MT

Export Price	K 412	Export Price % of	
Domestic Price	K 412	Unit Cost (Tot)	(1.02)
Unit Cost (Total)	K 401.43	Unit Cost (Var)	(4.37)
Unit Cost (Var)	K 94.15		

F) Foreign Exchange Used in Production
(Refined Sugar) (K/Tonne)

Unit Forex Cost	10.05
% Total Cost	2.5%
% Variable Cost	10.6%
% Export Price	2.4%

C) Metal Fabricators of Zambia Ltd. (ZAMEFA)

Capacity Utilisation

- Capacity utilisation at ZAMEFA varies significantly within the product mix. The main constraints indicated by management were the limited availability of foreign exchange for imported raw materials, difficulty in obtaining spare parts from distant suppliers, and the uncertainty of demand projections of the Zambian Mining Industry which is the primary consumer.

  ZAMEFA has recently undertaken a K 3 million investment in plant which is aimed at overcoming a production bottleneck which has seriously affected domestic and export sales in bare copper cable. Presently, the firm is forced to use copper billets, a semi-processed product obtained from the mining refineries at a higher price than refined electrolytic copper wire bars. This curtails long-run processing of copper cable which is generally sold by the kilometer, and reduces product quality by requiring additional welding in high voltage cable. The new plant will allow the firm to purchase electrolytic copper wire bars and produce copper cable at international (world's best) standards both reducing costs and increasing the firm's competitive position on the international market.

Cost of Production

- ZAMEFA is a capital intensive firm producing low value-added products as evidenced by the low labour component in the cost of production. Cost of materials represents the most significant cost component and the import content is relatively high.

  The materials component is made up primarily of domestically produced copper and imported PVC and steel wire. There is little likelyhood of reducing the import content through securing local suppliers but the purchase cost of domestic materials (copper) should be reduced by the above mentioned new plant development.

Exports

- The export price within the firm's product mix is significantly lower than domestic price. This may indicate a fairly high level of protection on the domestic market and international over production depressing demand in the firm's export markets.

According to information obtained, ZAMEFA currently exports at a loss in all product groups and, significantly, only covers variable costs in the export of bare copper rods. However, fixed costs are low and it is likely that an exchange rate adjustment may allow exports to become marginally profitable.

Foreign exchange component in the cost of production while not low is modest, and significant increase in exports should allow the firm to become a net earner of foreign exchange.

ZAMEFA

Capacity Utilisation

1980/1981 Products:	%	Full (Tonne)	Actual (Tonne)
(1) Bare Copper	10%	3204	321
(2) Unarmoured Copper	76%	336	257
(3) Armoured Copper	41%	1332	551
(4) Other	62%	1250	775

B) Cost of Production — Products (tonne)

		(1)		(2)		(3)		(4)	
	(59.5%)	1623.49	(46.9)	2776.00	(52.7)	3416.25	(60.5)	2166.40	Materials
		-		-		-			Local Svces/Supplies
	(27.3%)	743.98	(36.9)	2184.00	(38.2)	2475.95	(28.5)	1021.00	Miscellaneous
	(3.1%)	84.34	(3.8)	224.00	(2.1)	139.30	(2.5)	9208.00	Labour
	(6.7%)	183.73	(8.2)	488.00	(4.6)	301.82	(5.4)	195.48	Depreciation
	(3.3%)	90.36	(4.0)	240.00	(2.3)	149.25	(2.7)	98.55	Interest
	(0.1%)	3.01	(-)	4.00	(0.1)	6.63	(-)	3.23	Indirect Tax
TOTAL UNIT COST		2728.91		5916.00		6489.20		3576.76	

C) Imported Materials as % Total Materials — Products

1 (50%)   2 (50%)   3 (50%)   4 (60%)

D) Exports As % of Total Sales/Volume*

Products K'000/M tonne	Domestic Sales	Domestic Volume	Exports Sales	Exports Volume
1	768	153	450	180
2	2105	241	33	9
3	5259	603	-	-
4	1664	247	822	372
TOTAL	9796	1244	1305	561
%	(88.2)	(68.9)	(11.7)	(31.1)

* Statistical Data from questionnaire is not in accord with published Government Data or Company Interviews.

E) Export Products (per tonne) K

	(Product 1)	(Product 2)	(Product 3)	(Product 4)
Export Price	2500.00	3667.00	-	2210.00
Domestic Price	3639.00	8734.00	8721.00	6737.00
Unit Cost (Total)	2725.90	5912.00	6482.60	3573.50
Unit Cost (Variable)	2454.82	5196.00	6038.15	3282.71
Export Price as % of				
- Total Cost	91.7 %	62 %	-	61.8%
- Variable Cost	102 %	70.5%		67.3%

F) Foreign Exchange used in Production (K/Tonne) — Products

	(1)	(2)	(3)	(4)
Unit Forex Cost	813.25	1388.00	1708.13	1300.48
% Total Cost (Production)	30%	23.4%	26.3%	36.4%
% Var. Cost (Production)	33%	26.7%	28.2%	39.6%
% Export Price	32.5%	37.8%	-	58.8%

2. Exchange Rate Policy

- The Zambian Kwacha is clearly overvalued as evidenced by the perisitent balance of payments deficits over the last few years. Total expenditure far exceeds domestic production and imports have consistently outstripped export earnings (primarily copper).

  Recent reports indicate that the mining industry is experiencing huge losses as domestic costs have increased making the industry unprofitable at the existing exchange rate (approx. U.S.$.85 per K). There have been suggestions that Zambia must devalue significantly to allow the mining industry to become marginally profitable, thereby laying the foundation for economic recovery.

  Likewise, the Zambian inflation rate as compared to the US for the years 1970 - 1980 rose to such a degree that the Kwacha has now appreciated (in real terms) by as much as 35% against the US $.

  Clearly at this level of dis-equilibrium an overvalued Kwacha has made exporting increasingly unattractive while enhancing the profitability of production for the domestic market. It is not within the scope of this report to prescribe the extent of a possible exchange rate adjustment which must consider the effects likely on other sectors of the economy. However, without a much more realistic exchange rate, exporting from Zambia will continue to be both unattractive and unprofitable.

3. Import and Export Licensing

- As previously described in Chapter 4 the Government of Zambia has developed an import licensing system as the principle mechanism for the imposition of quantity restrictions on imports. The twin purpose of this mechanism is:-

  (i) To restrict a range of imports generally and particularly to prohibit importation of certain 'luxury' or 'non-essential' goods thereby saving foreign exchange.

(ii) To provide a high level of effective protection to manufacturing industry.

A full list of the restricted imports is provided in Annex IV
This section attempts to describe the impact of this policy in cost terms to the exporters, and the bureaucratic constraints imposed by the existing system.

The Cost

The cost effects of import licencing on the manufacturing exporter includes:-

(i) Raising the price of domestic inputs through protecting local producers from cheaper more efficient foreign competitors;

(ii) Causing undue delays in the importation of foreign inputs thereby reducing manufacturers ability to establish effective production planning systems;

(iii) Forcing the exporter to pay premium prices to foreign suppliers where uncertainty of continuous import orders and timely payments allows the supplier the price flexibility of a 'sellers market'.

(iv) Reducing manufacturers' output thereby increasing unit costs.

The overall effect on the price of Zambian exports caused by the inflationary impact of the export licensing regime within the economy is difficult to quantify. However, taking into account the disincentive of the (overvalued) exchange rate and the imposition of a strict import licensing regime, the competitiveness of Zambian exports on the international or regional markets is seriously undermined. Likewise, the attractiveness of the highly protected domestic market strengthens the anti-export bias inherent in the economy.

The System

For the Zambian firms still willing and able to engage in exporting, the bureaucratic procedures involved in obtaining an import licence are daunting. The Import Licensing Unit of the Ministry of Commerce and Industry requires the applicant to:-

(i) Register as an importer;

(ii) Present a completed application certificate for foreign exchange cover from the newly established Ministerial Committee on Foreign Exchange allocation;

(iii) Complete a detailed application form for the import licence;

(iv) Enter into negotiations via his commercial bank with the Bank of Zambia to secure available foreign exchange cover for the amount stated in the import licence;

(v) Pay a 5% government levy on the F.O.B. value of the imported goods cited in the import licence over and above any customs or any other duties payable.

In practice the issuance of import licences which are not tied to the availability of foreign exchange cover from the Bank of Zambia has greatly undermined the orderly administrative allocation of foreign exchange.

Firms routinely apply for import licences as a matter of course. They retain these licences in anticipation of the general foreign exchange allocation to their commercial bank or more often to increase their ability to pressure the Bank cf Zambia to provide direct foreign exchange cover.

A more disturbing development reported by a number of industrialists was the growing 'illegal market' in import licences. Naturally this cannot be verified but the frequency by which it was cited illustrates a serious area of abuse inherent in a situation of scarce foreign exchange and a continuing policy of quantity restrictions.

Further the 'premium' payed for import licences on the illegal market increases the real cost to the exporter in obtaining letters of credit for his imported inputs.

Export Licensing

Zambian exporters are required to obtain an export licence from the Export Licencing Unit of the Ministry of Commerce and Industry. Zambia's policy of import substitution has required that manufacturing firms must endeavour to satisfy domestic demand before engaging in exporting.

His Excellency the President's recent statement, 'if we are to survive from now on it is export of perish', would indicate that export licensing of manufacturers is no longer appropriate.

4. Foreign Exchange Allocation

The administrative allocation of foreign exchange at the national level through the Ministerial Committee on foreign exchange has been described previously in Chapter 4. What is attempted here is an illustration of the actual foreign exchange allocation system by the Bank of Zambia, and its effects on the country's exporting community.

Once an exporter has received his import licence from the Ministry of Commerce and Industry there are two options available to secure adequate foreign exchange to cover letters of credit opened by his commercial bank:-

(i) The exporter requests his commercial bank to approach the Bank of Zambia for the amount of foreign exchange to the kwacha deposited covering that amount stated in the approved import licence;

(ii) The exporter approaches the Bank of Zambia directly to obtain a 'specific' order to his commercial bank to open a letter of credit in the amount cited.

In either case, the exporter (importer) is required to deposit the kwacha equivalent at his commercial bank to be converted into foreign currency at the current official exchange rate. The difference in the two approaches is important:-

(i) Approximately 90% of all foreign exchange allocated by the Bank of Zambia is directed towards 'specific' requests of individual importers.

(ii) The Bank of Zambia seemingly does not produce a written priority list of individual firms receiving 'specific' allocations.

(iii) The general allocation (approximately 10%) made by the Bank of Zambia to the commercial banks is intended to (1) allow the commercial banks to service the import requirements of their customers; (2) allow the commercial banks to reduce accumulated payment arrears owed to foreign suppliers.

The administrative system in the allocation of foreign exchange subjects the Zambian exporter to conditions that would be intolerable under any normally recognised commercial climate. The level of uncertainty created in the timely execution of export orders, the lack of planning and the waste of valuable management time, are the most apparent casualties of this system. The actual financial and economic costs to the individual firms are unknown.

5. Transport

Zambia's external trade has in the past been adversely affected by disruption to its transport links caused by the political upheavals in the then Southern Rhodesia. However, serious problems have continued especially on the Tanzara rail system, due to poor management and technical problems arising from inadequate maintenance, unsuitability of rolling stock, insufficient spare parts and the lack of skilled personnel.

A detailed analysis of the cost of transport on imported inputs in production of export products is beyond the scope of this report. However, as seen from the previous section on export markets, the exports of finished manufactured products are concentrated in the surrounding markets of Zaire, Malawi, Burundi and Rwanda which are primarily serviced through road haulage. Thus immediate improvement in the carrying capacity of Zambia's road haulers and a reduction in the price charged to Zambian exporters will be of direct benefit to the exporting community.

A breakdown of Zambia's external routes and import/export tonnage is given below, Table III. In the following sections, a brief description including quoted transport tariff for road haulage and container rail services are provided.

Road Transport

Production of finished goods for the Zairean market is concentrated in the Copperbelt province which, due to close proximity to the border, makes the cost of transport relatively cheap, though transporting itself remains problematic.

Information regarding the cost of road transport to the two most important southern markets of Malawi and Zimbabwe were obtained from Leopold Waldford (Zambia) Ltd. These rates should be considered the current 'norm' and are negotiable. Likewise, any significant increase in Zambian exports should result in a decrease in the unit cost price of transport both for imports and exports, since presently haulers must re-adjust their tariffs to service the overwhelming one-way import traffic.

Current Rates:-

(a) Lusaka - Harare (Zimbabwe)
K55 per ton

(b) Lusaka - Malawi
10 ngwee per ton per km.

Rail

Due to delays, pilferage and mis-handling of the transport of manufactured imports and exports are increasingly being containerised on the Tanzara system. The rail link to Dar-Es-Salaam is the only container service presently operating in/out Zambia.

The following costs are approximate and pertain to a 20 ft. full container load (FCL) holding 18 tons.

Current Rates:-

(a) Lusaka - Dar-Es-Salaam - K 2,500

(b) Dar-Es-Salaam - Rotterdam/London - K 2,350

(c) Port charges - Dar-Es-Salaam:-
Wharfage 0.125% C.I.F.
Shore Handling - K 1.6 per ton weight/volume

(d) Agency charges - K 130 per container

TOTAL:-

A) K 2,500
B) K 2,300
C) K 30
D) K 130
K 5,010 plus (0.125 C.I.F.)

TABLE III IMPORTS AND EXPORTS BY VARIOUS ROUTES (TONNES)

ROUTE	1979 IMPORTS	1979 EXPORTS	1980 IMPORTS	1980 EXPORTS	NINE MONTHS OF 1981 IMPORTS	NINE MONTHS OF 1981 EXPORTS
[illegible]ito-Zaire*	513	52,367	326	43,911	-	20,549
Dar-es-Salaam (Road)	[illegible],316	164,332	[illegible] ([illegible],921)	[illegible],316 ([illegible],503)	87,719	[illegible]
Dar-es-Salaam (Rail)	221,304	200,231	243,720 (183,780)	[illegible],370 (138,451)	164,429	215,488
Malawi	30,587	15,684	3,254 (2,342)	4,316 (4,216)	3,318	-
Mozambique	20,965	-	- (-)	110 (110)	3,245	440
Kazungula (Botswana)	1,160	44	4 (4)	- (-)	229	-
Zimbabwe (Southern) Road	-	-	73,255 (65,209)	1,193 (650)	50,955	-
Zimbabwe (Southern) Rail	342,728	294,492	370,855 (303,597)	266,838 (220,540)	214,619	145,001
Air Freight	23,665	8,619	19,646	3,497	9,027	2,996
TOTAL	981,738	766,269	880,387 (699,426)	790,508 (615,578)	533,611	485,752

*These figures represent exports to and imports from Zaire.

NB Figures in brackets refer to nine months period of 1980.

Source: Contigency Planning Unit.

5. WEAKNESSES IN THE INCENTIVE STRUCTURE AVAILABLE TO ZAMBIAN EXPORTERS

The following are some of the major weaknesses in, or lack of specific export incentives available to Zambian firms. Access to such incentives would not represent effective subsidy to exporters but should be intended to compensate exporting firms which are now subject to the strong anti-export bias of the Zambian economy.

1. Finance

If export marketing is to be successful, Zambian exporters must have access to finance on terms no less favourable than their competitors. Availability of pre-shipment finance for exporting firms appears limited to conventional overdraft facilities offered by commercial banks. Many existing and potential Zambian exporting firms are deficient in managerial expertise, their level of retained earnings and other collateral which would form the basic criteria for normal banking credit.

2. Export Credit Insurance

An export credit insurance scheme does not operate in Zambia. This jeopardises the Zambian export effort in particular through the lack of security for bank finance used in the production of manufactured products destined for export. In addition, the absence of such a scheme curtails Zambian firms from offering credit terms to potential buyers in the surrounding regional markets.

3. Export Payment Guarantees

A more serious constraint on the development of Zambian exports s the complete absence of a payment guarantee scheme. Many of Zambia's most important surrounding African export markets are themselves facing serious foreign exchange difficulties.

In discussions with a cross section of existing and potential exporters, the real threat of lack of timely payment for export orders delivered poses a strong disincentive to engage in exporting. Normal export credit insurance schemes do not cover a 'transfer delay' - the time lag in securing payment of export orders. A government back payment guarantee scheme is crucial to the development of inter-regional trade for Zambia.

4. Customs Duty Drawback

The 1977 Industrial Development Act and the Customs and Excise Act allows for the refund of duties paid on imported inputs used in the manufacture of export products.

The scheme now in force has been identified by the International Trade Centre, UNCTAD/GATT as being extremely complex to administer. An exporter attempting to avail of the scheme has to undertake a number of steps which include:-

(i) Registering with the Department of Customs and Excise

(ii) Declaring at the time of import that amount of duty likely to be claimed as a drawback at the time of export

(iii) Filing a number of copies of the drawback application along with the export bill of entry

(iv) Negotiating with the Customs Department the link between the export and import bill of entry to establish the value of the duty-related import within the export product.

Not surprisingly, only one exporter of garments has attempted to claim duty drawback and the scheme as it operates presents no incentive to the exporting community.

5. Marketing

In wide ranging discussions with management of a number of Zambian manufacturing enterprises one is struck with the almost complete production orientation of management personnel.

Marketing and export marketing in particular is a serious and complex business. The importance of marketing training and up-to-date information on which to base marketing decisions cannot be over-stressed. In view of the past investment performance of many Zambian firms, the absence of the marketing function at high-level management must be viewed as a serious deficiency.

III RECOMMENDATIONS

The mission was undertaken with the view to analyse Zambia's export performance to date, review exisiting incentives, identify major constraints and recommend policy reforms which may enhance Zambian firms' ability to develop and diversify exports.

The following policy recommendations are aimed at establishing a more favourable export climate rather than to present detailed administrative actions needed to overcome existing bureaucratic bottlenecks.

While some of the following policy recommendations can have immediate effect, a strong and clearly expressed government committment to a policy of export growth and diversification is crucial to creating a climate favourable to exporting.

The single most important issue facing the government of Zambia is a significant exchange rate devaluation linked to a well defined and courageous plan for structural adjustment of the economy. Without urgent steps taken to address these issues the following package of recommendations will have little long term impact on the restoration of health to Zambia's economy.

Foreign Exchange Credit System

The recently promulgated foreign exchange credit system (see Chapter 3) remains an inadequate incentive to Zambian firms in the development of exports.

The Government of Zambia may give consideration to:-

(i) Introducing a foreign exchange credit system which allows a substantial portion (75 - 100%) of the net foreign exchange earned by exporters to be retained by them for whatever use the management of those firms deems desirable

(ii) Allowing such retained foreign exchange to be lodged directly in the exporter's commercial bank without first being paid over to the Bank of Zambia.

(iii) Determining on an annual basis a simple formula which will establish the net percentage of foreign exchange to be retained by each exporting firm for all exports realised.

(iv) Assuring that the opening of letters of credit by those export firms using their retained foreign exchange will not be subject to import licensing requirements.

(v) Assuring that the normal administrative allocations of foreign exchange required by exporting firms participating in this scheme will continue to be treated as a priority area to ensure increased utilisation of productive capacity.

Net Foreign Exchange

(i) A simplified formula which might be considered to determine net foreign exchange would include: (1) the Zambian export price minus directly imported materials used in production; and (2) less the foreign exchange earnings foregone in the processing of traditional export commodities (e.g. copper etc.).

(ii) In putting forth this recommendation it is recognised that foreign exchange costs which may be incurred in depreciation on imported machinery or interest due in foreign exchange is not taken into consideration. It is felt that the inclusion of such items, while theoretically appropriate, would make the scheme too complex to administer under Zambian conditions.

Export Development Fund

The Government of Zambia may give consideration to establishing a revolving Export Development Fund to allow preferential access to foreign exchange for the import needs of exporting firms.

The fund should:-

(i) Be a Government owned legal entity administratively accommodated and operated through the Development Bank of Zambia.

(ii) Seek assistance from international financial institutions for a secure foreign exchange credit line and technical assistance in the operations of the fund.

Export Credit Insurance and Guarantee Schemes

(i) The Government of Zambia may consider establishing an export credit insurance facility within the Zambia State Insurance Corporation.

(ii) The Government may direct the Bank of Zambia to enter into negotiations with the Central Banks of neighbouring states to secure adequate payment arrangements in regard to inter-regional trade. Under Article 22 and the related Protocol VI of the recently formed Preferential Trade Area of Eastern and Southern Africa suitable facilities are called for in this regard.

Duty Relief On Exports

The Government of Zambia should consider as a general proposition:

(i) Exempting from duty all imported materials used in the production for exports realised within an agreed time period (12 months), and at a prescribed production quantity.

(ii) Introducing a streamlined duty drawback scheme including any indirect taxes, utilizing a simplified automatic formula for generalised categories of exportable products.

(iii) Establishing a system for duty-free importation (in bond) for manufacturers of products solely destined for export.

(iv) The government should seriously consider the recommendations on a new effective duty relief scheme proposed by the Export Financing Advisor of the International Trade Centre, UNCTAD GATT who visited Zambia in November 1979 and October 1980.

Import/Export Licensing

The Government of Zambia may wish to consider:-

(i) Transferring the functions of the Import Licensing Unit of the Ministry of Commerce and Industry to the Bank of Zambia to ensure that the issuing of import licences will be matched to the availability of foreign exchange.

(ii) That the Bank of Zambia publish on a quarterly basis a list of importers who have received import licences and the value of the allocated foreign exchange.

(iii) That export licensing be abolished for all manufacturing firms involved in exporting.

Marketing Assistance

At such time as the Government of Zambia states clearly its commitment to export-orientated economic growth, signalled by an effective exchange rate adjustment, it may wish to consider reconstituting the Zambian Export Promotion Council or a similar export promotion organization as a 'statutory' entity outside the confines of the Civil Service Structure.

There are many forms an export promotion organisation may take which include:-

(i) An entirely state or parastatal agency.

(ii) A joint public/private venture with a nominated Board of Directors answerable to the Government.

(iii) A private commercial organisation acting under 'contract' to the Government.

It is neither desirable nor appropriate to prescribe which legal form or optimal organisational structure is most suitable in the Zambian context. However, it should be borne in mind that most export promotion organisations have only two basic resources:-

(i) Finance

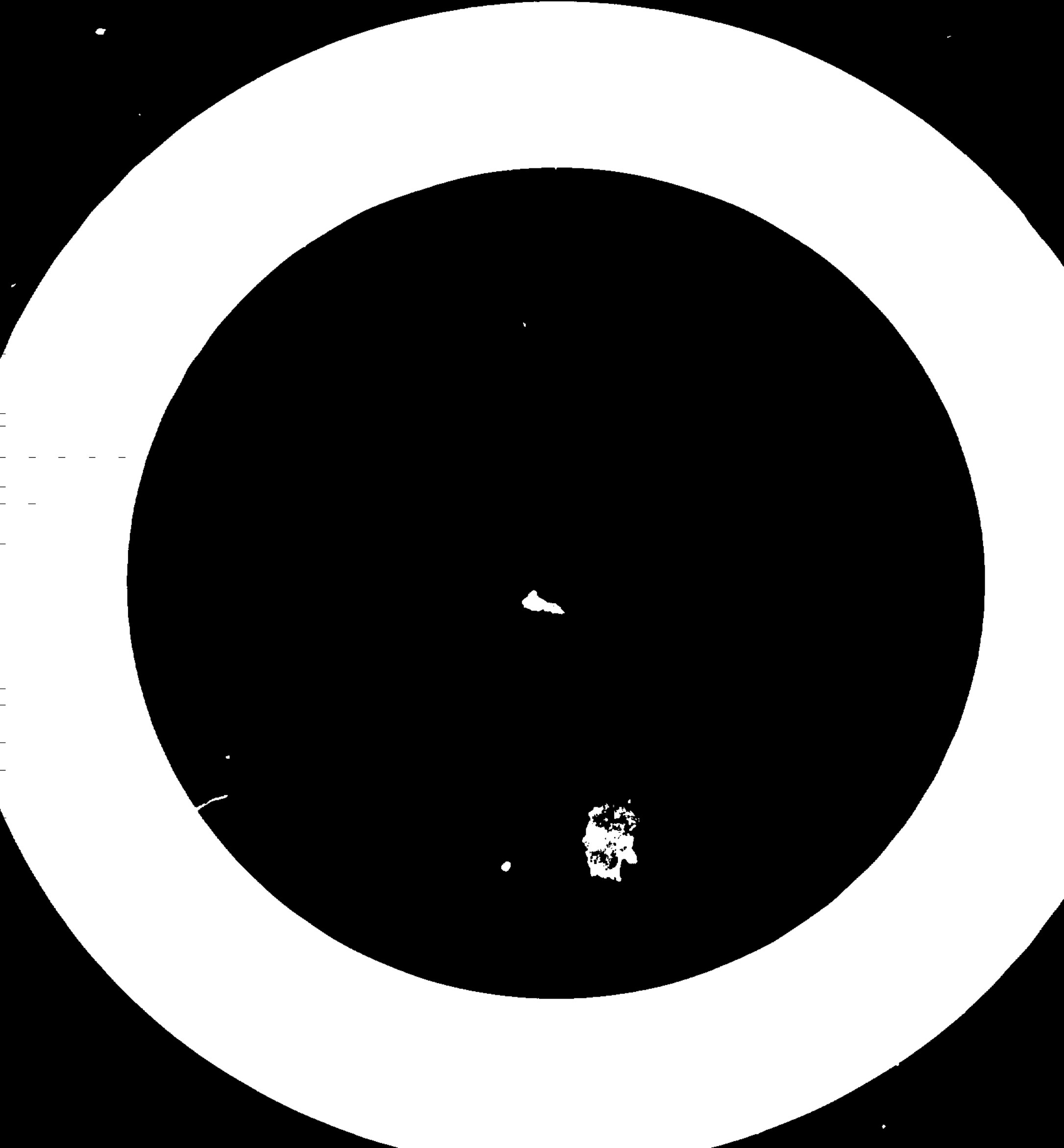
Export promotion organisations can be funded in various ways:

(a) By Government grant
(b) By levy on imports
(c) By levy on exports
(d) By subscriptions of members
(e) By charging for their services

Whatever funding arrangement is decided the most appropriate, it should fully cover the cost of providing the range of services as described in Annex VII on 'Export Promotion'.

(ii) Staff

The staff of an export promotion organisation must have commercial and desirably export marketing experience. They must be well paid, capable of providing adequate if limited market advice and act in a strictly commercial manner with the Zambian industrial community. Civil servants have not and probably cannot enjoy the confidence of the country's manufacturing exporters.



SELECTED ECONOMIC INDICATORS - 1970-1981*

	Unit	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[1]
I. POPULATION TRENDS													
Number of inhabitants	'000	4,251	4,386	4,527	4,675	4,829	4,981	5,138	5,302	5,472	5,649	5,834	6,027
Yearly increase	%	3.1	3.2	3.2	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.3	3.3
Employment of Zambian Employees (All Industries)	'000	316	339	333	348	352	365	341	344	345	351	367	371
II. PRODUCTION TRENDS													
1. Total Gross Domestic Product													
a. at current pric[illegible]	K'M	1,278	1.180	1,317	1,529	1,893	1,583	1,870	1,952	2,203	2,598	2,986	2,990
b. at constant (19[illegible]) prices	K'M	1,278	1,277	1,394	1,438	1,474	1,43[illegible]	1,500	1,428	1,455	1,329	1,370	1,345
2. Per Capita G.D.P.													
a. at current prices	Kwacha	301	268	290	338	388	318	377	368	402	461	521	496
b. at constant (1970) prices	Kwacha	301	291	308	307	303	289	291	269	267	238	232	223
3. Copper Production (volume)	'000 tonnes	683	634	698	681	702	640	713	660	656	589	624	563
(of which exported)	(000 tonnes	684	635	711	670	673	641	746	667	613	646	617	556
4. Maize Production (ending 30 April) (Marked Production)	'000 bags	2,791	3,773	6,850	4,259	4,290	6,491	6,334	7,734	6,463	3,600	3,733	4,247
5. Tobacco Production (virginia, Flue-cured- ending 30th April)	'000 kg	4,805	6,248	5,544	5,789	6,201	6,466	6,115	5,588	3,704	4,600	4,591	4,127
6. Production Index of the Manufacturing Industry	1973 = 100	82	90	95	100	111	107	102	96	103	104	105	97
7. Production of Electricity	Mill. Kwh	-	1,176	3,275	3,275	5,973	6,191	7,046	8,683	7,883	8,772	9,221	8,995
8. Production Index Construction (value added at constant (1970)prices	1970 = 100	100	98.4	104.4	110.6	126.8	153.4	110.2	100.1	90.8	76.7	87.6	84.9
III. GOVERNMENT FINANCE													
1. Current Account													
a. Revenue	K'M	432	309	315	385	648	448	443	499	550	593	768	807
b. Expenditure	K'M	381	350	363	394	441	581	609	661	647	791	1,082	881
c. Surplus(+) or Deficit(-)	K'M	+51	-41	-48	-9	+207	-133	-166	-162	-97	-198	-314	-74
2. Capital Account													
a. Receipts	K'M	239	180	139	290	150	170	147	139	139	263	225(2)	207
b. Expenditure	K'M	239	203	160	388	194	246	172	160	168	165	232(2)	205
c. Surplus(+) or Deficit(-)	K'M	0	-23	-22	-98	-44	-76	-25	-21	-29	+98	+60	+2
3. Combined Surplus (+) or Deficit (-)	K'M	+51	-64	-70	-107	+163	-208	-190	-183	-127	-100	-254	-72
4. Total Public Debt of which	K'M	309	372	426	582	636	712	896	917	1,000	1,163	1,475	1,694
a. Internal	K'M	177	196	230	264	292	306	344	361	379	396	438	606
b. External	K'M	132	177	196	317	354	406	552	557	621	766	1,037	1,088

	Unit	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981(1)
IV. BALANCE OF PAYMENTS													
1. **Trade Balance**													
a. Exports	K'M	715	479	544	734	898	516	742	708	676	1,091	1,002	870
b. Imports	K'M	-341	-401	-405	349	-509	-610	-482	-530	-494	-598	-883	937
c. Balance Surplus (+); Deficit (-)	K'M	+374	+78	+139	+384	+389	-93	+260	-178	+182	+493	+119	-67
2. Balance of Current Account ibid	K'M	+77	-176	-148	93	10	-464	-45	-177	-152	+46	-408	-479
3. Overall Balance ibid	K'M	-134	-209	-108	-8	-19	-250	-136	-224	251	+150	+220	-271
V. MONEY SUPPLY (at the end of the year)													
Total Money Supply (broader concept)	K'M	356	325	369	473	441	493	623	699	639	832	902	1,022
a. Currency with the public	K'M	428	58	61	69	80	102	121	118	131	126	509	601
b. Demand Deposits at Banks	K'M	143	155	156	205	186	220	256	268	200	387		
c. Quasi Money (Savings + Time Deposits)	K'M	170	112	152	163	175	171	247	312	248	319	393	421
VI. PRICE TRENDS													
1. **Cost of living index**													
a. for Higher Income Group	(1970 = 100)	100	106	112	120	131	142	165	193	217	241	269	297
b. for Lower Income Group	(1970 = 100)	100	105	110	117	127	140	166	199	231	254	283	323
c. Weighted Average		100	105	110	118	127	140	166	198	229	252	282	319
2. **Annual increase in cost of Living Index**													
a. for Higher Income Group	%	-	5.8	5.7	7.5	9.0	8.4	16.1	17.2	12.4	11.1	11.6	10.4
b. for Lower Income Group	%	-	4.9	5.1	6.4	8.1	10.2	18.6	19.8	16.1	10.0	11.4	14.1
c. Weighted Average		-	5.0	5.1	6.6	8.2	10.0	18.4	19.4	15.7	10	11.9	13.1
3. **Wholesale Prices (All Commodities)**	(1966=100)	115	108	113	139	157	147	176	212	246	306	334	355
a. Annual increase of wholesale prices	%	-2.5	-6.2	5.4	22.4	13.0	-6.3	19.5	20.4	16.4	24.4	9.2	6.3
4. **Copper Prices on the LME Electrolytic Wire Bars**	K'per tonne	-	767	764	1,156	1,326	793	1,007	1,016	1,084	1,571	1,719	1,520
5. **Index Import Prices (National Accounts)**	(1970 = 100)	100	105	111	126	156	194	216	248	299	374	486	584
6. **Index Export Prices (National Accounts)**	(1970 = 100)	100	76	77	114	138	84	102	97	103	185	201	198
7. Index Terms of Trade (6)/(5).100	(1970 = 100)	100	72	69	91	89	43	47	39	34	49	41	34

	Unit	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 (1)
VII. DOMESTIC EXPENDITURES (National Accounts)													
Total													
a. at current prices	K'M	970	1,214	1,327	1,340	1,714	1,892	1,844	1,953	2,218	2,358	2,986	2,990
b. at constant (1970) prices	K'M	1,063	1,122	1,163	1,109	1,256	1,280	1,046	988	1,036	875	1,025	965
of which:													
1. Government Consumption													
a. at current prices	K'M	199	280	315	345	358	436	501	553	591	680	844	833
b. at constant (1970) prices	K'M	206	255	269	273	259	287	292	277	256	248	258	219
2. Private Consumption													
a. at current prices	K'M	481	493	536	530	664	815	737	725	972	1,279	1,609	1,717
b. at constant (1970) prices	K'M	494	465	480	443	501	565	432	408	476	524	575	574
3. Gross Fixed Capital Formation													
a. at current prices	K'M	372	393	445	423	502	602	600	668	555	472	646	725
b. at constant (1970) prices	K'M	379	355	390	362	359	394	331	304	213	154	162	166

NOTE:

- Source: Monthly Digest of Statistics (1970-1981) C.S.O. and Economic Reports (1975-1981) N.C.D.P. except where indicated

(1) Most of the 1981 figures are provisional

(2) Excludes K180.7 million "takeover loan" to Nitrogen Chemicals.
Gross figures K406 million (Receipts). Gross figures K575.6 million (Expenditure).

(4) Source: Financial Reports (1977-1980), 1981 provisional Ministry of Finance

(5) Money Supply figures, Bank of Zambia, Annual Reports. (1979 - 1980)

ESTIMATED INDEX OF UNEMPLOYMENT OF ZAMBIANS, 1977-1981
BASE POPULATION, 1977

Year	Labour Force*	Employed +	% of Labour Force	Unemployed	% of Labour Force	Index of Unemployment
1977	1,586,000	345,320	21.8	1,240,680	78.2	100.0
1978	1,641,000	344,480	21.0	1,296,520	79.0	104.5
1979	1,698,300	351,420	20.7	1,346,880	79.3	103.9
1980	1,761,400**	367,101[a]	20.8	1,394,390	79.2	104.2
1981	1,824,200	371,630[b]	20.4	1,452,570	79.6	104.2

* Source: SCO, 1976, Projection of the Labour Force, 1969-84

\+ Average number of employees for Quarters ending June; CSO, Monthly Digest of Statistics

a Revised

b Preliminary

** The projection when compared with 1980 census count, was found to be on the higher side. Hence the entire estimated index of unemployment is adjusted accordingly.

ANNEX II BANK OF ZAMBIA STATEMENT ON FOREIGN EXCHANGE CREDIT SYSTEMS

NOTICE TO EXPORTERS

RE: RETENTION OF FOREIGN EXCHANGE EARNED BY EXPORTERS

THE BANK OF ZAMBIA HAS ADVISED AS FOLLOWS REGARDING THE PROCEDURES FOR ADMINISTERING THE EXPORT INCENTIVE INVOLVING RETENTION OF FOREIGN EXCHANGE EARNED BY EXPORTERS:-

OPERATIONAL PROCEDURES ARISING FROM THE BUDGET CONCESSION TO EXPORTERS IS THAT IN THE FIRST INSTANCE ALL FOREIGN EXCHANGE EARNINGS SHALL BE PAID OVER TO THE CENTRAL BANK BY COMMERCIAL BANK OF EVERY EXPORTER. A REGISTER HAS BEEN OPENED AT THE BANK OF ZAMBIA IN WHICH ALL RECEIPTS WILL BE REGISTERED IN THE NAME OF A PROSPECTIVE EXPORTER AND HIS BANKERS AND THE EXPORTER'S ACCOUNT IN THE CENTRAL BANK'S BOOKS WILL BE CREDITED WITH THE SUM OF 50% OF THE TOTAL FOREIGN EXCHANGE PROCEEDS RECEIVED FROM EXPORTS.

WHEN EXPORTERS WANT TO BUY MORE RAW MATERIALS THEY SHOULD APPLY THROUGH THEIR BANKS WHEN THEY WILL AUTOMATICALLY RECEIVE FOREIGN EXCHANGE TO ENABLE THEM TO PAY FOR THEIR GOODS. SUCH EXPORTERS WILL NOT BE KEPT ON A QUEUE FOR SUCH ALLOCATION ANY LONGER.

(SOURCE: BOZ/E/27 DATED 23RD APRIL 1982)
7TH MAY 1982
FOREIGN TRADE DEPARTMENT
MINISTRY OF COMMERCE AND INDUSTRY
LUSAKA

ANNEX III [illegible] COMMITTEE ON FOREIGN EXCHANGE

FOREIGN EXCHANGE COMMITTEE ORIGINS AND FUNCTIONS

IMPORT CONTROLS IN ZAMBIA - 19[illegible]

The Ministerial Foreign Exchange Committee assumed responsibility for foreign exchange matters with effect from the end of February, 1981. In the first few months, however, it has been largely concerned with the administrative allocation aspect of import controls. The work of this Committee and the manner in which it has addressed itself to the problems which face it are best understood against a histroy of import controls in Zambia which are summarised as follows:

The Period 1965-75

(a) Within this time span, the period 1965-73 saw import controls implemented in their conventional sense. An import licence issued in this period was automatically a licence to acquire foreign exchange provided other documentation was available. The object of licencing was to implement Government policy on sanctions after U.D.I. and to ration the available transport capacity by controlling the routing of goods.

(b) The balance of payments problems of 1973 led to a total recall of [illegible] import licences and thereafter saw the import licence take on the more ambitious function of a regulatory document limiting the amount of foreign exchange available to an individual importer. Between 1973-75 based on the balance of payments forecast, import licences were issued against allocation quotas which were made on a quarterly basis. These allocations were divided among commodity groups (using SITC Code) which in turn were further subdivided according to their end use (sector of destination). The administration of these commodity groups and the decisions on the value of import licences issued to each importer were the responsibility of various agencies, each agency controlling a range of common groupings. These agencies were in the majority parastatal organisations which had been entrusted with particular import monopolies or the development of intermediate input production which had been avoided by the private sector.

The Period 1975-80

(a) In 1975, a second import licence recall exercise became necessary as a result of the import licence issuing process continuing to outstrip the availability of foreign exchange. This second recall was accompanied by the centralisation of import controls and the abolition of the agency system. The responsibility of determining the limits on the value of import licences issued to an individual importer was given to a Technical Committee administratively accommodated in the Ministry of Commerce and Industry. Allocations of Foreign Exchange also changed from being "commodity based" to "activity based" and importers were divided into 14 sectors of activity.

(b) The allocations between the various sectors of activity were determined largely by overall demand downwardly adjusted according to the anticipated foreign exchange receipts and also the historical records of imports by importers in a particular sector. The first year of operation of this system saw large fluctuations between quarters and between sectors. Although overall allocations for imports continued to fluctuate in subsequent years, the ratios between sectors remained fairly constant and form the basis of those being used by the present Ministerial Committee.

(c) The Technical Committee and its servicing Sub-Committee determined all allocations of foreign exchange for imports between 1975 and 1980. It did not determine allocations of foreign exchange for invisibles. Its allocation function was also limited to allocations by value and not by commodity. Once an importer had been notified as to the ceiling of his imports for a particular quarter, the commodities which were imported against that allocation were determined by the Ministry of Commerce and Industry. As a policy of protection towards local industry, the Ministry published a list of certain commodities for which import licences would not be issued and as an exchange control measure also ruled that the importation of certain luxury commodities was prohibited. However, beyond these restrictions an importer was free to vary commodities as he chose. A feature of the Technical Committee was that it was an ad hoc committee which met only to c nsider the allocation process every quarter and after 1978 every half year, disbanding when this work was completed. All administrative functions relating to import control were left to the Ministry of Commerce and the Bank of Zambia.

The Appointment of the Ministerial Committee - 1981

In 1981, the Technical Committee was disolved by His Excellency the President and replaced by a Ministerial Committee serviced by a Secretariat. The new Committee differs from its forerunner in certain major aspects:-

(a) It is responsible for all foreign exchange allocations and not only allocations for imports.

(b) Being constituted at such a high level, it has a policy-making and co-ordinating prerogative that was not within the reach of the former Technical Committee.

(c) Its Secretariat is a permanent body with the status of a Ministry section and is responsible for the implementation of all decisions made by the Ministerial Committee.

(d) The Committee determines the commodities to be imported in addition to the value limit by selecting commodities from a list submitted by the applicant.

Activities of the Ministerial Committee, February - July, 1981

It is within the terms of reference of this Committee to restructure the administrative allocation system. However, its first responsibility was to authorise a limited issue of import licences to enable the flow of imports to continue. In this exercise, the Committee determined its priorities in the following manner:-

(a) Import licences were first issued to nine importers and producers of essential commodities (Appendix A). The Committee recognises the inherent difficulties in determining the "essentiality" of any commodity and considers that ultimately the decision is one of a rule of thumb based on the practical experience of any country. The commodities listed in Appendix A are commodities shortages of which would seriously inconvenience the majority of the population as guided by Zambia's own experience. The value of the allocations was determined according to detailed submissions concerning demand, production levels and current world prices from each of the importers.

(b) The Committee also obtained further submissions from these importers/producers concerning their support industries and the demand for their products. On the basis of these submissions import licences were authorised to 30 support companies producing goods and services (largely packaging) indispensably related to the production of essential commodities. (Appendix B).

(c) A further thirteen areas were then selected largely in the manufacturing sector, where, owing to employment creation, linkage factors or revenue generation the Committee considered that they played an indispensable role in the national economy. The thirteen areas of activity and the number of companies in each area are broken down in Appendix C.

(d) The sectors of activity in which importers continue to be classified have been arranged in order of priority and allocations made to importers in those sectors accordingly. With the exception of the agriculture sector, the Committee has authorised the issue of import licences for six monthly operation. In the case of the agriculture sector, the Committee has authorised the release of import licences equal to the total value of what would normally be issued in a year in order to allow agricultural inputs to arrive in time for the forthcoming agricultural season.

(e) With regard to the criteria for making commodity allocations, the Committee acknowledges that the expertise lies in the private sector and that no Government body can possibly possess all the knowledge which would be required to prescribe allocations for commodities to all importers. The Committee consideres that it can however adopt certain reasonable restrictive criteria.

(f) As far as possible, the Committee wishes to reduce the overall number of importers and reap the benefits of economies of scale. Thus the allocation of import licences for expensive capital equipment in the agriculture and construction sectors has been restricted to established agents and franchise holders. In pursuit of this policy in the agriculture sector, the Committee has increased the issue of import licences to the Co-operative Unions which are taking over the marketing functions of the National Agricultural Marketing Board.

In the [illegible]ransport sector, the [illegible] has restricted [illegible] holder[illegible] to the import[illegible] of [illegible] vehicle in [illegible] ration[illegible] on the availabilit[illegible]. In the fiel[illegible] general consumer imp[illegible], the [illegible] removed ove[illegible] general import[illegible], who will [illegible] their [illegible]ties from [illegible]-conti[illegible] and [illegible]port C[illegible]n.

Within [illegible] various [illegible] Groups [illegible]mmit[illegible] further di[illegible]inguished [illegible] such [illegible] employ[illegible]nt level and [illegible] in the manuf[illegible] sect[illegible], it is [illegible] Committee' [illegible] interme[illegible] input [illegible] industr[illegible] what may be [illegible] "easy" import [illegible]bstitution [illegible] that in a situ[illegible]ion of acute [illegible] for [illegible] exchan[illegible] resources, the establishment [illegible] types of indust[illegible] has become a popu[illegible] means of [illegible] allocations of [illegible]ort licences. The pr[illegible]duction of textiles [illegible] in the [illegible] context and the Committee [illegible] of su[illegible] becomi[illegible] saturated with a [illegible] utilisation of [illegible]apital.

Future [illegible]rogramme of the Minist[illegible] Committee

(a) The Committee recognises that in the pa[illegible] there has bee[illegible] heavy dependence on the import licence as a means of implemen[illegible]ng import contro[illegible]. The Committee is of the opini[illegible] that a more effective contr[illegible] over importing can be exercised by closer control over import[illegible]s rather than individual transactions. The basis of a comput[illegible] system which the Committee is introducing is the registration of imp[illegible] and an ordered presentation of data against each one. Previous experiments have shown that whil[illegible] the computer cannot guide the Committee on how it should allocate, it enables importers to be sorted and ranked in such a way as to make for a more equitable distribution of foreign exchange. It is intended that the criteria of the registration exercise it[illegible] will [illegible] in a reduction in the overall number of individual im[illegible]s, whose expansion has exceeded the availability of foreign exch[illegible]

(b) The Committee also intends that the computerisation programme will correct anomalies in the existing system and simplify the process for those involved. It is recognised, for example, that control over commodities at the allocation level has led to a duplication in that the information contained on both the authority to import and the import licence is identical. It is the intention of the computerisation programme to reduce the inefficient flow of numerous copies of a licence between the various importing agencies and replace these with more direct communication from the Committee.

APPENDIX A

ESSENTIAL COMMODITY IMPORTERS AND PRODUCERS

ORGANISATIONS	COMMODITIES
National Milling Co	Wheat Stockfeed Rice Salt
ROP	Soap Detergent Cooking Oil
NEC	Cooking Oil Detergent Soap
Namboard	Maize Fertiliser
Medical Stores	Medicines
Zambia National Energy Corporation	Crude Oil
Dairy Produce Board	Baby Food Skimmed Milk Products
Zambia Sugar Corporation	Machinery
Zambia Textiles	Yarn for blanket production

APPENDIX B

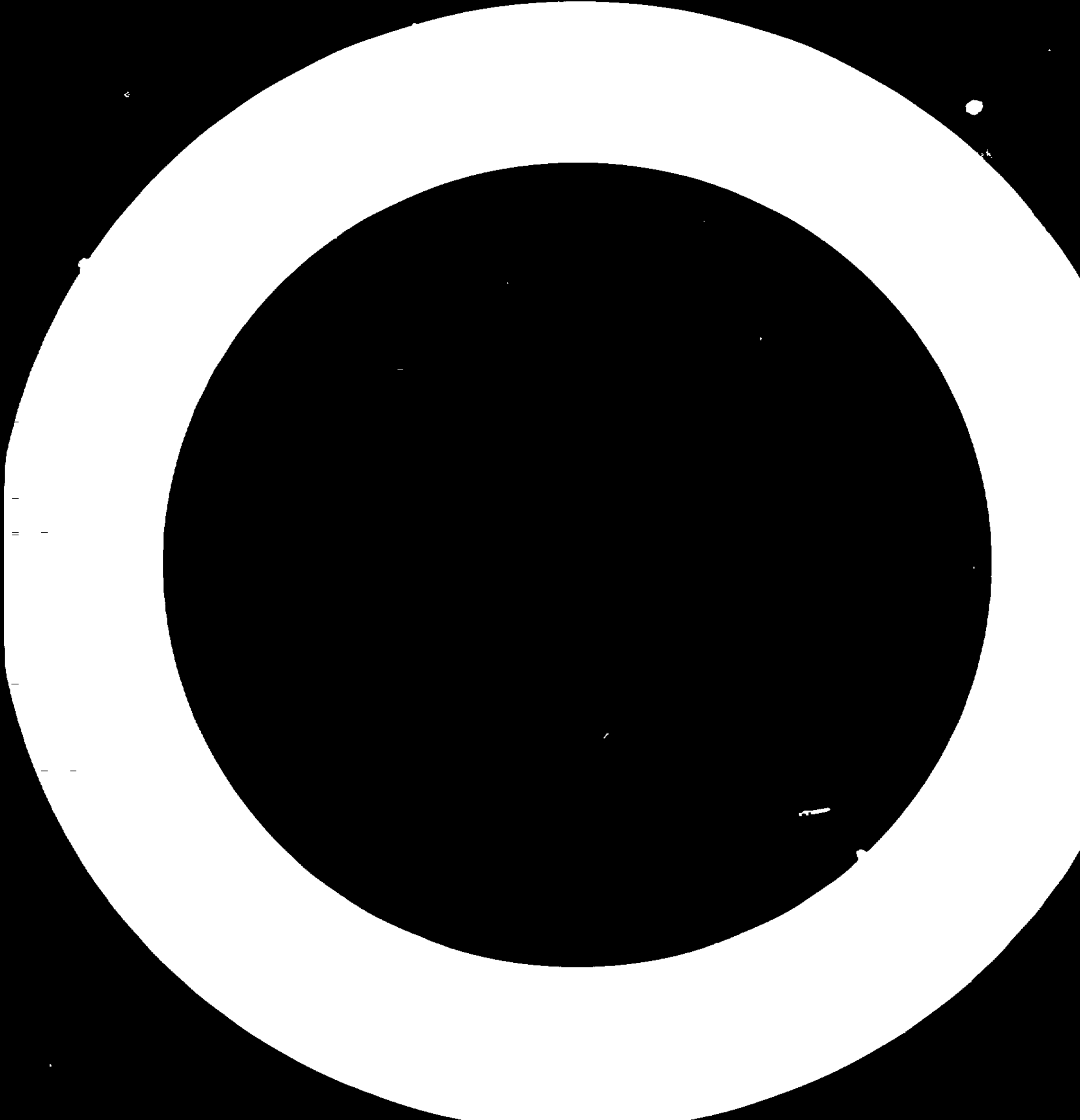
ESSENTIAL COMMODITY SUPPORT INDUSTIRES

ITEM	NO. OF COMPANIES
Bags for sugar	3
Milling Companies and bags for Mealie Meal	8
Other detergent producers	4
Containers for cooking oil	7
Candles	2
Toilet Paper	3
Matches	1
Tea, Coffee, Baby Food	2
Glass Bottles	1
Batteries	1

APPENDIX C

PRIORITY AREAS

AREA	NO. OF COMPANIES
1. Producers of meat, bakery and other food products	17
2. Producers of beer and liquor	3
3. Producers of soft drinks	5
4. Producers of tobacco products	1
5. Spinning and weaving of Textiles	15
6. Producers of Footwear	5
7. paper, Board and Printing Industries	11
8. Producers of tyres and rubber products	[illegible]
9. Producers of cement and building products	3
10. Metal fabricators	10
11. Strategic industries, explosives, oxygen, car batteries, bottle tops	4
12. Exporting companies	6



ANNEX IV

TECHNICAL COMMITTEE
LIST OF RESTRICTED* IMPORTS

APRIL 1980

CLASS 1 LUXURY AND NON ESSENTIAL GOODS

The Technical Committee will not grant allocations of foreign exchange for the following classes of goods as they are considered to be luxury and non essential items.

S.I.T.C. CODE	DESCRIPTION
011.14.00 to 011.99.00	Fresh meat, poultry and all [illegible]
037.11.00 to 037.19.00	All fish preparations
048.11.20 to 048.12.90	Oats and all cereal preps., cornflakes etc
048.41.20 + 048.42.00	Bread and confectionary
048.80.30 + 048.80.90	Pudding, cake and cereal preps.
054.19.00	Potatoes, fresh
054.29.00 to 056.49.93	Vegetables, fresh and preserved
056.51.90 to 058.29.00	Fruit, fresh and preserved
058.53.10 to 058.99.20	Fruit juices and preserved fruit
058.99.90	Fruit and nuts, preserved
073.01.00 to 073.02.90	Chocolate and cocoa preps.
074.21.00 + 074.22.00	Mate
075.11.00	Chillies
081.43.00	Pet foods, inedible offals
081.99.11 to 081.99.20	Dog biscuits and other pet foods
090.81.14	Fruit, jellie prepared for infants
098.01.10 to 098.01.19	Meat and fish preparations for infants
098.04.10 to 098.05.10	Sauces, soups and broths
098.07.00 to 098.09.90	Food preparations and essences
111.01.00 + 111.02.00	Spa and aerated waters and lemonade
269.01.10 to 269.02.00	Secondhand clothing, textiles and rags
291.16.20	Ivory
291.99.91	Pet foods from animal materials

292.71.00 + 292.72.00	Cut flowers and foliage
522.29.32	Sparklet bulbs
553.00.30 to 553.00.90	Perfume, dentifrice, cosmetics, etc.
635.49.50 + 635.49.30	Wooden beads and articles of adornment
642.83.00 + 652.84.10	Paper tableware, serviettes, doilies
665.82.10 to 665.82.90	Glass beads and decorative glassware
666.62.00	Ceramic articles for adornment
667.11.00 to 667.28.00	Pearls and diamonds (Except industrial)
667.39.10 to 667.49.00	Precious stones
699.83.47	Hangers
781.02.10 to 781.02.90	Passenger road motor vehicles secondhand
781.03.20	Passenger road motor vehicles secondhand
782.13.20 + 782.19.20	Trucks, vans secondhand
893.99.30	Plastic beads
894.22.00 to 894.24.10	Dolls and toys except educational toys in which case a precise description of the toy must appear in the application.
894.25.00	Carnival articles, Christmas decorations
897.21.00 to 897.49.90	Imitation jewellery and precious metal except 897.41.00 for laboratory use.
899.11.10 to 899.19.20	Worked bone, ivory, etc.
899.94.00 to 899.96.90	Wigs, hair pieces, fans/screens, etc.
971.01.10 to 971.04.00	Gold.

CLASS 2 PROTECTED AND OTHER RESTRICTED GOODS

The Technical Committee will not normally grant allocations of foreign exchange for the following classes of goods, the majority of which are produced locally. In a few cases the import of certain goods has been restricted to a particular organization. Importers may apply to the Technical Committee for the names of the industries which have been protected. The Technical Committee will consider an application for any of these items only if the application is accompanied by a letter from the protected organization indicating the reasons why they are unable to supply.

S.I.T.C. CODE	DESCRIPTION
023.01.00 to 024.09.00	Butter, ghee and cheese
025.11.00 to 025.20.00	Eggs
041.00.90 + 042.00.00	Wheat and rice in the grain
045.10.00 to 047.01.90	Rye, oats and cereal flours
048.30.00	Macaroni, spaghetti, etc.
058.31.00 + 058.39.00	Marmalades and jams
058.99.40 + 058.99.30	Pineapples + citrus fruits preserved
061.10.00 to 061.59.00	Sugar, candy, treacle + molasses
061.92.00 to 062.02.90	Syrups, treacle flavoured, etc.
071.11.00 to 071.20.32	Coffee
081.20.00 to 081.42.00	Bran, oil seed cake, fishmeal
081.49.00	Meat + fish, inedible meals
091.31.00 to 091.49.10	Lard, fats and margarine
112.31.00 + 112.39.00	Opaque beer and ale, beer + stout.
121.11.00 to 122.39.00	Tobacco and tobacco products
222.11.00 + 222.12.00	Groundnuts
278.93.11 + 278.93.12	Talc
423.20.00 to 424.40.00	All vegetable oils
533.20.00	Printing inks
533.41.00 + 533.42.90	Water thinnable paint, paints, enamels, etc.
533.44.11 + 533.44.19	Distempers
554.31.00 to 554.39.00	Scouring powder, boot, floor + other polish

572.11.00 to 572.20.40	Explosives and detonators
582.03.11 to 582.03.19	Garden hose and plastic pipes
583.03.11 to 583.03.19	Garden hose and other pipes
591.11.00	Insecticides, aerosols
592.25.31 to 592.29.02	Glue
611.20.00 to 611.83.00	Leather
625.20.00 + 625.99.98	Tyres
635.49.10 to 635.49.30	Wooden curios, wooden furniture, lamps, etc.
635.91.10	Broom and similar handles, wooden
642.10.21 to 642.10.90	Boxes and cartons
642.43.10 + 642.43.20	Toilet and face tissues
642.85.10	Sanitary towels and pads
652.14.00 + 652.22.00	Fabrics, cotton, terry fabrics
652.24.10 + 653.15.20	Blanketing
653.22.00	Blanketing
657.52.10	Fish nets and netting
657.71.30	Sanitary pads, tampons, etc.
657.72.10	Candle wick
658.11.00 to 658.13.90	Sacks + bags, jute, hessian, cotton, etc.
658.31.00 to 658.38.00	Blankets, finished
658.40.20	Towels
658.40.30	Lampshades
658.40.90	Household linen and napery
658.98.90 to 658.99.20	Cheese cloths, sanitary towels except bandages
659.20.10	Hand made carpets, etc.
659.60.10 + 659.60.20	Mats, sisal, etc.
659.70.21 + 659.70.22	Split cane and vegetable matting
661.29.00	Cement
661.83.11 to 661.83.90	Asbestos products

665.11.10	Glass containers, jars, carboys, etc.
674.21.30 + 674.21.40	Iron and steel sheet galvanized
678.21.00 + 678.31.00	Mild steel tubes and pipes
679.43.00	Manhole covers
684.22.00 + 684.26.90	Aluminium plates, fittings
691.11.30	Doors, windows iron/steel frames
691.19.00 + 691.21.00	Structural ironwork/aluminium door frames
693.11.10	Wire rope
693.51.13 + 693.51.14	Wire mesh fencing
694.01.20	Wire nails, iron or steel
695.12.00	Hoes (This item is protected by law and an import licence cannot be issued under any circumstances)
695.41.10	Diamond bits and crowns
697.43.10 to 697.43.90	Aluminium domesticware
699.11.00	Mortice locks (not padlocks or nightlatch)
699.12.90	Safes
699.63.10	Crown corks
699.79.30	Tanks
699.85.11	Zinc doors and insect screens
761.01.00 to 763.18.10	Televisions, radios and gramophones
771.10.91	Transformers under 5KVA
773.10.00 + 773.21.00	Insulated electric wire and conduits
778.11.19	Cells and batteries primary other
778.12.10 + 778.12.90	Accumulators
781.01.10 to 781.02.10 781.03.10 + 781.03.90	Passenger road motor vehicles new may be imported by appointed dealers only and are restricted to one model of each permitted range.
782.12.20 + 782.12.90	Tankers and tanker lorries
782.13.10 + 782.18.00 782.19.10 + 783.20.00	Trucks, vans, mechanical horses new may be imported by appointed dealers only and the range of models is restricted.

784.20.00	Bodies for road motor vehicles
784.99.92	Motor vehicle radiators (not fans)
786.12.10	Two wheeled scotch carts
786.12.30 + 786.14.10	Trailers for cycles and animal drawn vehicle
786.14.20 + 786.14.30	Semi trailers and trailers
786.81.10 + 786.89.50	Wheelbarrows and parts
786.89.19	Parts for animal drawn vehicles
821.10.10 + 821.10.90	Chairs and seats metal and other
821.91.10 to 821.99.90	Office and other furniture
842.10.10 + 842.10.21	Dust coats and overcoats (not macs)
842.20.00 to 844.30.30 844.30.90 to 845.90.99 846.50.90 to 846.89.00 847.12.10 to 847.13.00 847.14.90 to 847.19.90	Readymade clothing and accessories
848.11.10 + 848.19.00	Gloves, accessories
848.22.21 + 848.22.40 848.22.90	Gloves, hoods and apparel of unhardened rubber
848.41.00 to 848.48.00 848.49.90	Hats and headgear (except safety)
885.11.10 to 885.29.00	Watches and clocks to be imported by dealers and agents with established repair facilities only.
893.11.20 + 893.15.00	Plastic reels and buckets
893.99.11 + 893.99.19	Plastic garden hose
895.11.10 + 895.11.90	Filing cabinets and office equipment of base metal
895.21.20	Ball point pens
395.91.00	Inks, other than printing inks
898.32.19 + 898.32.20	Recorded tapes and gramophone records
899.32.00	Matches
899.72.29	Brooms and brushes

NOTES

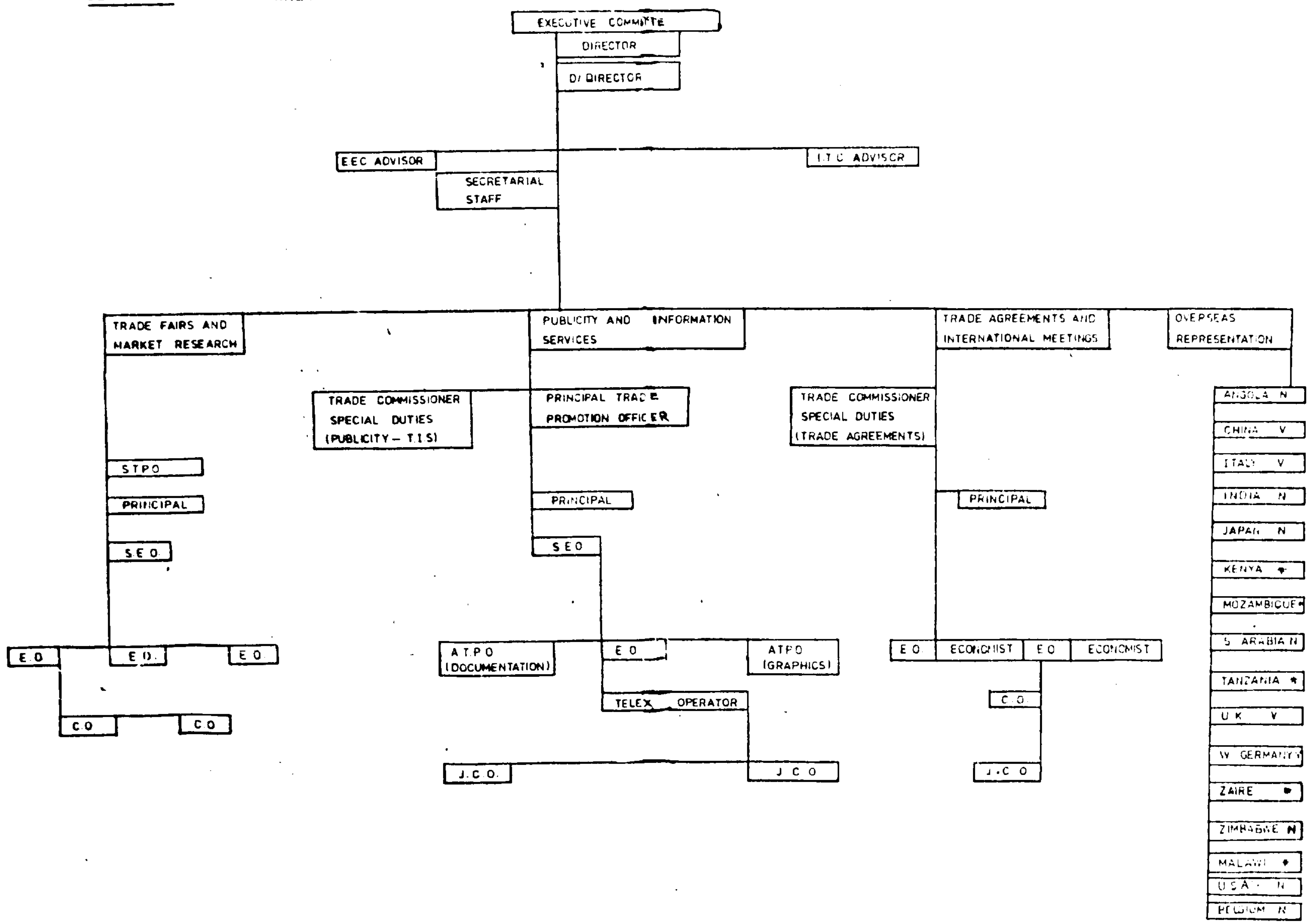
*RESTRICTED means a restriction in the allocation of foreign exchange. Any of the restricted items listed above with the exception of hoes may be imported by any person provided that the goods have been paid for with externally held funds and that all laws relating to Exchange Control and the importation of goods have been complied with.

K.S.B. NYIBENDA

PERMANENT SECRETARY / MINISTRY OF COMMERCE AND INDUSTRY

AND CHAIRMAN / TECHNICAL COMMITTEE

ANNEX V - ORGNANISATIONAL CHART FOR THE DEPARTMENT OF FOREIGN TRADE



ANNEX VI - LIST OF TRADE FAIRS

GOVERNMENT OF THE REPUBLIC OF ZAMBIA (MIN OF COMMERCE AND INDUSTRY)

(i) Government Supported International Trade Fairs 1977 - 1981

Name of Trade Fair	Period 1977	Location
1.	Swaziland International Trade Fair	Swaziland
2.	Botswana International Trade Fair	Botswana
3.	Nairobi International Trade Fair	Kenya
4.	Tanzania International Trade Fair	Tanzania
5.	Malta International Trade Fair	Malta
6.	Consumer Goods Fair - Gottenberg	Sweden

Period 1978

1.	Swaziland International Trade Fair	Swaziland
2.	Botswana International Trade Fair	Botswana
3.	Nairobi International Trade Fair	Kenya
4.	Tanzania International Fair	Tanzania
5.	Mozambique International Trade Fair	Mozambique
6.	Cairo International Trade Fair	Egypt

Period 1979

1.	Holiday Tourism and leisure fair	Belgium
2.	Brussels 3rd Forum of Nations	Belgium
3.	Tanzania International Trade Fair	Dar-es-Salaam
4.	Botswana International Trade Fair	Botswana
5.	Swaziland International	Swaziland
6.	Mozambique International Trade Fair	

GOVERNMENT OF THE REPUBLIC OF ZAMBIA (MIN. OF COMMERCE AND INDUSTRY)

Period: 1980

Name of Trade Fair	Location
1. Nairobi International Trade Fair	Kenya
2. Cairo International Trade Fair	Egypt
3. Tanzania International Trade Fair	Dar-Es-Salaam
4. Swaziland International Trade Fair	Swaziland
5. All African Trade Fair	Khartoum
6. Zimbabwe International Trade Fair	Zimbabwe

Period: 1981

1. Leipzig Spring Fair	German Democratic Republic
2. Zimbabwe International Trade Fair	Zimbabwe
3. Tanzania International Trade Fair	Dar-es-Salaam
4. 7th Kinshasa International Trade Fair	Zaire
5. Botswana International Trade Fair	Botswana
6. Mozanbique International Trade Fair	Maputo
7. Nairobi International Trade Fair	Kenya
8. India International Trade Fair	India
9. Tokyo International Trade Fair	Japan

(ii) Government Supported Trade Delegations 1977-1981

1977 Buying trip to China
1978 Buying trip to China
1979 Buying trip to China
1980 Trade trip to China
1981 Buying Trip to Rumania and Bulgaria; Trade Delegation to Zaire, Malta, Algeria and Nigeria
1982 Zambia/Zaire trip week, proposed trip to China.

SOURCE: MINISTRY OF COMMERCE AND INDUSTRY

ANNEX VII
EXPORT PROMOTION

It may be useful at this point to clarify what is meant by export promotion in the context of this report. This will also prove useful in setting into perspective the subsequent description of the major constraints facing the Zambian exporting community and the possible remedial policy recommendations addressing them.

Government assistance in overcoming both externally and internally imposed constraints will doubtless be required. The creation of a focal point institution enjoying the confidence of both government and exporters will be crucial in attaining Zambia's stated objectives of economic diversification and increased growth in manufactured exports.

Export promotion is concerned with a whole range of activities directed at a profitable movement of goods from their country of origin to overseas markets. A distinction is sometimes drawn between the supply aspects (export development) and the marketing activities (export promotion), but for the purpose of this report export promotion should be understood as referring to a total process extending from design and new product development, through manufacturing, packing and shipping, to advertising and after sales service. The function of export promotion is to optimise all these factors to the benefit of the exporter and the economy as a whole.

As export promotion serves the objective of creating and maintaining employment, earning foreign currency, contributing to the balance of payments and diversifying the economy, it is being accorded a high priority by most developing countries. There are, in fact, no exporting countries of significance where particular consideration is not given to exporters and very few where specialist institutions have not been established to give expression to this concern. While the establishment of these institutions varies greatly an examination of the organisation and operating methods of the most successful reveals a number of common factors:-

(i) They enjoy a large degree of autonomy
(ii) They have the confidence of Government and exporters
(iii) They employ highly qualified staff
(iv) They provide a range of relevant services to exporters
(v) They are represented in the main export markets
(vi) They are adequately financed

The range of relevant services provided to exporters by many export promotion organisations would include:-

- provision of a trade information service (TIS)
- research capacity
- marketing advisory service
- overseas representation
- promotion programme
    1. inward and outward missions
    2. trade fairs and other promotions

Other activities undertaken by export promotion organisations and which may be regarded as optional components are:-

- design and new product development
- shipping and warehousing services
- export credit insurance
- import and export trading
- joint ventures
- cooperative marketing

The essential factor is that whatever services are offered are geared to the needs of the exporters, and the assistance is flexible and delivered speedily and efficiently. The needs of exporters are not constant but vary according to market and domestic conditions. Accordingly, it is essential for export promotion organisations to be in close touch with exporters and the market place in order to tailor services to changing conditions and, desirably, to anticipate them.

Marketing Advisory Service

The key service in a programme of export promotion is, the marketing advisory service. Unless this exists and is effective the information and promotional services cannot be. The marketing advisor acts as a bridge and channel of instruction and communication between the exporter and these 'back-up' services. By constantly feeding back the exporters' needs he also ensures the continued relevance of the services provided. The marketing adviser is also the essential link man between the exporter and the overseas representative.

Overseas Representation

Exporting is initiated at home but takes place overseas. Consequently, any export promotion organisation must have an overseas arm which is directly under its control. Without this it cannot offer the specific up-to-the-minute guidance on foreign markets which is essential for exporters. The ideal arrangement is for an export promotion organisation to maintain its own offices in key markets, but several countries have successfully located their commercial representatives in diplomatic establishments where they are under the general direction of the chief of mission, but, operationally, receive their instructions from and report to the export promotion organisation.

Cooperation

Exporting is carried out by the individual enterprise whether public or privately owned. International organisations, Governments, industries or promotional bodies do not export. Individual exporters will normally cooperate only where there is a clear commercial advantage in doing so. This applies both nationally and regionally. Cooperation, whether in terms of joint purchasing, marketing or promotion, which has its roots in administrative or political convenience is usually unsuccessful; the 'economies of scale' which attract the administrator are not always apparent to the entrepreneur. Enforced cooperation in a free enterprise system always fails.

Some Principles

The foregoing may be summarised by suggesting some principles which should underline any national or regional export promotion programme:-

- exporting is done by individual enterprises

- the aim of export promotion is the provision to the exporter of a package of services of comparable quality to those available to his competitor elsewhere

- the heart of an export promotion programme is an efficient advisory service directed towards the individual exporter

- export promotion requires representation overseas

- cooperation between exporters takes place in response to commercial needs and opportunities. It cannot be legislated for.

One might also add, with some qualification, that in a situation of scarce resources assistance should be directed towards those enterprises most capable of utilising it.

ANNEX VIII

TERMS OF REFERENCE

The consultant will report for duty in Lusaka on 15 May. Field work is scheduled for 15 May - 5 June. He will in particular:

(a) Collect data on past exports including past trends and contribution, breakdown by principal products, major markets, profitability, and comparison of export price to domestic price.

(b) Analyse the main constraints on export expansion including competitiveness in terms of cost and quality, availability of imported inputs, transport, credit and insurance, and marketing.

(c) Review current export incentives and promotion policies to describe existing financial incentives, preferential import and credit allocation, and various promotional activities, the administrative procedures to qualify for them, the extent they have been granted and their cost. The review should also assess the impact of these policies.

(d) Make recommendations on policy reforms to overcome the constraints identified.

After completion of field work, the consultant will prepare his report in Dublin over the following two weeks. Upon completion of the report, he will send one copy to Mr. H. Molina, World Bank/UNIDO Co-operative Programme. He will then proceed to the World Bank in Washington for another two weeks to discuss his report and make any changes required. After debriefing in Washington, the consultant will come to Vienna for two days to present his report to ICPB staff and discuss the final version to be published.

ANNEX IX

LIST OF ORGANISATIONS CONTACTED IN ZAMBIA

1. Ministry of Commerce and Industrv
   Mr. K. Nyiranda - Permanent Secretary
   Mr. M. X. Mufwaya - Under Secretary for Industry
   Mr. C. Daka - Director, Department of Foreign Trade

2. Ministry of Finance
   Mr. Maganda - Budget Director
   Mr. I. G. Mwanabale - Senior Economist

3. Central Statistics Office
   Mr. Banda - Director

4. Bank of Zambia
   Mrs. Matale - Director Imports/Exports Division

5. Development Bank Of Zambia
   Mr. Nyambe - Managing Director

6. Barclays Bank (Zambia)
   Mr. C.H. Willis - Foreign Exchange Manager

7. Standard Bank - Chairman

8. United Nations Development Program
   Mr. D. Drajic - Resident Representative

9. United Nationa Industrial Development Organisation
   Mr. K. C. Sen - SIDFA
   Mr. R. Dolozewski - Senior Technical Advisor, Ministry of Commerce and Industry

10. Delegation of the Commission of the European Community
    Mr. H. Swift - Delegate

11. International Labour Organisation
    Mr. B. Martens - Programme Officer

12. Zambia Industrial and Mining Corporation Ltd.
    Mr. I. Mapona - Director General

13. INDECO Ltd
    Mr. A. D. Zulu - Managing Director

14. Zambia Industrial & Commercial Association
    Mr. V. Mwaanga - Chairman
    Mr. M.L. Sanderson - Secretary

15. Zambia Sugar Company Ltd.
    Mr. D.A. Tate - Managing Director

16.	Chilanga Cement Ltd.		
	Mr. D. B. Mhango	-	General Manager
17.	Zamefa - Metal Fabricators of Zambia Ltd		
	Mr. P.C.G. Dougherty	-	Marketing Manager
18.	Crushed Stone Sales Ltd.		
	Col. A.A. Lukobo	-	General Manager
19.	Kapiri Glass Products Ltd.		
	Mr. K. Mwila	-	General Manager
20.	Serioes Clothing Ltd.		
	Mr. F.A. Dursch	-	General Manager
21.	Zambia Saw Mills Ltd.		
	Mr. D. Grosta	-	General Manager
22.	Bata Shoe Company		
	Mr. F. Tomsin	-	General Manager
23.	Kafue Textiles Ltd.		
	Mr. Karb	-	Technichal Manager
24.	Leopold Walford (Ltd.)		
	Mr. C. Morgan	-	Managing Director

ANNEX X

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Mr F J Glover
International Trade Centre
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Mr S Tezak
International Trade Centre
Min. of Commerce and Industry, Zambia
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