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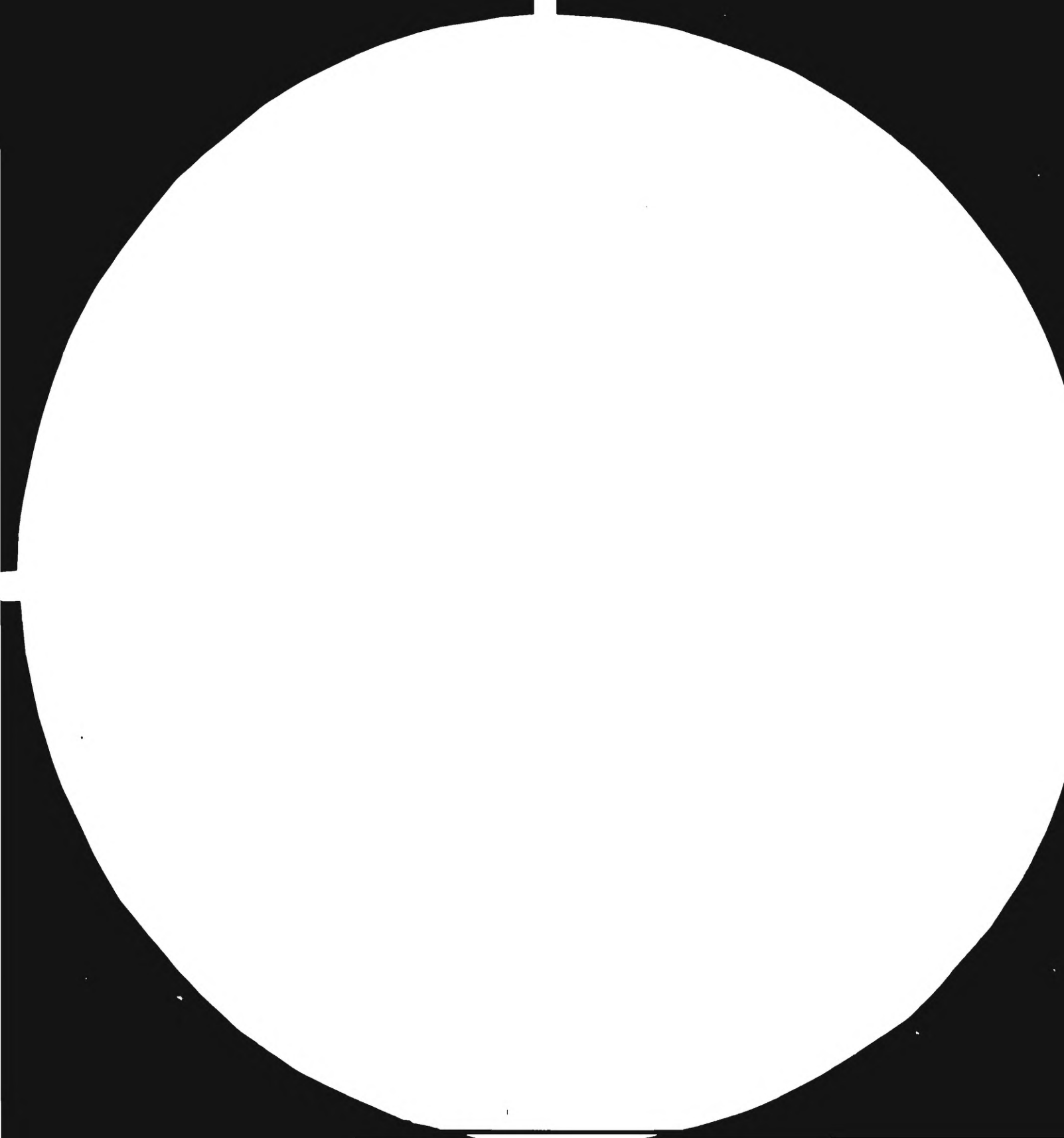
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ASSISTANCE TO THE DEVELOPMENT BANK OF ZAMBIA .

DP/ZAM/80/007 and DP/ZAM/82/012

ZAMBIA

Terminal report*

Prepared for the Government of Zambia
by the United Nations Industrial Development Organization,
acting as executive agency for the United Nations Development Programme

Based on the work of N. D. JOSHI, Senior Industrial Adviser

United Nations Industrial Development Organization
Vienna

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Abstract

Assistance to Development Bank of Zambia
(DF/ZAM/80/007 and DP/ZAM/82/012)

The objective of the project was to supplement the management and technical expertise of DBZ in the identification, formulation and appraisal of projects. For this purpose UNIDO provided an industrial advisor with broad experience in financial management and economic analysis. The project was to give special emphasis on the development of small scale industries to which the Government of Zambia attaches great importance. The duration of the project covered the period from February 1981 to December 1983.

The project has fulfilled the main objective of launching a scheme of financial assistance to SSI despite many pending issues like non-implementation of CGS, SIDO's not-becoming full operational body, lack of Government incentives to SSI etc. DBZ has mobilised foreign exchange funds, built-up a pipeline of SSI projects and has assisted five SSI projects. Its appraisal has improved in qualitative terms. With many studies carried out by the expert, DBZ is now poised to discharge its functions of promoting, assisting and monitoring projects of national importance by operating management information system based on pre-planned budgetary performance.

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INTRODUCTION

1.1 Project background

Zambia's present industrial development is constrained with a number of problems. While these problems, discussed below, can be overcome in the long run, they will continue to influence the development of industries in the short run. First and foremost is the fact that the country is landlocked and goods have to be imported and exported over a long distance by land. This problem is aggravated by the fact that transport/communication system is not well developed in the country. Secondly, the economy has been hitherto heavily dependent on copper as a major foreign exchange earner, but the decline in the copper price has adversely affected the foreign exchange situation. This in turn had repercussions on the utilisation of the industrial capacity and productivity of the industrial enterprises. Other important issues affecting industrial performance are related to shortage of techno-managerial expertise. These and other constraints call for utilisation of available resources in the most efficient way possible.

It has been found that most of industrial management problems concerning planning, production, marketing, financing, accounting and budgeting, repair and maintenance, purchase of the right equipment and contractual arrangements are not uncommon. Therefore there is an urgent need for the establishment of an integrated efficient management system for the industry of the country. The development of industry is part of the Government's declared policy to diversify the economy in order to get away from the present precarious dependence on a single commodity (copper) affected by the vagaries of the international market. This policy is elucidated by the introduction of Industrial Development Act, which contains a great deal of incentives for the establishment of industrial enterprises. The Government is keen to see the effective implementation of the substance of the Act. One of the institutions established in fulfilling the Government's industrial policies and objectives is the Development Bank of Zambia (DBZ)

1.2 Institutional framework

The DBZ started its operations in 1974. It has been established for the purpose of participating in the country's developmental effort. It provides credit facilities to development projects which satisfy one or more of the following criteria:-

- a) foreign exchange savings/earnings
- b) development of local technology and of manpower skills
- c) creation of permanent employment
- d) use of local raw materials
- e) development of related industries
- f) extent of Zambian ownership and management
- g) extent of workers' participation

The Bank's activities have been limited by the decline of copper prices which have had far-reaching adverse effects on the economy as a whole. Foreign currency reserves have sharply dwindled, and it became difficult for many industries to import necessary capital equipment and spare parts. These problems affected at least some of the projects which the bank has assisted. Furthermore the fact that the bank finds it difficult to recruit nationals with sufficient expertise in management has constrained its potentiality and abilities to finance projects including industrial projects.

1.3 UNDP/UNIDO participation

The Bank discussed the problem concerning shortage of sufficient management and technical expertise in the identification, formulation and appraisal of projects with UNIDO and requested for an industrial adviser with broad experience in financial management and economic analysis particularly in the field of small scale industries to which the Government attaches great importance. Both UNIDO and the World Bank have provided technical and financial assistance in the field. The DBZ is well placed as an effective instrument for the development of small scale industries.

UNDP/UNIDO agreed initially to provide one international expert with broad experience in financial management and economic analysis for a period of one year to DBZ. The project was approved by UNIDO/UNDP in November 1980 and was to have started in January 1981. The project, however, became operational only in February 1981. It was, however, soon realised that the project to produce meaningful results duration of one year was inadequate and it was, therefore, extended up to December 1983.

1.4 Contributions

UNDP/UNIDO has provided a sum of U.S.\$71400 in the first year and a further sum of U.S.\$ 160,000 for subsequent period up to December 1983 to cover the expert's emoluments and travel for subsequent period. The Government has provided a professional staff as a counterpart to the expert and supportive secretarial staff, suitable office space and equipment. The Government's contribution for the first year would be around U.S.\$12750 and for the subsequent period to U.S.\$46000 to cover the emoluments of the counterpart and other inputs.

1.5 Project objectives

The project documents prepared in connection with the extension of the project up to December 31, 1983 lists the long range development objective and the immediate objectives as follows:-

Development Objective

The development objective of the project is to help develop the industrial sector of Zambia's economy, particularly the small scale industries, in order to achieve the desired economic and social benefits as specified in the country's development plans through strengthening the effectiveness of the Development Bank of Zambia.

1.6 Immediate objectives

1. Assist DBZ in the examination of its development tasks by strengthening its operational and management activities particularly in the project follow-up so as to permit corrective action in time to facilitate smooth implementation of projects.

2. Facilitate the Bank's supportive role in the effective implementation of the industrial Development Act.
3. Develop and improve the management skills of industrial investors putting special emphasis on the small scale industries sector.
4. Increase the overall multiplier effect of the industrial activities through project preparation, implementation evaluation and coordination and problem solving techniques so as to facilitate a sustained flow of viable projects with increased economic content in terms of more employment opportunities and wider dispersal of industries.
5. Assist in realisation of the Government's import substitution goal and the consequential conservation of foreign exchange.
6. Assist the bank in undertaking performance audit of its operations in terms of national economic object of augmentation of employment opportunities, promotion of small scale sector, conservation and increase of the country's foreign exchange and regional dispersal of industries.

In the original project document the underlined portions in objectives one and four and the objective numbered six were not there. In the new project document, these were added on the advice of the expert. The portion added in the objective one gives the needed - emphasis on the project follow-up while the portion added in objective four gives a meaningful direction to the bank's activities. The DBZ, being a public financial institution has to acquit itself in terms of its contribution to overall economic objectives.

The project through its output has made significant contribution to each of the objectives. This is discussed in the chapter dealing with objectives.

II. PROJECT ACTIVITIES

2.1 Project activities - nature and changes

Project activities listed in the second project document are as follows:-

- a) Investigate, organise and streamline the existing procedures and the criteria laid for providing credit facilities to its clients for undertaking industrial enterprises, particularly in the field of small scale industries.
- b) Establish appropriate methodology for project identification, preparation, formulation and investment programmes.
- c) Ascertain project viability from procurement, marketing, profitability points of view.
- d) Assist the bank in developing inter-institutional relations in order to achieve coordinated and sustained efforts in industrial promotion.
- e) Assist local entrepreneurs in organising, setting up and implementing their industrial enterprises. Special emphasis will be given to the development of small scale industries.
- f) Assist the bank in evolving methods of assessing its performance in terms of overall economic objectives of conserving foreign exchange, creating employment opportunities etc.
- g) Assist the bank in preparing budgets and obtaining financial resources for its programmes regarding small scale projects.

Project activities listed at (d) and (f) above were not in the first document and were added while preparing second project document.

It can be seen from the above list that promotion of small scale industries (SSI) has been given emphasis in three of the seven activities. It is for this reason, activities relating to the SSI are covered first separately and in greater details.

Further, all the activities are inter-related. Though attempt is made to account separately for each of the listed activities, it is obvious that output many a time relates to more than one activities.

2.2 Work Plans

The DBZ for implementing the project set up a separate unit comprising the expert and his counterpart, a senior officer of the DBZ. The expert arrived in Lusaka on Sunday 22nd February 1981 and started working in DBZ on Monday 23rd February 1981. After assessing the developments and work already done he prepared a preliminary report and a work plan on March 12, 1981.

There were other two UNIDO projects vis "Small Scale Industries Adviser (ZAM/80/005) and "Identification of industries in Provinces (ZAM/78/006)" operating in the field. The first project concerned itself mainly with the setting-up of small scale industries organisation (SIDO) and the second project was to identify projects for implementation in various provinces. Thus both these projects were related to promotional aspects of industries while the DBZ was mainly to formulate financial policies/schemes to assist projects with emphasis on SSI. It was thought necessary to establish close liaison with the above two projects and with other financial and other concerned institutions operating in Zambia. Discussions were held with concerned UNIDO experts and also with institutions like commercial banks, CUSA- Zambia, RUCOM, Management Development Advisory Services (MDAS), Village Industries Services (VIS) etc. It emerged from the discussions that all the institutions were ready to cooperate in promotion of SSI. In particular commercial banks were ready to play their role provided a suitable cover for credit risk is made available to them. There was also overlapping in regard to formulation of Credit Guarantee Scheme (CGS) between this project and ZAM/80/005. Taking into account all these factors a revised work plan was prepared and discussed in the meeting held at the National Commission for Development Planning (NCDP) on March 16, 1981 and also with Senior Industrial Field Advisor (SIDFA)

UNIDO and was approved by him on April 3, 1981 (vide Annexure I). This plan was in operation for 1 year and a new work plan for 1983 was prepared and approved by UNIDO (vide Annexure II). In 1982, work relating to SSI and various studies were pursued without preparing a specific plan on the advice of SIDFA.

2.3 Credit and other facilities to SSI

Problems faced

In evolving a framework for rendering financial assistance to SSI, DBZ faced initially following problems:-

- i) DBZ Act prescribed a minimum lending limit of K25,000.
- ii) Neither the DBZ nor the SSI were in a position to bear the foreign exchange risk in respect of foreign exchange loans.
- iii) It was necessary to mobilise funds on concessional terms for assisting SSI.
- iv) There was no mechanism like a Credit Guarantee Scheme (CGS) to cover the relatively high credit risk in granting loans to SSI.
- v) For promotion of SSI, considerable promotional assistance was required to assist SSI in preparation of feasibility study, assessment of market, procurement of various licenses etc.

Discussions with the Ministry of Finance

On the basis of discussions with the commercial banks it was thought necessary to prepare a preliminary scheme of financing SSI in participation with the commercial banks. However, problems listed in the foregoing paragraph required prior-consultation with the Government before such scheme could be formulated. Discussions were, therefore held in March 1981 with the then Hon. Minister of Finance and other officials of the Ministry. Government representatives desired precise information on (a) the financial implications of the CGS and (b) the extent of foreign exchange risk involved in lending foreign exchange loans to SSI. They desired participation of all the commercial banks in lending to SSI and also sought for relaxation of the present DBZ's norm regarding promoter's contribution of 25% of the project cost. They also mentioned that DBZ's scheme should be

consistent with the envisaged promotional activities of SIDO proposed to be set up by an Act of Parliament. They assured that DBZ's Act would also be modified to delete minimum lending limit.

Financial Implications of the CGS

In accordance with discussions with the Ministry of Finance, the information on implications of CGS was collected. (Annexure III) This revealed that in each year during 1971-1980, the income by way of guarantee fees under CGS operated in India was in excess of the amount of defaults paid. However, the entire administrative expenditure of the guarantee organisation in India was borne by the Reserve Bank of India.

Quantification of Foreign Exchange Risk

A study was undertaken to calculate the risk exposure against six major currencies over a period of 10 years from 1971-1980. It revealed that the average annual appreciation of some currencies had been considerable e.g. the average annual risk of the Swiss Franc in terms of Kwachas was 11.59% of the D. Mark 7.9%, and Japanese Yen 7.6% whereas the U.S. Dollar rose by 1.66%, the Indian rupee by 0.75% and the Sterling declined by 0.46% (Annexure IV) Average annual appreciation of the four major currencies viz. U.S. Dollar, Sterling, Yen and D. Mark came to around 4%. On this basis ~~the~~ possible exchange risk was estimated at 4% per annum.

Examination of DBZ Act

Simultaneously the existing provisions of the DBZ Act were examined to ascertain whether different new schemes like participation finance, refinance, rediscount etc. could be introduced with or without amending DBZ Act. As a result of this examination it was revealed that most of the above schemes could be formulated without amending DBZ Act excepting the amendment required to remove minimum lending limit of K25,000.

Participation finance scheme

Based on the above studies/investigation and discussions a tentative scheme for financing SSI to be operated jointly with commercial banks was prepared and submitted to the Ministry of Finance for necessary follow-up action like amendment of DBZ Act, implementation of the CGS etc.

Refinance Schemes

The above scheme left out non-banking financial institutions like Zambia National Provident Fund (ZNPF), Zambia State Insurance Corporation (ZSIC) and Zambia National Building Society (ZNBS) which were also keen in participating in the promotion of SSI sector. Discussions were held with them and two refinance schemes to be operated on the basis of loans to be procured from these institutions were prepared. They intend to provide respectively refinance to commercial banks on the basis of their loans to SSI up to K5,000 and between K5,000 to K25,000. Participation scheme was to be operated for loans above K25,000.

Interinstitutional arrangement

As no single institution could provide all the inputs required by SSI like promotional assistance, term loan including foreign exchange, working capital, credit cover etc., a seminar was held in May 1981, under the auspices of the Bank of Zambia (BOZ) where representatives of the Government, DBZ, BOZ, Commercial banks etc. participated. In the seminar a standing committee was appointed with which the expert was associated. As a result of deliberations of the Standing Committee a consensus emerged whereunder it was decided that BOZ would operate CGS, the proposed SIDO would extend promotional assistance and DBZ along with other financial institutions would render financial assistance.

Proposals for separate companies

The SIDO Act was passed in December 1981 but it became apparent that many years would be required to make SIDO a fully operational body. The amendment of DBZ Act and the introduction of CGS was also delayed. No decision was taken as to who would bear the foreign exchange risk. DBZ, therefore conceived a proposal to

promote two separate companies: One company "Small Enterprises Promotion Ltd. (SEP) was to render promotional assistance and to supplement promoter's contribution by subscribing to equity capital. The second company was to render financial assistance to SSI. This arrangement was conceived firstly to obviate the need to depend exclusively on SIDO (which was not expected to be functional in the near future), secondly to isolate both foreign exchange and credit risk from DBZ's normal operations and lastly to overcome the statutory restriction of minimum lending. The expert prepared a policy paper bringing out the implications of separate company. Two memoranda outlining these implications were put up to the DBZ's Board at its meetings held on the 26th March 1982 and the 9th July 1982. The Board approved the same. Accordingly the expert prepared Memorandum and Articles of Association of the proposed "Small Industries Finance Co."

Amendment of DBZ Act and Governments agreement to bear foreign exchange risk

The proposal for promoting a separate company for rendering financial assistance was subsequently submitted to the Government for approval. The proposal was not, however, favoured by the Government in the interest of saving administrative overheads of a separate company, and the DBZ was advised to constitute a separate small industries fund for assisting SSI. The DBZ's Act was accordingly amended by the Parliament in December 1982 to enable it to constitute such fund from which DBZ can assist SSI irrespective of any limit on minimum lending. The only restriction is that such SSI should be registered under the provisions of SIDO Act which requires that capital assets of such SSI should not exceed K250,000 and it should comply with the Trades and Licensing Act.

DBZ again approached the Government requesting that it should bear foreign exchange risk in respect of assistance to SSI. The expert submitted to the Government information on practices prevalent in 50 development banks all over the world in this respect. The Government ultimately agreed to bear the foreign exchange risk in respect of foreign exchange loans granted to SSI out of DBZ's Small Industries Fund.

Funding and partial coverage of credit risk

In regard to mobilisation of funds, DBZ succeeded in getting funds from OPEC and from International Fund for Agricultural Development (IFAD). A loan agreement for \$15 million executed with OPEC by DBZ reserves \$3 million exclusively for assisting SSI. The rate of interest is 2.75% and the repayment period is 15 years. DBZ is allowed to charge only 2% margin to cover administrative costs. The interest differential between 4.75% (i.e. 2.75% cost of funds + 2% administrative margin) and the rate of interest to be charged to SSI would be credited to a separate fund which, if required, can be used for covering credit risk arising out of default, if any, in repayment of loans by SSI. It was also learnt from BOZ that CGS when implemented would cover loans to SSI on post-facto basis. The loan from IFAD amounting to 1.8 million SDR carries a rate of interest of 8% with a repayment period of 15 years. It is, however, to be utilised for agro-small scale industries in the North Western Province.

As regards the local Kwacha funds, not much difficulty was envisaged as the DBZ could procure them from ZNPF, ZSIC etc. who expressed inability to directly participate in the promotion of SSI sector and were willing to give line of credit to DBZ for this purpose to provide refinance to financial institutions in respect of their loans to SSI.

Early start of SSI scheme

As most of the problems initially faced by DBZ and mentioned earlier were overcome excepting the introduction of CGS, the expert suggested to DBZ to commence assistance to SSI in the middle of July when His Excellency The President was to officially open the Bank's new headquarters. Following reasons were given by the expert in support of this suggestion:-

- a) Firstly the early start of the scheme of assistance would enable DBZ to establish working relationships with SIDO and commercial banks and evolve appropriate procedures. Both SIDO and commercial banks did not have expertise in project appraisal. DBZ, being the only

institution in Zambia having such expertise, was obviously expected to take lead in this regard. Dialogue with these institutions in the context of specific applications for assistance would be more meaningful and effective.

- b) Secondly the prospective entrepreneurs would also take some time to understand and familiarise themselves with the appraisal requirements of the financial institutions.
- c) Thirdly the DBZ itself would benefit from the early start of the scheme as it would get time to make necessary changes in appraisal and disbursement procedures to suit the genuine needs of SSI in consultation with refinancing agencies.
- d) Fourthly this would facilitate DBZ to utilise fully OPEC funds by June 30, 1985 - the last date of drawal.
- e) Lastly the early start of the scheme would not expose DBZ to any credit risk. Very few cases would be sanctioned by the time CGS would become effective and they would also be eligible to be covered under CGS on a retrospective basis. Even if they are not so covered they can still be covered under the interest-differential fund to be created in the context of OPEC loan.

Inauguration of the SSI Scheme

DBZ approved the expert's above suggestion and a scheme was submitted to DBZ's Board for approval and for inauguration by His Excellency The President Dr. Kenneth Kaunda on July 15, 1983. The President while inaugurating the scheme commended DBZ for this early initiative in the promotion of SSI sector.

Promotional endeavours

SEP Ltd. promoted by DBZ has already become operational. It has already promoted three SSI projects.

The expert discussed with SIDO its registration formalities. The format prescribed for this purpose was also modified by SIDO on the basis of suggestions given by the expert. He also delivered

talks to officials of SIDO and VIS as regards the DBZ's method of appraisal.

The expert along with his counterpart participated in the SSI seminars organised in October 1983 by SIDO at five places in the Copperbelt and advised the prospective entrepreneurs regarding terms and conditions of DBZ's assistance to SSI.

A brochure incorporating terms and conditions of assistance to SSI was also prepared.

Pending issues

Though it is a good augury that the DBZ with assistance of the expert has launched a scheme for assisting SSI, considerable efforts both at the DBZ - level and at the inter-institutional level will be required to promote broad-based viable SSI sector in Zambia.

Firstly the CGS which has been delayed need to be implemented at an early date. The partial credit cover available to DBZ is obviously not a permanent solution. The Governor, Bank of Zambia called a meeting on November 2, 1983 and explained that pending the amendment of BOZ Act, he intended to launch the scheme under a general section 27 (2) of BOZ Act relating to Agency functions. He invited suggestions of the DBZ and bankers in this regard. A draft CGS was circulated earlier. This is a modified version based on BOZ's discussion with financial institutions/experts including the present expert. Still some issues like absolute limit for cover under CGS, definition of irrecoverable advance etc. need to be sorted out. It is decided to hold another meeting at the technical level to evolve an approved scheme. Besides expediting CGS, the BOZ should also formulate and implement its scheme of refinancing preferably through DBZ at an early date.

Secondly the SIDO has to have a concrete time-bound programme of promoting specific SSI. SIDO is yet to commence its registration of SSI. As a promotional venture, it has started organising seminars wherein the DBZ would also participate. Besides briefing participants on the facilities available from SIDO and DBZ, it is

necessary to concentrate on specific projects/entrepreneurs identified through these seminars or otherwise. In a recent meeting held between SIDO and bankers on November 4, 1983 the chief executive of SIDO mentioned that SIDO intends to prepare detailed projects for submission to financial institutions, to extend management support to SSI and to follow-up SSI units assisted by financial institutions. In a response to a query, he, however, admitted that SIDO did not have a time-bound programme of submitting specific number of SSI projects for financial assistance. SEP Limited promoted by DBZ would no doubt promote concrete projects in the near future. But its capability is obviously restricted as it has to depend for its sustenance and growth on its own operational performance. SIDO being a Government-sponsored body availing of budgetary assistance is not expected to suffer from this limitation. It is, therefore, necessary that SIDO should draw-up a concrete time-bound programme and implement it with whatever organisational/financial resources it has mobilised. It is no use for DBZ to mobilise additional funds if they are not likely to be utilised in the near future.

Thirdly the DBZ, on the basis of actual experience will have to modify its sanctioning, appraisal, disbursement etc. procedures in consultations with local financial institutions and external refinancing agencies to suit the specific needs of SSI. In particular it may have to formulate/operate additional schemes like refinance, rediscount, industrial estate financing etc. for this purpose. The expert has prepared draft refinancing scheme for the use of DBZ.

Lastly the Government of Zambia has also to offer fiscal and other incentives to SSI.

2.4 Criteria for credit facilities

Appraisal system

The DBZ has a fairly satisfactory appraisal system. However the expert in a paper entitled "Identification, Scrutiny and Monitoring of Projects in DBZ" made suggestions to further improve DBZ's appraisal. According to the expert, appraisal of economic, management

and marketing aspects need to be made further precise and more detailed. Every effort should be made to quantify the economic benefits expected to accrue from the project. More searching inquiries and information would be necessary to assess the quality of project management. Weaker aspects should preferably be covered by making assistance subject to compliance of suitable conditions. More studies and information need to be collected on a continuing basis to enable a better assessment regarding raw material availability and prospective demand. To facilitate a better overview of the project, outside technical, management and financial expert from parastatal and other organisations may be invited to participate in the loan committee proceedings. Some of these suggestions have already been implemented.

The expert also prepared a detailed paper on "Management Appraisal and Development of Entrepreneurial talents". This paper, submitted to DBZ, outlines how management appraisal should be carried out. It gives a format for collecting information relating to entrepreneurs.

The expert in a project document entitled "Role of a Development Bank in the Transfer of Technology" made suggestions to develop local technological base through proper procedures in project promotion, scrutiny and implementation.

The expert also assisted in evolving a satisfactory format for collecting information on projects for their efficient appraisal. This format is now being used for the appraisal.

2.5 Methodology for project preparation

Nature of project identification

The expert carried out a detailed appraisal of DBZ's methods of identifying, scrutiny and monitoring of projects and submitted a detailed paper in this regard to DBZ. (For conclusions, vide Annexure V). DBZ has already a department for promoting projects. But its main activity is mostly confined to identifying projects on the basis of import statistics and other published material and to preparing feasibility studies. There is need for project identification to converge on the objectives like area development,

reduction of unemployment, optimum use of raw materials, filling-in gaps in industrial structure, export promotion etc. Intensified activities on these lines would alone ensure a continuous flow of projects with desirable economic and social content.

Guidance to entrepreneurs

The above department is yet to be equipped to identify, guide and train entrepreneurs. For this purpose it will have to maintain project profiles, technical data and other appropriate information. DBZ accordingly has started a library to build-up this required data base. DBZ could in cooperation with other financial institutions sponsor programme for identifying and training of prospective entrepreneurs.

Suggested Action Programme

The expert was requested to prepare a detailed action programme in respect of project promotion. The programme prepared by the expert covers measures to be undertaken both in the long and short term.

Training of staff in Project Promotion

The expert delivered talks to officials in the project promotion department as regards the methods of project identification, preparation of feasibility studies, drafting of terms of reference of consultants, guidance to prospective entrepreneurs etc.

Reorientation

Though the project promotion department continues to identify and develop project ideas, it has not given adequate emphasis on the assistance of entrepreneurs to develop their project ideas. Further, this work to be effective and economic has to be done in coordination with other institutions. This is discussed under inter-institutional coordination. Possibility of DBZ being criticised for discrimination amongst prospective entrepreneurs is, at present acting as a deterrent to orient promotional activities in favour of entrepreneurs instead of project ideas. If satisfactory methods of selection are evolved and DBZ's facilities are thrown to every prospective entrepreneur who approaches the bank, DBZ need not harbour the misgiving regarding

the above charge of discrimination. Emphasis on prospective entrepreneurs for project promotion is obviously a quicker way of producing concrete results.

2.6 Ascertaining projects viability

Participation in Loan Advisory Committee

The expert participated in each of the Loan Advisory Committee meetings held on regular basis. This committee clears projects for submission for approval to the Board. This participation enabled the expert to implement suggestions made in various project outputs.

Suggestions made by the expert regarding management appraisal, assessment of raw materials availability, estimation of market demand for end-products etc. with reference to each of the project submitted to the loan committee were generally approved and the project documents were revised to incorporate expert's suggestions before they were submitted for Board's approval. In one or two cases, projects, at the instance of the expert, were rejected as they had not adequate economic content in terms of foreign exchange or employment opportunities. Suggestions made by the expert thus helped to improve the quality of appraisal case by case.

2.7 Inter-institutional relations

UNDP/UNIDO Team on coordination

Industrialisation means promotion, implementation and running of industrial projects. It is a complex process requiring participation of numerous institutions/agencies and persons providing various types of inputs or services. It is, therefore, obvious that some interinstitutional arrangement is necessary to ensure combination of required inputs at the right time, in the right quantities, and at the right cost for projects which are desirable in the national interest. This question of coordination was examined by a team sponsored in the early 1982 by UNDP/UNIDO at the instance of Government of Zambia. The expert prepared a detailed paper on "Industrialisation Process in Developing Countries - Framework of Coordination". The paper

advocated that DBZ should play the main pivotal role in coordinating the industrial development. The team, however, suggested that National Council for Development Planning (NCDP) should take up the responsibility of such coordination.

Efforts of NCDP

NCDP called a meeting in August 1982 for coordination of project work in Zambia. The expert attended the meeting and suggested a system of inter-institutional coordination. The paper suggested two committees - one for projects in formulation and the other for project under implementation. Detailed terms of reference included building-up data base, objectives underlying project identification, formulation of appropriate fiscal and financial policies etc. It was decided that coordination meetings be held periodically. NCDP is holding these meetings. It is understood that due to inadequate preparatory work and lack of participation of concerned institutions at higher level, they have not been found to produce the desired results.

Need for interinstitutional framework

Interinstitutional framework of coordination is desirable to fill in gaps identified, to avoid duplication of efforts and in general to expedite process of industrialisation. How the absence of such a framework delays the development process has been evidenced from the inordinate delay in implementation of measures for promotion of SSI sector. Though the Act of SIDO was passed in December, 1981 the amendment of DBZ Act was delayed till December 1982. Further the date of implementation of CGS is still not in sight.

The background paper submitted in connection with MULPOC/ECA fifth meeting held in March 1982 at Lusaka has also advocated the need for coordination framework for industrialisation. The expert participated in this meeting and advised that in respect of small scale sector, the coordination committee can aim at promotion of a bunch of projects ensuring all the various inputs required for these projects.

It is, therefore, suggested by the expert on the basis of his experience in India that for effective and economic efforts in project promotion and implementation, Zambia should have an inter-institutional forum comprising executives of institutions which have direct stake in such coordination and functioning under an approved terms of reference and backed up by adequate secretariat assistance.

2.8 Assistance to local entrepreneurs

The expert gave advice to local entrepreneurs on formulation of their projects. Some of these projects like pencil manufacture, oil extraction etc. have already been implemented. The expert gave frequently lectures in the courses organised by MDAS, Zambia for SSI and explained various issues involved in project formulation. The expert also participated in one-day-seminars organised at five places in Copperbelt province. Many of the prospective entrepreneurs who participated in these seminars are calling on the expert to seek his advice.

2.9 Assessment of DBZ's overall performance

The World Bank Report

The World Bank project completion report on DBZ project 1210/ZA had criticised DBZ in regard to certain aspects of DBZ's performance. The expert prepared a note for the use of DBZ as to how to assess its performance in this regard by compiling relevant information.

Norms of Appraisal

The expert carried out a study on the above subject and came to the conclusion that DBZ has broadly observed usual norms regarding viability of projects, Debt-equity ratio, break-even point etc. in its past operations.

Cost-overflow

Another study carried out by the expert brought out the reasons of cost-overflow in assisted projects and made certain suggestions to reduce the incidence of cost-overflow.

Problems of assisted concerns

A detailed study of the assisted concerns of DBZ brought out many problems faced by these concerns in particular, the weakness of project management. Number of suggestions have been made to avoid recurrence of these problems and to reduce the extent of arrears.

Suggestions

In a paper entitled "Identification, Scrutiny and Monitoring of projects in DBZ" suggestions like management advisory services, appointment of nominee directors, guidance to would-be promoters have been made to improve effective implementation of projects. Further, several operational studies like those carried out by the expert have been suggested for assessment of DBZ's performance.

Management information system

The expert has also prepared a paper on the above subject for the use of DBZ so as to facilitate internal coordination and assessment of its performance from time to time. The document gives various proformae for collecting the basic information required to operate this system.

Establishment of Economic and Planning Section

The suggestion of the expert to set up the above section to carry out operational research and operate management information system has been approved and necessary staff is being recruited for this purpose.

2.10 Mobilisation of foreign exchange

Foreign exchange borrowings

One of the major functions of DBZ relates to the mobilisation of foreign exchange resources required for building up new industries in Zambia. To make this function more effective a study was undertaken of the past operations of DBZ in this field including the terms/conditions of various foreign exchange lines of credit procured by DBZ. A comprehensive paper entitled "Foreign Borrowing by a Development Bank" was prepared on the basis of the study. The paper advocates the need for diversifying sources of foreign borrowing with a view to reduce the overall cost of borrowing inclusive of foreign exchange appreciation cost and to mobilise higher quantum of foreign exchange resources required for a significant step-up in industrialisation of the country.

In particular, efforts in promoting joint ventures, availing of commercial credit, petro/dollar etc. are recommended in this context. One of the findings of the study is that the exchange appreciation cost of the world bank loans has gone up from 4% in 1976 to 7% in 1980 (vide Annexure VI). As a result the world bank loans have become very costlier. The overall cost inclusive of exchange appreciation cost has exceeded 16% per annum. Even the borrowing from the Euro-dollar market would be cheaper as compared to this cost of financing. Reduced reliance of a development bank on the world bank for funding is advocated by the world bank in terms of its own policy objectives. The cost of its funds would be an additional factor to induce a development bank to minimise its reliance on the world bank. To meet demands for foreign exchange loans on a development bank efficiently, the need for regulating pace of utilisation of foreign exchange has been stressed in the paper. Avoidance of conditions which are onerous or difficult for compliance have also been suggested in the paper.

Participation in the discussion with refinancing agencies

The expert participated in discussion with representatives of refinancing agencies like the World Bank, Netherlands Finance Company (FMO), IFAD, IDBI, European Investment Bank etc. when they visited DBZ for discussions on the extension of lines of credit. These representatives were supplied with whatever information they desired to have, particularly in regard to SSI.

Lines of credit for SSI

As mentioned elsewhere DBZ succeeded in securing 3 million dollars for SSI financing from OPEC and 1.8 million SDK from IFAD. On an average requirement of 30,000 Kwacha in terms of foreign exchange, nearly 160 SSI projects could be financed from the above funds already secured. Negotiations with FMO, and EIB are in progress for procuring further funds for SSI.

Request is also being made to BOZ to appoint DBZ as its refinancing agency for SSI.

III. ACHIEVEMENT OF IMMEDIATE OBJECTIVES

3.1 Schedule and Targets and the Work Plans

Completion of items in the work plans

Most of the items listed in the work plans given in Annexure I and II have been completed more or less according to their time schedule excepting few items like preparation of a policy paper on exchange risk in foreign exchange loans, recruitment and training of DBZ/commercial bank personnel, identification and screening of prospecting entrepreneurs, scheme for guiding and training of entrepreneurs, promotion of joint ventures, visits to different provinces in connection with guidance of SSI projects. Difficulties experienced to undertake these tasks are mentioned below. In 1982, studies on appraisal norms, cost overrun etc. along with work relating to SSI were carried out.

Policy paper on foreign exchange

The question of foreign exchange risk was extensively covered in a paper entitled "Foreign Borrowing by a Development Bank" and in a paper "Identification and Scrutiny of projects". It was not thought necessary to submit a separate paper exclusively on foreign exchange risk.

Delayed implementation of SSI financing

The inter-institutional arrangement for the promotion of SSI sector is yet to become functional. The DBZ scheme for financing has been formulated only in July 1983. As a result proper and effective procedures regarding project scrutiny, project follow-up, sharing of assistance among institutions etc. have not yet been finalised. They are being improved on the basis of actual experience from case to case. In the absence of such arrangement/procedures it is difficult to organise training of DBZ/commercial bank personnel. Similarly, no formal scheme under this situation relating to screening of prospective entrepreneurs and extending necessary guidance to them could be prepared. The expert for the same reason could not undertake visits to different provinces to explain the procedures and terms and conditions of assistance to SSI, to familiarise prospective entrepreneurs in those areas. The expert, however, did undertake a trip to copperbelt region for this purpose, but this was done only after DBZ's scheme of assistance was formally introduced.

Difficult foreign exchange position

Some of the refinancing agencies like the World Bank, FMO, IDBI are reluctant to extend additional credit to Zambia in view of its difficult foreign exchange position. Even the grant of commercial credit from abroad has also been almost discontinued. If the foreign collaborator is unable to bring in his equity contribution to the joint venture, the possibility of promoting joint ventures becomes very remote. In view of this, despite interest shown by some of the foreign collaborators, no joint venture could actually materialise.

3.2 Fulfilment of objectives

Strengthening of DBZ's project follow-up

Apart from suggestions made in the project document entitled "Identification, Scrutiny and Monitoring of Projects" such as close coordination between appraisal and follow-up departments, appointment of nominee directors, periodic conferences of assisted concerns etc., a study of project implementation problems of DBZ's assisted companies was carried out. The study found out that the poor management is the most important reason accounting for as high as 48.6% arrears. The study also brought out that the assisted concerns suffered from certain problems which could have been avoided if the original project scheme had no weaknesses like under-estimation and over-estimation in project cost, inadequate market for end-products, unavailability of water etc. Specific suggestions to avoid recurrence of these problems have also been made. Implementation of these suggestions would improve project follow-up significantly. Operational research pertaining sick units, cost-overflow etc. would also enable the follow-up department to ensure project implementation smoothly. A system of management information based on pre-planned action programme would also help the assisted concerns to make the expected contribution to the economic objectives relating to employment, foreign exchange risk etc. Document on "Management Information System" incorporates various formats for collecting information regarding assisted concerns.

Bank's role in effective implementation of the Industrial Development Act

The DBZ has promoted 248 projects involving assistance of K124 million from its inception in 1974 till 31st March 1983. Thus, the projects assisted by DBZ have significantly strengthened the industrial structure of Zambia. With a proper coordination between the government, public sector and financial institutions, DBZ could further improve its performance in future. With the launching of SSI financing scheme, the DBZ would help promotion of new class of entrepreneurs in Zambia. No doubt DBZ will have to extend special assistance to SSI units in formulation and follow-up of their projects.

Project promotion

Detailed action programme submitted by the expert which is being implemented would result in increased flow of viable projects with increased social and economic content. The DBZ would, however, have to give more emphasis on assisting entrepreneurs in developing their project ideas. With proper procedures, DBZ would not expose itself to charge of discrimination among its clients. With the improvement of foreign exchange position, DBZ should make efforts in promotion of joint ventures which, with combination of management experience, technical knowhow from abroad would give quicker results in project promotion.

Performance Audit

The management information system suggested by the expert would involve comparison of DBZ's actual performance with its budgeted targets on periodic basis. The economic and planning section would also conduct studies from time to time to assess DBZ's performance in terms of contribution to basic economic objectives like promotion of employment opportunities, saving foreign exchange etc. Both these measures would facilitate an effective performance audit of DBZ.

Tripartite review

The Chairman concluding the tripartite review meeting held on October 29, 1982 at NCDP said that the project was fulfilling its mission and that the Government was pleased with its progress.

IV. UTILISATION OF RESULTS

4.1 Introduction of SSI scheme

Despite many difficulties, DBZ with the assistance of the expert could successfully launch SSI financing scheme. The expert also prepared draft paragraphs for incorporation in the speech of His Excellency the President Dr. Kenneth Kaunda delivered at the time of inauguration of the scheme. This included an appeal to prospective entrepreneurs to submit viable schemes for DBZ's assistance. As a result there was a good response from promoters. A pipeline of 33 projects involving an investment of K4 million has been built up. Five SSI projects involving manufacture of maize flour, laundry soap, mirrors, shoes and other leather products have been already been sanctioned by DBZ. DBZ's assistance for these projects came to K354,000. Further, foreign exchange funds adequate for approximately 160 projects have already been mobilised.

4.2 Improvement in quality of appraisal

The various suggestions made by the expert in regard to improvement of appraisal such as detailed assesment of entrepreneurial abilities, emphasis on projects with economic content etc. made in project documents as well as those made in the management committee with reference to individual cases have improved the quality of DBZ's appraisal. Formats prepared by the expert for eliciting information from promoters including from SSI sector are being used. Suggestions made in the project document, "Role of a Development Bank in the Transfer of Appropriate Technology" are being used to develop local technological base.

4.3 Project monitoring

The studies carried out by the expert relating to DBZ's past performance has identified problems like inadequate management set-up, improper security arrangement etc. faced in project implementation. Suggestions to overcome them are being given special attention in project monitoring.

4.4 Project promotion

Suggestions made from time to time have created awareness that projects which subserve the basic economic objectives like

promotion of employment opportunities, saving of foreign exchange etc. have to be given priority. Project ideas relating to manufacture of paper, nicotine sulphate etc. based on the local raw materials are being pursued.

4.5 Counterpart training

Training of the expert's counterpart had progressed satisfactorily. He attended one course in Development banking organised jointly by EDI, World Bank and African Development Bank in July - August, 1982 in Ivory Coast.

4.6 Establishment of economic and planning section

Suggestion to set up the above section has been approved. Another suggestion to set up a library for keeping industrial intelligence in readily accessible form has already been approved and the library has been functioning for about a year. The economic and planning section will carry out operational research and would also operate management information system to facilitate audit of DBZ's performance.

V. FINDINGS AND RECOMMENDATIONS

5.1 Institutional set up

The DBZ, where the expert was placed, is discharging important task in promotion and formulation of projects which would contribute to the industrial development of Zambia. DBZ gave excellent cooperation to the expert in implementing ideas suggested by him from time to time.

5.2 Further operational growth

If DBZ operates the management information system based on pre-planned performance budget as suggested by the expert, it would increase its volume of operation in a significant manner consistent with overall national economic objectives.

5.3 Inadequate industrial intelligence

One of the problems faced both in project formulation and appraisal is lack of adequate industrial intelligence regarding availability of raw materials in Zambia, latest import and exports, number of industrial units licensed and working in different industries with information as to the extent of their capacity utilisation, number of new units being promoted both in the public and private sector, the demand estimates for essential commodities in years to come etc. The work being done in Zambia to fill up this gap need to be completed at an early date.

5.4 Coordinated policy and operation of industrial process

At present no inter-institutional arrangement informed of a pre-conceived industrial policy, objectives and targets, is operating in Zambia. If Zambia is to make rapid industrial progress there is urgent need to evolve such an inter-institutional set up. NCDP is already holding coordination meetings but the issues like terms of reference, level and kind of participation, adequate preparatory work etc. need to be looked into to make these meetings to function as a meaningful, and effective inter-institutional industrial forum.

5.5 Delay in decision making

In the absence of a coordinated set up as mentioned in previous paragraphs it is no wonder that many industrial programmes are often delayed. For example, as regards programmes relating to

SSI sector, SIDO Act was passed in 1981 while DBZ Act amendment was carried out in 1982. Relevant amendment to BOZ Act is still to be carried out. Further, the question as to who would bear the foreign exchange risk was decided with a considerable delay.

5.6 Recommendations

1. The DBZ is doing commendable work in promoting projects based on locally available raw materials, augmenting foreign exchange etc. This would assist the industrial growth in the country. To expedite this process, DBZ need to implement a management information system based on pre-planned performance budget.
2. DBZ has a satisfactory system of monitoring projects. It can further improve its performance by providing management advisory services, suitable training programmes for promoters etc. These suggestions have been given in various project documents prepared by the expert.
3. Project promotion of DBZ should give emphasis on developing project ideas of prospective entrepreneurs who have either approached the bank or have been identified by DBZ. It should with improvement in foreign exchange position also give emphasis on promotion of joint ventures which accelerates industrialisation process in a short period.
4. DBZ should assist evolution of inter-institutional set-up which would identify gaps in industrial inputs, desirable industrial projects and ensure provision of required inputs for successful project implementation. DBZ can have a dialogue with NCDP in this regard. NCDP is already making efforts in this field.
5. In particular pending issues in regard the promotion of SSI sector like the implementation of CGS, announcement of concessions and incentives by the government etc. should be resolved at an early date. DBZ should also modify its

procedures regarding project promotion, appraisal and monitoring of projects to suit the needs of SSI on the basis of actual experience to be gained from financing SSI. It should also operate new schemes like refinance, rediscount, industrial estate financing etc.

6. In particular SIDO should concentrate on promoting specific projects in different parts of Zambia and coordinate closely its promotional programme with financing arrangements by institutions like DBZ.

VI. ACKNOWLEDGEMENT

The expert is indeed grateful for the help and guidance received from the following persons and organisations during his assignment.

- i) The then Hon. Minister of Finance - Mr. Kebby S. Musokotwane M
- ii) Mr. L.M. Nyambe - Managing Director (DBZ)
- iii) Mr. K.C. Sen - SIDFA, UNDP - Lusaka
- iv) Mr. M.M. Farah - Industrial Operation Div. - UNIDO, Vienna

ANNEXURE I
FIRST WORK PLAN AND TIME SCHEDULE
OF ACTIVITIES

JOB DESCRIPTION

WORK PLAN (REVISED)

Items 1, 2, & 3

Investigating, organising, streamlining and establishing methods of project identification, formulation and appraisal.

- i) Examination of DBZ Act vis-a-vis proposed financing schemes viz. (a) Participation financing with commercial banks (b) Refinance to commercial banks. (c) Rediscounting of bills to provide for hire purchase facilities in respect of machineries. (d) Scheme for financing industrial estates. (e) Scheme for financing purchase of imported raw materials and preparing draft amendments to DBZ Act if required.
- ii) Formulation of DBZ's policies for assistance to industries.
- iii) Formulation of Credit Guarantee Scheme in collaboration with UNIDO Small Scale Industries Adviser.
- iv) Preparation of a policy paper on exchange risk in foreign exchange loans.
- v) Recruitment and Training of DBZ personnel.
- vi) Training of commercial banks personnel in project identification and appraisal.
- vii) Appraisal of existing methods in DBZ of identifying, scrutiny and monitoring of projects.

Item 4

Assistance and guidance to local entrepreneurs.

- viii) Identification and screening of prospective entrepreneurs.
- ix) Scheme for guiding/training entrepreneurs in securing financial assistance.

ANNEXURE I (CONT'D)

Item 5

Assisting bank in preparing budgets and obtaining financial resources.

- x) Promotion of Joint Ventures.
- xi) Examination of Terms/Conditions of existing foreign lines of credit.
- xii) Identifying additional financial resources and participating in negotiations with local and foreign refinancing institutions.
- xiii) Advice to DBZ on adhoc policy issues
- xiv) Restructuring of the project and preparation of project document for future assistance.

Notes:

- (1) The above activities will be undertaken in liason with projects Zam/78/006 and Zam/80/005.
- (2) Besides, work relating to the processing of applications for financial assistance will be supervised.

ANNEXURE I (CONT'D)

TIME SCHEDULE OF ACTIVITIES

ACTIVITY	IMPLEMENTATION													
	Months 1981												1982	
	2	3	4	5	6	7	8	9	10	11	12	1	2	
1. Discussions with concerned institutions like Ministry of Finance, Ministry of Commerce and Industry, Bank of Zambia, Commercial Banks etc.		—												
2. Examination of DBZ's Act vis-a-vis proposed schemes of finance and preparation of draft amendment, if required.			—											
3. A note on Credit Guarantee Scheme.				—										
4. A policy paper on foreign exchange risk on foreign exchange loans.				—										
5. Formulation of scheme of participation finance with commercial banks.				—	—									
6. Discussion with commercial banks on the above scheme and effecting modifications therein if required.					—									
7. Recruitment and training of new DBZ personnel.						—	—							
8. Training of commercial banks personnel.							—	—						
9. Formulation of other financing schemes.								—	—					
10. Appraisal of existing methods in DBZ of identifying, scrutiny and monitoring of projects.										—	—			

ANNEXURE I (CONT'D)

	Months												
	1981						1982						
	2	3	4	5	6	7	8	9	10	11	12	1	2
11. Identification and screening of prospective entrepreneurs.						—	—						
12. Scheme for guiding/training entrepreneurs in securing financial assistance.						—	—	—	—	—	—		
13. Promotion of Joint Ventures.			—	—	—	—	—	—	—	—	—		
14. Examination of Terms/Conditions of existing foreign lines of credit.			—	—									
15. Restructuring of the project and preparation of project document for future assistance.												—	—

ANNEXURE II

SECOND WORK PLAN AND TIME SCHEDULE OF
ACTIVITIES

<u>PROJECT ACTIVITY</u>		<u>DETAILS</u>
1) Investigate, organise and streamline procedures/criteria for grant of credit facilities particularly in the field of Small Scale Industries	1)	Discussion with Bank of Zambia regarding the Credit Guarantee Scheme for loans to Small Scale Enterprises (SSE) and establishing procedures for availing of cover under the scheme, for assistance to SSE.
	ii)	Finalisation of scheme/s, in consultation with Bank Management of assistance to SSE for the approval of DRZ's Board of Directors
	iii)	Establishing internal procedures of approval/disbursement of assistance to SSE
	iv)	Preparation of a brochure on terms and conditions of assistance to SSE
2) Establish appropriate methodology for project identification, preparation formulation of investment programme		Visits to different provinces, like North Western Province in connection with guidance on and promotion of SSE projects.
3) Ascertain project viability from procurement, marketing, profitability point of view	i)	Participation in DRZ's Loan Committee for clearing projects for Board's approval
	ii)	Processing of applications for financial assistance from SSE.
4) Development of inter-institutional relations in industrial promotions		Discussions with SIDO/Commercial Banks and establishing working relations with them regarding assistance to SSE.

ANNEXURE II (CONT'D)

PROJECT ACTIVITY		DETAILS
5) Assistance to local entrepreneurs		Guidance to prospective entrepreneurs regarding their project ideas.
6) Assistance to the Bank in assessing its performance in terms of quality of its assistance.	1)	Preparation of a paper on Management Information System.
	ii)	To carry out a study on Problems of Assisted Units
7) Assistance to the Bank in preparing and obtaining financial assistance etc.		Discussion/correspondence with refinancing agencies regarding procedures of approval/disbursements of assistance to SSE.

ANNEXURE II (CONT'D)

TIME SCHEDULE OF ACTIVITIES

MONTHS 1983

ACTIVITIES	1	2	3	4	5	6	7	8	9	10	11	12
1) Discussion with Bank of Zambia regarding the Credit Guarantee Scheme for loans to small Enterprises (SSE) and establishing procedures for availing of cover under the scheme for assistance to SSE.		■	■	■	■	■	■	■				
2) Finalisation of Scheme/s in consultation with Bank Management of assistance to SSE for approval of BZ's Board of Directors			■	■	■	■	■	■				
3) Establishing internal procedures of approval/disbursement of assistance to SSE							■	■	■			
4) Preparation of a brochure on terms and conditions of assistance to SSE							■	■	■			
5) Visits to different provinces like North Western Province in connection with guidance on and promotion of SSE projects				■	■	■	■	■	■	■		

ANNEXURE II (CONT'D)

ACTIVITIES	MONTHS 1983											
	1	2	3	4	5	6	7	8	9	10	11	12
6) Participation in DBZ's Loan Committee for clearing projects for Board's approval	[Activity spans from Month 1 to Month 12]											
7) Processing of applications for financial assistance from SSE	[Activity spans from Month 6 to Month 12]											
8) Discussion with SIDO/Commercial Banks for establishing working relations regarding assistance to SSE	[Activity spans from Month 5 to Month 7]											
9) Guidance to prospective entrepreneurs	[Activity spans from Month 1 to Month 12]											
10) Preparation of a paper on Management Information System	[Activity spans from Month 5 to Month 11]											
11) Study on Problems of Assisted Units	[Activity spans from Month 5 to Month 9]											
12) Discussions/correspondence with refinancing agencies regarding procedures of approval/disbursements of assistance to SSE	[Activity spans from Month 1 to Month 12]											

ANNEXURE III

OPERATION OF CREDIT GUARANTEE SCHEME IN INDIA

(Amount in Rupees Crores)

<u>As at the End of June</u>	<u>Amount of guarantees outstanding</u>	<u>Advances under default</u>	<u>Claims paid on A/c of guarantees invoked (cumul- ative)</u>	<u>Net Amount of guarantee fees collected (cumulative)</u>	<u>Net Surplus accrued to Government (cumulative)</u>
1971	791	8	0.3	2.2	2.0
1974	1497	31	1.0	5.2	4.4
1975	1726	41	1.3	6.6	5.6
1976	1950	60	1.7	8.5	7.1
1977	2195	91	2.4	10.7	8.7
1978	2526	126	3.3	13.1	10.3
1979	2995	161	5.3	14.8	10.4

ANNEXURE IV

EXTENT OF APPRECIATION/DEPRECIATION IN
KWACHA TERMS OF FOREIGN CURRENCIES

(Kwacha in terms of a unit
of foreign currencies)

<u>YEAR</u>	<u>U.S. DOLLAR</u>	<u>STERLING</u>	<u>SWISS FRANC</u>	<u>YEN</u>	<u>INDIAN RUPEE</u>	<u>DEUTSCHE MARK</u>
1971	0.7138	1.822	0.182	0.00227	0.9897	0.2185
1972	0.7149	1.679	0.189	0.00237	0.8929	0.2234
1973	0.6438	1.495	0.198	0.00230	0.7846	0.2381
1974	0.6438	1.511	0.253	0.00214	0.7897	0.2671
1975	0.6430	1.302	0.246	0.00211	0.7197	0.2453
1976	0.7932	1.350	0.324	0.00271	0.8933	0.3358
1977	0.7586	1.446	0.380	0.00316	0.9244	0.3605
1978	0.7863	1.600	0.485	0.00404	0.9604	0.4303
1979	0.7780	1.730	0.492	0.00325	0.9837	0.4492
1980	0.8036	1.916	0.456	0.00396	1.0131	0.4100
Annual average appreciation/ depreciation (%)	+ 1.66	- 0.96	11.59	7.60	0.75	7.9

Source:

International Financial Statistics Dec. 75, Dec. 80 and April 1981.

ANNEXURE V
IDENTIFICATION, SCRUTINY AND MONITORING
OF PROJECTS IN D.B.Z.

CONCLUSIONS

1. Efficiency of a development bank primarily depends on the quality of its project work. Project work to become qualitative requires to be buttressed by appropriate support functions and sound management practices.
2. In developing countries, both entrepreneurial talents and skills in project formulation are scarce. Development bank in such countries has to undertake promotional activities to ensure that its assistance conforms to economic objectives of the country's development plans.
3. Such promotional activities are essentially of gap-filling nature and they do not involve direct responsibility of promoting and running the projects. At the same time to be effective they are to be comprehensive enough to fill in all the gaps in the infrastructure of project promotion.
4. The main function of a development bank is rendering financial assistance and if it is to undertake promotional activities in a comprehensive manner, it would mean heavy burden in terms of financial costs. But as there are other institutions and organisations which are equally interested in such activities it is desirable to carry them as a cooperative endeavour and to share costs thereof. A suggestion of setting up a Committee of Direction comprising representatives of interested organisations under the auspices of DBZ is, therefore, made to supervise and guide promotional activities.
5. Project identification work done in DBZ requires to be oriented to some specific objective like area development, creation of self-employment opportunities etc. Well-designed action programmes such as area potential survey, visits to industrial units are suggested.
6. Another programme suggested relates to development of entrepreneurial skills through training and appropriate guidance.

7. The need for developing local class of consultants by DBZ is also suggested.
8. DBZ has already satisfactory project appraisal system. However, appraisal of certain aspects like economic contribution, marketing, foreign exchange risk and management needs to be more detailed.
9. Association of outside experts with loan committees appraising projects is suggested to improve further the quality of appraisal.
10. Staffing of the follow-up department has to be decided on the basis of actual incidence of bad debts and provision made for such eventuality.
11. Certain suggestions like supply of brochures on follow-up to would-be promoters, holding of conferences of constituents, effective participation of nominee directors etc. are made to further improve the quality of project monitoring.
12. Establishment of management advisory service to help assisted concerns including sick units is suggested.
13. The need for conducting operational research to improve the level and quality of DBZ's operations is stressed. A list of studies is indicated for this purpose. Regular compilation of statistics relating to assistance is also advocated.
14. Suggestions for projecting proper image of DBZ through brochures press releases, seminars, detailed annual report have been made.
15. Certain salutary management procedures relating to training, job rotation, job description, reporting system, job manuals etc. have been recommended. In particular the need for a satisfactory management information system to make DBZ's operation more effective and informed is stressed.

ANNEXURE VI

**CURRENCY WISE BREAKDOWN OF BORROWING
BY THE WORLD BANK AND ITS FOREIGN
EXCHANGE RISK**

(Amount in Millions U.S.\$)

CURRENCY	1976		1977		1978		1979		1980	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
D. Mark	857	19	1396	35	1119	31	1171	23	2183	42
U.S.\$	2904	65	2037	52	750	21	666	13	1204	23
Swiss Franc	475	11	497	13	363	10	1546	30	964	19
Yen	61	1			646	18	1702	34	742	14
Other currencies	167	4			758	20			81	2
	4464	100	3930	100	3636	100	5085	100	5174	100
Foreign Exchange risk (%)		4.1		5.1		6.7		8.1		7.1

Note: Overall foreign exchange risk is weighted average of foreign exchange appreciation annual rates (1971 - 1980) of different currencies weighted by the amount of currencies borrowed during the year.

PROJECT DOCUMENTS WITH BRIEF CONTENTS

<u>TITLE</u>	<u>CONTENTS</u>
1. SCHEME OF PARTICIPATION FINANCING WITH COMMERCIAL BANKS FOR SMALL SCALE ENTERPRISES (SSE)	This document was a preliminary scheme involving financial participation of commercial banks and DBZ. This paper was submitted to the Ministry of Finance for approval.
2. REVISED SCHEME OF PARTICIPATION FINANCING WITH COMMERCIAL BANKS	This scheme was a revised version of the above earlier scheme. It was re-submitted to the Ministry for approval
3. SCHEME FOR REFIANCE OF LOANS TO SSE.	This scheme was prepared to grant refinance assistance to commercial banks in respect of their loans to SSI.
4. FOREIGN BORROWING BY A DEVELOPMENT BANK	On the basis of a study of terms and conditions on which DBZ obtained foreign loans, this project document was prepared to bring out the cost including foreign exchange risk of different sources of financing. It makes certain reccommendations to improve efficiency in mobilisation of foreign exchange loans.
5. IDENTIFICATION, SCRUTINY AND MONITORING OF PROJECTS IN DBZ - SUGGESTIONS.	This document examined the existing project work in DBZ and made suggestions to improve it.
6. SPECIAL FUND FOR FINANCING SMALL SCALE ENTERPRISES (SSE)	This document discusses advantages and disadvantages of undertaking SSI financing directly by DBZ or through establishment of a separate company.
7. INDUSTRIAL PROCESS IN DEVELOPING COUNTRIES - FRAMEWORK OF CORDINATION.	This document emphasises the need for an institutional framework for accelerating industrial process smoothly.
8. PROJECT PROMOTION: SYSTEM FOR INTER-INSTITUTIONAL CORDINATION	This document was prepared to outline an inter-institutional arrangement for project promotion.
9. MANAGEMENT APPRAISAL AND DEVELOPMENT OF ENTREPRENEURIAL TALENTS	This document makes several suggestions for improving project appraisal of DBZ.
10. COST OVERRUN IN PROJECTS ASSISTED BY THE DEVELOPMENT BANK OF ZAMBIA	This study concerns cost overrun. It identifies reasons of overrun and makes suggestions as to how incidence of cost overrun can be reduced.
11. WORLD BANK PROJECT COMPLETION REPORT	This policy note examines the points of criticism made by the World Bank and attempts to answer these points.

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| 12. PROJECT IMPLEMENTATION PROBLEMS-
IN DBZ ASSISTED COMPANIES | This document analyses the problems experienced during implementation with regard to the impact, their origin and their interse importance from the viewpoint of arrears. Certain suggestions to overcome some of them have been made. |
| 13. PROJECT PROMOTION:
SUGGESTED ACTION PROGRAMME | This outlines the longterm and the shortterm programmes for the project promotion department. |
| 14. NORMS OF APPRAISAL AND
FUCTUAL POSITION | This document examines the appraisal norms observed by DBZ in its past operations. |
| 15. MANAGEMENT INFORMATION
SYSTEM FOR A DEVELOPMENT BANK | This paper discusses basic issues of operating MIS for subserving the objectives of viable operation and maximation of contribution to the basic objectives as on on-going and flexible operational tool. It incorporates formats in which information is to be collected. |
| 16. ROLE OF A DEVELOPMENT BANK
IN THE TRANSFER OF TECHNOLOGY | This paper after discussing the basic concepts describes the role a development bank need play in developing an appropriate local technological base in the country. |

NOTE: A set of the above project documents is kept for reference in DBZ Library

ANNEXURE VIII

STAFF: International and Counterpart

International

N.D. Joshi	(Indian)	Industrial Adviser Development Banker	Feb. 19, 1981 - Dec. 1983
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Counterpart

Mr. G. Ngulube	(Zambian)	Assistant Manager Economist	"
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ANNEXURE IX

ABBREVIATIONS

DBZ	-	Development Bank of Zambia
BOZ	-	Bank of Zambia
ZSIC	-	Zambia State Insurance Corporation
ZNPF	-	Zambia National Provident Fund
SIDO	-	Small Industries Development Organisation
EIB	-	European Investment Bank
IFAD	-	International Fund for Agricultural Development
FMO	-	Netherlands Finance Company
IDBI	-	Industrial Development Bank of India
NCDP	-	National Commission for Development and Planning
CGS	-	Credit Guarantee Scheme
SSI	-	Small Scale Industries
SSE	-	Small Scale Enterprises
SEP LTD.	-	Small Enterprises Promotion Limited
ECA	-	Economic Commission for Africa
MULPOC	-	Multinational Programming and Operational Centre
MDAS	-	Management Development Advisory Services
RUCOM	-	Rural and Commercial Industries Ltd.

