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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

THE REPUBLIC OF ZAMBIA

FOR AN EDUCATION PROJECT

March 26, 1969

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED LOAN TO THE REPUBLIC OF ZAMBIA
FOR AN EDUCATION PROJECT

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to US\$17.4 million to the Republic of Zambia.

PART I - HISTORICAL

2. In March 1968, the Government of Zambia applied for a Bank loan to help finance an education project which was prepared with the assistance of the UNESCO/IBRD Cooperative Program. The project was appraised by the Bank in April-May 1968. Since then, the Government decided to exclude certain expenditures on the University of Zambia, pending the preparation of a comprehensive master plan for the university as a whole. In addition, the Government requested the Bank during loan negotiations to include in the proposed project the extension of the higher teacher training college in Kitwe, which the Government had acquired just prior to negotiations, and certain improvements to the 56 existing secondary schools, which are to be extended and equipped under the proposed project.

3. Formal negotiations took place in Washington in February 1969. The borrower was represented by a delegation led by Mr. E. G. Kasonde, Permanent Secretary of the Ministry of Finance.

4. The first lending by the Bank in independent Zambia was a road loan (469-ZA) made in 1966, which was followed in 1968 by a forestry loan (562-ZA) and a second highway loan (563-ZA). Previously, the Bank made two loans for railways in Northern Rhodesia (now Zambia) and Southern Rhodesia, and two loans for power to the Central African Power Corporation, jointly owned by Zambia and Southern Rhodesia. Zambia has since assumed responsibility for its share of these loans. Each of the pre-independence loans is guaranteed by the United Kingdom. There have been no IDA operations in Zambia. The following is a summary statement of Bank loans in Zambia as of February 28, 1968:

<u>Loan No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (US\$ million)</u>	
				<u>Bank</u>	<u>Undisbursed</u>
74-NR	1953	Zambia	Railways	14.0	-
145-RN	1956	Central African Power Corp. <u>1/</u>	Electric Power	40.0 <u>2/</u>	-
197-RN	1958	Zambia <u>1/</u>	Railways	9.5 <u>1/</u>	-
392-RNS	1964	Central African Power Corp.	Electric Power	3.85 <u>2/</u>	-
469-ZA	1966	Zambia	Roads	17.5	8.6
562-ZA	1968	Zambia	Forestry	5.3	5.3
563-ZA	1968	Zambia	Roads	<u>10.7</u>	5.9
Total (less cancellations)				100.8	
of which has been repaid to Bank and others				<u>23.4</u>	
Total now outstanding				77.4	
Amount sold:			37.6		
of which has been repaid			<u>19.0</u>	<u>18.6</u>	
Total now held by Bank				<u>58.8</u>	
Total undisbursed					<u>19.8</u>

1/ As a result of Loan Assumption Agreements entered into in connection with the dissolution of the Federation of Rhodesia and Nyasaland at the end of 1963.

2/ Amount guaranteed by Zambia, i.e., one-half of loan.

5. Since June 1, 1966, the Central African Power Corporation has been unable to obtain the foreign exchange from the Governments of Southern Rhodesia and Zambia for payments under the 1956 and 1964 loans. Zambia and the United Kingdom have each made one-half of these payments as guarantor.

6. Proposals for loans of about US\$2.5 million and US\$8.5 million for livestock and tobacco development projects may be ready for your consideration before the end of this fiscal year. I may also submit proposals for the financing in FY 1970 of a third highway project, of the expansion of the University of Zambia, and of an extension to the power installations at Kariba which were financed by Loan 145-RN of 1956.

PART II - DESCRIPTION OF THE PROPOSED LOAN

7. Borrower: Republic of Zambia
- Amount: Various currencies equivalent to US\$17.4 million
- Purpose: To help finance: (i) the construction, furnishing and equipping of 9 new secondary schools; and (ii) the improvement, construction of extensions to, and supplementary furnishing and equipping of, 56 existing secondary schools, 2 primary teacher training colleges, 2 higher teacher training colleges and a technical college.
- Amortization: In 25 years, including a 10-year period of grace, through semi-annual installments, beginning July 15, 1979 and ending July 15, 1994.
- Interest Rate: 6-1/2 percent per annum
- Commitment Charge: 3/4 of 1 percent per annum

PART III - THE PROJECT

8. A report on the proposed project entitled "Appraisal of an Education Project in Zambia" (PE-2a, dated March 20, 1969), is attached.

9. To meet the manpower demand of a growing economy and to assure a gradual replacement of expatriates, the present educational level in Zambia needs to be raised substantially. Only a very small number of Zambians have a university degree and only 0.2% of the African labor force have finished secondary education. Crucial shortages of qualified manpower exist in every sector of the economy. The present output of the Zambian education system is insufficient to meet the manpower requirements in the next 10 years. With an output of only 1,600 graduates in 1967, the secondary school system is unable to feed institutions of post-secondary education and to meet labor market demands. A rapid increase in the output from secondary schools in the next few years is therefore required.

10. Although primary education in Zambia is not compulsory, enrollments have more than doubled from about 280,000 pupils in 1960 to 600,000 in 1968, or 84 percent of the corresponding age group. Enrollments in general secondary schools in the same period have increased sharply from 2,500 in 1960 to 39,000 in 1968, and a further increase to 80,000 is

expected by 1974 to take care of the increasing number of primary school leavers. The proposed project would make a major contribution toward the required expansion in secondary school space. In addition, the present emphasis on academic subjects will be changed through the introduction of technical subjects, making the education system more appropriate to the type of manpower needed in the country. To that effect, agreement has been reached with the Government to diversify the secondary school program and to include pre-vocational courses in industrial subjects, agriculture, commerce and home economics.

11. A main constraint on expansion however, is the number of qualified teachers, especially secondary school teachers. Under the proposed project, their training at the higher teacher training colleges in Kabwe and Kitwe will be greatly expanded. Together with the University's program in teacher training, this expansion will provide the required number of Zambian teachers by the late seventies. To bridge the gap in teacher supply until that time, the Government plans to recruit adequate numbers of foreign teachers. In primary teacher training, the project will enable the Government to retrain most of the present primary school teachers.

12. The Government will establish, within the Ministry of Education, a Project Unit which will be responsible for the implementation of the project and the coordination with other agencies. It will be headed by a Project Director, acceptable to the Bank, who will be assisted by a full-time architect and supporting staff. The Government will also employ qualified and experienced firms of architects, acceptable to the Bank, to undertake the necessary architectural and engineering services.

13. The total cost of the project is estimated at US\$36.2 million equivalent. The proposed loan of US\$17.4 million represents the estimated foreign exchange component; the Government will cover the local currency requirements of US\$18.8 million equivalent. The project is expected to lead to recurrent expenditure of US\$10.6 million in 1974 which is about 11 percent of total estimated recurrent expenditure by the Ministry of Education in that year.

14. Contracts for construction and supply of furniture and equipment will be awarded on the basis of international competitive bidding, except for civil works contracts in an amount of less than US\$140,000 equivalent, which may be awarded on the basis of domestic competitive bidding, in accordance with procedures acceptable to the Bank. The Government has, however, undertaken whenever possible to group civil works under the Project in bid packages large enough to attract international interest, and there will in practice be very few civil works contracts amounting to less than US\$140,000 equivalent.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

15. The draft loan agreement between the Bank and the Republic of Zambia, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement, and the text of a Resolution approving the proposed loan are being distributed to the Executive Directors separately.

16. The draft loan agreement conforms substantially to the pattern of agreements used for education projects. It includes provisions concerning expert assistance to carry out the project and an undertaking to provide an adequate number of qualified full-time teachers in the project schools.

PART V - THE ECONOMY

17. An economic report entitled "Economic Position and Prospects of Zambia" (AF-81a) dated August 8, 1968, was distributed to the Executive Directors on August 27, 1968.

18. The Zambian economy is heavily dependent on copper, which produces nearly half of the GDP, two-thirds of Government revenues, and comprises over 90 percent of exports. Sharp increases in copper prices after 1964 more than offset the increase in costs of production and a temporary reduction in output, and mitigated the adverse economic effects of Rhodesia's Unilateral Declaration of Independence (UDI) in November 1965. After the settlement of the strike in the U.S. copper industry in 1968, copper prices fell. A fall in copper prices has a direct effect on the Zambian Government's revenue and, consequently, current expenditure had to be restrained in order to avoid a budget deficit. This year, copper prices have begun to rise again, but Zambia's economic prosperity will remain subject to the movements of copper prices for many years to come.

19. Manufacturing production has grown by an average of 21 percent per year since 1964; government is also investing in this sector, by taking majority shareholdings in selected firms. Agricultural production has not so far achieved equal success, though maize production doubled between 1965 and 1967 and has remained at a high level. The longer term prospects are favorable particularly for tobacco, poultry and confectionery groundnuts which have good export potential. Import substitutes in the agricultural sector, such as beef, cotton, sugar, and dairy products, have substantial opportunities for growth, as have a range of manufactures, including cement, timber products and metal products. Tourism is another sector which could have encouraging opportunities for growth.

20. Zambia's external debt at June 1968 was US\$232 million equivalent, and service on this debt represents 3.5 percent of foreign exchange earnings. This relatively low debt, combined with Zambia's basic economic strength and long-range growth potential, justifies her borrowing abroad on conventional terms to help finance important development projects.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

21. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

22. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachment

March 26, 1969