SPECIAL EVALUATION REPORT

Number 77 - 4
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ZAMBIA PROGRAM LOAN 690-H-004

ISN = 23672

I. INTRODUCTION

A. Purpose of Evaluation

As part of AID's program management, periodic evaluations are made of all projects. This evaluation was scheduled to take place after all funds had been disbursed and all commodities arrived in country. It serves also as a loan completion report.

The basic reason for an evaluation is to assist AID management in verifying the appropriateness and effectiveness of programs. Lessons learned are then available for future planning. When this loan was designed, it had two strikes against it: the AID Africa Bureau had very little experience with program loans; and there was no AID program in Zambia (little knowledge of the Zambian economy within AID and no AID personnel stationed in Lusaka). These were major handicaps. In fact, against such barriers the loan did surprisingly well.

B. Evaluation Team and Evaluation Methodology

John Lewis (Supply Advisor) and Joseph Lieberson (Economist-Evaluation Officer) from the AID Nairobi Office of REDSO/EA spent one week in Lusaka during March 1977. Meetings were held with officers in the American Embassy, officials of the Government of the Republic of Zambia (GRZ) and officials of GRZ parastatals (Zambia Railways and the National Transport Corporation).

An important distinction should be made between an audit and an evaluation such as this. An audit of a program loan usually concentrates on the micro level --- cataloging and accounting for commodities; what commodities were ordered; were they the right commodities; were they used effectively, etc. Rather than taking an auditor's approach, this evaluation concentrates on the loan objectives and how well they were met. The actual commodities ordered are of much less importance than the loan's policy objectives. This approach is particularly required since a program loan is a macro-economic tool. It is designed to have an impact on the borrower's economic policies, balance of payments, and national budget. The structure of the loan paper also reflects a macro-policy orientation. Out of a thirty-page loan paper, less than a page was devoted to commodities to be financed and implementation procedures.

II. EVALUATION OF ORIGINAL PROJECT OBJECTIVES AND CHANGES OVER THE LIFE OF THE LOAN

A. Evaluation Criteria

Established evaluation procedures do not exist for non-project (program-type) loans. AID has designed an eleborate system for project evaluation which is described in two AID publications: Project Evaluation Guidelines, Third Edition 1974 and Summary Description of the Project Design and Evaluation Methodology, 1975. These evaluation handbooks relate directly to AID's Handbook Number 3 on Project Assistance. Handbook Number 4, Non-Project Assistance, does not have a section on evaluation.

Project assistance is designed to attack a discrete bottleneck or problem which will result in a technical change in production or welfare for a target population. It is usually of a long-term nature. On the other hand non-project assistance is concerned with the transfer of resources to meet a short-term budgetary or balance of payments problem. A non-project loan is often designed to meet short-run U.S.G. political objectives.

The AID evaluation process starts and is centered around AID's "Logical Framework". The hierarchy of GOAL, PURPOSE, OUTPUT, INPUT are basic to project design and evaluation. Project evaluation examines a series of hypotheses or causitive linkages which result in the conversion of inputs into the production of outputs, outputs into project purposes, and finally achievement of the higher order program goal. However, for non-project loans there is no "Logical Framework".

Since regular evaluation techniques are inappropriate for this loan, a different evaluation process is being used. The original loan objectives will be examined to see if they were appropriate and if they were achieved. Since this type of loan is designed to have a short-run, immediate impact, the speed with which the loan funds were utilized is a major concern. A final concern is whether the commodities were appropriate and whether they are being effectively used.

B. Loan Objectives

The basic loan objective was to be responsive to the United Nations call for donors to provide Zambia with help in meeting the costs of the 1973 border closing with Rhodesia. This was a political objective; to provide political support to Zambia and to help it cover part of the additional transportation costs arising from not using the Rhodesia route for exports. A secondary objective was to provide overall support to the Zambian economy which had been experiencing declining GDP. This decline was mainly due to falling copper prices, and thus sharply declining export earnings. In such a situation development spending would suffer. The AID loan would generate resources which could reduce the rate of development spending cut-backs.

The Zambian/Rhodesian border was closed on January 9, 1973. The U.N. Security Council sent a Mission to Zambia in February 1973 which recommended a large scale program to help Zambia cover the costs of using other transport routes. The U.N. Security Council then recommended that U.N. member countries provide financial support to help Zambia. Estimates of the total costs (from Feb. 1973 to August 1975) range from $220-400 million. This was to cover the period from when the border was closed to when the Tazara railroad was expected to be opened to Dar-Es-Salaam.

C. Achievement of Objectives

As a quick political action the loan was a success. It was authorized within three months of the U.N. Security Council resolution. Given the AID bureacracy, this should be considered very speedy action. Against the total financial requirements (estimated at $220-400 million) the loan amount ($5 million) was insignificant. Other donors provided funds too, which helped the GRZ to meet its total requirements.

The loan was authorized on June 28, 1973 and signed on June 30, 1973. The Conditions Precedent (C.P's) were not met until December 5, 1973. The Letter of Commitment was opened on January 24, 1974. The C.P's were minimal and should have not taken the GRZ six months to satisfy. The opening of Letters of Credit and the GRZ's placement of orders went even slower.

While AID was able to meet its objective of quickly putting a loan in place, it was not able to make the GRZ move as rapidly on satisfying some very limited requirements to spend the money. This was due in large part to a complete turn-around in the GRZ's economic situation. The international commodity boom of 1973/74 bid up the price of copper to an all-time high. In 1973, when the loan was made, copper had just started to rise from the 1972/73 level of approximately $1,000 a ton. By mid-1974 it peaked at $2,889 a ton. A one cent a pound change in the price of copper results in a $14.2 million change in annual foreign exchange earnings. Over 90% of Zambia's export earnings and about one-third of GDP depend on copper production. With copper export earnings up sharply there was less urgency on the part of the GRZ to draw down the AID loan. The World Bank, which had provided a $30 million program loan to meet the 1973 transportation emergency, ended up cancelling part of its loan. AID considered deobligating part of the loan at one point also. However, by the end of 1974 copper prices had dropped from their 1973 peak of $2889 a ton to around $1,200 a ton. Zambia now needed foreign exchange and became eager to spend the money.

In retrospect, as a political instrument the program loan was an excellent way to show our interest and support for Zambia. It was authorized in record time. When the loan was proposed Zambia was desperate for foreign exchange. By the time the GRZ got organized and could spend the money there was much less need for the money. Since the loan was still available for the next cyclical downturn in copper prices it did provide a very useful injection of foreign exchange at a latter time. The loan did not achieve its original objective of rapid disbursements. The loan paper anticipated that all disbursekents would be completed by the end of 1974. Actual disbursements lagged much behind this target. The loan terminal disbursement date was 3/31/76.

D. Commodity Utilization

A final evaluation concern is the suitability and appropriateness of the commodities financed. The loan was designed to meet a transport emergency. All of the items financed were directly related to Zambia's transport needs.

The loan funded 8 General Electric locomotives with a C.I.F. value of $3.5 million. The locomotives represented 75% of loan disbursements. A lack of locomotives had been a continuing problem. These locomotives have helped Zambian Railways improve freight movement. The only problem experienced so far has been that the cylinder liners have been wearing out too rapidly. As a result there has been excessive downtime for locomotive repair. It appears that the problem is caused by incorrect lubricants or dirty fuel. G. E. (at its own expense) is testing the liners in order to identify what is causing the problem and what corrective action is required. Zambian Railway is not able to stock all of the spares required to service different G. E. locomotives. Zambia Railways also voiced the concern of almost all Zambian enterprises -- a lack of foreign exchange. The Railroad would like more spares and more overseas training but cannot get the foreign exchange from the Central Bank.

The Doron "Heavy Goods Vehicle Simulator" and "Light Car Simulator" are being used to train new drivers for parastatal and private road transport firms. Anyone who has seen the number of heavy trucks wrecked along Zambia roadways will appreciate the need to improve driver training. However, the two simulators have never operated up to their full potential. It appears that the local Zambian service representative cannot maintain and service the equipment. An examination of the repair book indicates that similar faults keep reappearing every few days. The master console, used by the teacher to monitor the students, has never worked satisfactorily. Using 20/20 hindsight, the driving simulators were probably too sophisticated an item to be properly maintained in Zambia.

Four heavy cranes were also financed. The evaluation team was not able to locate the specific cranes financed by the loan. Based on discussions with the National Transport Corporation it appears that they have received the cranes and they are operating satisfactorily.

III. IMPLEMENTATION EXPERIENCE

At the time of the preparation of the Capital Assistance Paper, it was anticipated that the loan would be used to finance the following: machinery, equipment and supplies essential to the mining industry; industrial and agricultural commodities; fertilizers; and up to $500,000 in technical services of a non-commodity related nature (consulting services to expedite the routing of traffic to and from the ocean ports). The paper pointed out that the funds were not to replace financing made available by the EX-IM Bank for transport equipment; however, A.I.D. could finance transport related equipment such as forklift trucks, cranes, steel warehouse structures, etc.

The GRZ designated the Emergency Transport Contingency Planning Committee as the entity responsible for implementation of the loan -- that is, determining what commodities would be financed. Since a number of foreign and international organizations had made assistance available to the GRZ at the time of the closure of the Rhodesian border, and responsibility for disbursement of the funds had been given to the Committee, it might be said that the Committee was overwhelmed as to how the funds should be used. The Committee initially explored using part of the A.I.D. loan funds to finance such items as inflatable warehouses, grain storage facilities, crude petroleum storage tanks, edible oil storage tanks, railway cranes, and an eight-place driver training simulator.

After considerable implementation difficulties resulting from A.I.D.'s requirement that advance payments made under an A.I.D. letter of commitment be secured by a performance bond, arrangements were finally made for the financing of an eight-place heavy goods vehicle simulator to be used by the National Transport Corporation (NTC) to train truck drivers. Also, arrangements were finalized for the financing of four heavy duty cranes and another simulator for training personnel to drive automobiles. With orders placed for the above mentioned equipment, there was still some $3.8 million remaining in the loan. After approximately a year having passed without the Committee's obligating the remaining balance of the funds and the expiration date of the loan drawing near, the Zambian Ministry of Finance proposed using the money to purchase eight General Electric locomotives. Originally, these locomotives had been scheduled for financing by the Export-Import Bank, however, as a result of the GRZ's objection to certain terms included in the loan agreement by the U.S. bank participating with EX-IM in the arrangement, the financing collapsed. After A.I.D.'s obtaining the clearance of the EX-IM Bank and the processing of a proprietary procurement waiver, the Ministry of Finance was notified that the balance of the loan funds could be used to finance the eight locomotives and related spare parts.

In the meantime, the National Transport Corporation, who had been advised by the Committee that the remaining funds had been allocated to them, had entered into contracts with U.S. suppliers for truck spare parts, special tools, workshop equipment, mechanical training tools, audio visual aids, a crane, etc. These contracts utilized practically all the remaining funds. Authorities to Pay (rather than letters of credit) were issued by the letter of commitment bank to the suppliers of these commodities. However, the Authorities to Pay expired prior to any of the goods being shipped and were not extended on the basis of the Ministry of Finance holding to their decision to use the funds for the locomotives. The Ministry of Finance assured REDSO/EA and the American Ambassy that any of the NTC contracts with the U.S. suppliers which were irrevocable would be financed by the GRZ with their own foreign exchange. (Per the report prepared by the staff of the Inspector General of Foreign Assistance, some of the contracts were financed by the GRZ.)

As a result of the delay in the delivery of the locomotives by General Electric, it was necessary that the terminal disbursement date of the loan be extended by three months, to March 31, 1976. The locomotives were eventually shipped in late December of '75 and early January of '76. With the exception of about $300,000 for the locomotive spares, all the funds under the loan had been disbursed. In mid-February of 1976, AID was informed that the Zambia Railways had not ordered the spares, and that the GRZ was requesting that the remaining loan funds be used to reduce their foreign exchange arrearages. A.I.D. turned down the request, the loan expired, and about $300,000 was deobligated.

IV. IGA INSPECTION OF THE ZAMBIA PROGRAM LOAN

The Inspector General of Foreign Assistance (IGA) issued a report on November 28, 1975 questioning whether AID should have financed Export-Import Bank (EXIM) type commodities and whether loan financed driver training simulators contained ineligible components.

A. Financing of EXIM type commodities GE Locomotives

AID views itself as the lender of last resort: If a country can finance an activity from internal resources, AID will not provide funding; if a country can borrow commercially, AID will not provide funding; if a country can get C.C.C., PL 480 or EXIM financing, AID will not provide financing. Only when a country faces severe balance of payment/budgetary pressures or when a project is of a non-commercial nature (will not directly generate revenue) does AID step in. The Foreign Assistance Act of 1961, as amended, directs AID to take into account alternative sources of financing before making loans. AID manual order 1013.2 states that "AID will not make loans which the EXIM Bank is prepared to undertake." Locomotives have generally been viewed as commercial type commodities which should be financed by commercial banks or EXIM. While there is no legislative or administrative prohibition against AID funding, AID has generally avoided such transactions.

AID had not originally intended to finance the G. E. locomotives and had so told EXIM. However, by April 1975, with loan disbursements proceeding at a snail's pace, the EXIM locomotive commitment expired, and pressure was building to follow through on the U.S.G. political commitment to financially help Zambia; therefore, something had to give. The major interest was to help improve Zambia's foreign exchange position and to help relieve the transportation bottleneck. Using the loan to finance the locomotives met both of those interests. The EXIM Board of Directors agreed that AID could finance the locomotives and cleared a memo on 4/29/75 allowing AID financing.

IGA recommended that AID's manual orders be amended to prohibit financing of revenue producing items when EXIM financing is available, unless the AID Deputy Administrator approves a waiver.

Since the legislation does not prohibit AID financing of "EXIM-type" commodities and since EXIM gave AID the O.K. to finance the locomotives, it would appear that the IGA findings were in error. In addition, with AID Policy Determination No. 43, "Additionality" requirements were eliminated from the AID program which further undermines the logic of the IGA findings. IGA's final point, that the AID Deputy Administrator rather than the Regional Assistant Administrator should approve such waivers appears weak. The locomotive procurement approval by the AA/AFR may not have been adequately documented but appears to be within the delegations of authority which the AA/AFR has received from the AID Administrator.

B. Financing of the Doron Driver Simulator

IGA made the following recommendations:

"That AID review with Doron officials the subcontracting arrangements and componentry composition of Doron's contract. To the extent that either technical services or hardware components were procured from ineligible source, AID should require reimbursement from Doron."

Prior to the issuance of the letter of credit Doron assured AID there would be no foreign components. Doron submitted to AID Form 11, Application for Approval of Commodity Eligibility, which certified that neither the commodities or components were from other than AID code 941 source. It seems that a portion of the technical services and films may have been from the United Kingdom or Zambia (which are not code 941 sources). AID turned the matter over to the AID Inspection and Investigation Staff (IIS) to see if there was intentional misrepresentation by Doron.

V. POST LOAN EXPERIENCES AND ACTIONS

The slow disbursement rates under this loan were recognized as a problem and attempts were made to avoid a repetition in the following program loan (690-K-009). A Condition Precedent to loan 009 was a GRZ Procurement Plan. Such a Plan would commit the GRZ to an agreed list of items to be imported under the loan. The use of such a plan has greatly speeded up loan implementation. It appears at this time that loan 009 will disburse faster than loan 004.

The loan paper and loan agreement for loan 004 required the GRZ to attribute local currency generations to its development budget. As part of this evaluation exercise, agreement was reached with the GRZ Finance Ministry on suitable counterpart-attribution. AID/REDSO Nairobi sent an Implementation Letter to the GRZ (March 29, 1977) setting out the understandings reached on counterpart attribution. The GRZ sent a letter to REDSO in April confirming that the attribution had taken place and identified the specific budget catagories to which loan counterpart funds had been attributed.

Distribution:

REDSO/EA   Project file   Loan 690-H-004
REDSO/EA   Evaluation file

American Embassy Lusaka   J. Barcas
OSARAC   Mbabane
AFR/DP   I. Licht
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PPC/DI   W. IDE   720 RP
SER/COM/ALI J. Shollenberger   709 RP

Implementation Schedule

Zambia Program Loan 690-H-004 Original Versus Actual

Action	Original	Actual
Loan Authorization	June 1973	June 28, 1973
Loan Signed	June 1973	June 30, 1973
CP's met	September 1973	December 5, 1973
1st L/com opened	September 1973	January 24, 1974
1st L/credit issued	October 1973	N/A
First shipment	December 1973	N/A
First Loan Disbursement	February 1974	N/A
Final shipment	December 1974	January 1976

Items Procured Under Zambia `rogram Loan 690-H-004

8 General Electric, CS Diesel-Electric Locomotives, Model No. U-20c (each $ 405,753)	$ 3,246,024.00
Freight on Locomotives	$ 299,118.64
	$ 3,545,142.64
Doron 8-Man Heavy Goods Vehicle Simulator..	$ 550,000.00
Doron 8-Man Car Simulator	$ 153,157.00
Harneschfeger Model T-300 Crane	$ 133,652.00
Harneschfeger Cranes (2)	($ 89,878.00 (95,826.00
Koehring Crane	$ 109,000.00
Miscellaneous shipping and banking charges	$ 16,331.38
Total Loan amount expended	$ 4,692,987.02
Deobligated residual	$ 307,012.98
Loan Authorization	$ 5,000,000.00