

THEMATIC STUDY

**The Developmental Effectiveness of Untied Aid:
Evaluation of the Implementation of the Paris
Declaration and of the 2001 DAC Recommendation on
untying ODA to LDCs**

Zambia Country Study

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Introduction

In the 2008 Phase I study *The Developmental Effectiveness of Untied Aid*, it was found that aid to LDCs is now overwhelmingly untied (excluding exempt categories, technical co-operation and food aid). However, it was also found that there existed very little formal analysis of both the donor practices in partner countries and the actual consequences of untying aid at a country level. The Phase II study is in response to the proposals of the Working Party on Aid Effectiveness and the Development Assistance Committee (DAC) Network on Development Evaluation and the reporting requirement in the 2001 DAC Recommendation on untying ODA to LDCs.

Phase II of the project is intended to provide evidence-based conclusions about the implications of untying aid and its impact on aid effectiveness in selected case-study countries, for presentation to the DAC by December 2009. This report provides the results of the Zambia Country Study.

This study aims to highlight key issues through a short statistical review of the available data and through the assessment of a limited number of project case studies. The focus of the case studies was on the procurement practices of the donors, governmental executing agencies and implementing agents, that may have a significant impact how goods and services are purchased, with implications for aid effectiveness.

The four projects selected as case studies were:

- the Water Sector Support in Northern Province (WSSNP) supported by Irish Aid
- the Southern Water and Sanitation Project (SWSP) funded by Germany
- the Water Sector Performance Improvement Programme (WSPiP) financed by the World Bank
- the district focused agricultural development Production, Finance and Technology Project (PROFIT) funded by USAID.

Statistical and econometric analysis

Zambia has received significant levels of external assistance and currently ranks among the top 10 African country recipients of ODA. Aid flows, as a share of overall public expenditure, peaked at 53% in 2001 (i.e. the year when the DAC Recommendation on aid untying was passed). Since then, the contribution of ODA to public expenditure has declined steadily, to around 24% in the 2008 budget. In absolute terms, total ODA commitments halved between 2005 and 2007. The fall in the contribution of aid flows to Zambia can largely be explained by improved external conditions, arising from both debt relief and rising copper prices.

According to OECD/DAC statistics from 2005 to 2007, bilateral aid accounted for just over 90% of total ODA commitments. Almost all of this bilateral ODA takes the form of grants, with no new loan commitments made in 2007. The top bilateral donors, in terms of their commitments to Zambia, are Japan, the USA, Germany, the EC and the UK (in that order). Together, these five bilateral donors accounted for 70% of the total bilateral ODA to Zambia over this period.

The vast majority of bilateral ODA to Zambia is reported as untied (86%), with around 4% of bilateral ODA reported as tied and 9% as partially tied. But there are large discrepancies in approach between the different donors. Whereas the UK, Sweden, Austria, Ireland and Luxembourg reported all of their aid as untied, Switzerland reported that 46.1% of its ODA is tied. Among other major bilateral donors, Japan reported 94.2% of its aid to Zambia as untied; the USA 81.8%, Germany 94.5%; and the EC just 17.7% untied. The largest proportion (82.3%) of EC aid is reported as partially untied.

Aid modalities and tying

Donors currently adopt four different mechanisms in operating in Zambia: Project Support, Integrated Project Support⁷, Sector-Wide Approach (SWAp) and General Budget Support (GBS).

There is no official data on the use of these different mechanisms by the major donors, but a survey undertaken as part of this country study provides some information on the preferences of the ten participating donors based on 2007 disbursements. Seven of the ten donors use general budget support (GBS) and/or non-earmarked sector budget support (SBS) to disburse ODA to Zambia, with the EU disbursing two-thirds of its aid through this channel. Amongst the respondents, Canada, Japan and the USA disburse no ODA through this channel. Earmarked budget support is not widely used in Zambia.

The World Bank, Germany, Norway, Sweden, Japan, Canada and the UK generally adopt a Sector-Wide Approach and use the Zambian procurement system to fund non-pooled projects. More than 70% of World Bank disbursements and 44% of UK aid is channelled through this modality. Almost all USA ODA goes to non-pooled projects, but these disbursements follow US rules and guidelines. A number of small donors, including Canada, Finland and Sweden, do make use of pooled projects, with Canada distributing 83% of its total ODA through this channel. Japan adopts a very different approach, with more than 97% of all ODA restricted to specific projects and Japanese procurement. The EU, Germany, Sweden and the UK also use their own procurement systems to provide project support, but the proportion of overall ODA disbursed through this modality is much lower, at 28%, 18%, 17% and 13% respectively.

Table 3.8: Disbursements of ODA by Selected Donors

| | Total Disbursements | GBS & Unearmarked SBS | Earmarked SBS | Non-Pooled Projects | | Pooled Funding | Project funding involving agency's own procurement | |
|------------|---------------------|-----------------------|---------------|----------------------|------------------------------------------------|----------------|----------------------------------------------------|--------------|
| | | | | using Zambian System | using non-state procedures other than your own | | at local office | through HQ |
| | US\$ million | (% of total) | (% of total) | (% of total) | (% of total) | (% of total) | (% of total) | (% of total) |
| World Bank | 54.4 | 18.4 | 0.0 | 71.3 | 0.0 | 10.1 | 0.0 | 0.0 |
| Canada | 15.65 | 0.0 | 0.0 | 1.5 | 0.3 | 82.7 | 5.9 | 9.6 |
| Japan | 34.43 | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 97.4 | 0.0 |
| EU | 58 | 66.7 | 0.0 | 0.0 | 0.0 | 5.7 | 27.6 | 0.0 |
| Germany | 29.4 | 23.1 | 0.0 | 44.2 | 3.4 | 11.2 | 18.4 | 0.0 |
| USA | 212.9 | 0.0 | 0 | 0.0 | 99.9 | 0.1 | 0 | 0 |
| Finland | 17.7 | 39.0 | 0.0 | 0.0 | 14.7 | 43.5 | 0.0 | 0.0 |
| UK | 72.9 | 60.6 | 10.8 | 0.5 | 0.0 | 13.2 | 1.9 | 12.9 |
| Sweden | 52.2 | 27.2 | 0.0 | 8.2 | 4.6 | 42.7 | 17.2 | 0.0 |
| Norway | 72.7 | 24.9 | 22.7 | 10.3 | 36.7 | 5.4 | 0.0 | 0.0 |

Source: Donors through questionnaire administered by Premier Consult Limited

A number of implications can be drawn from this survey. Firstly, the results confirm the data reported to the OECD/DAC. Most donors use the GBS and/or non-earmarked sector budget support modality and the Zambian procurement system. Such support is de jure untied. Secondly, the survey raises some questions about the reporting of some specific donors. For example, although the UK reports all of its ODA to Zambia as untied, a large proportion of this funding is disbursed through host country and head-office procurement systems. This requires further analysis to explore whether, in fact, this ODA is truly untied. Finally, the survey highlights a number of countries that appear to avoid the use of Zambian procurement systems. Again, this would appear to raise the risk of de facto tying. Two of these countries (Japan and the USA) are among the largest donors.

Project analysis

Four projects were selected as case studies: three water and sanitation projects funded by Ireland, Germany and the World Bank; and a USAID-funded private sector competitiveness project.

1. WSSNP has its origins in the Irish Government's support to water supply and sanitation activities in the Northern Province of Zambia since 1983. Initially, the programme was implemented directly by Development Cooperation Ireland's (DCI) own staff. After a review in the mid 1990s, the Programme began its full integration into the Zambian Government's Water, Sanitation and Hygiene Education (WASHE) system in 1998, though full integration was only achieved in 2002. DCI staff have reduced their direct participation in Provincial WASHE (P-WASHE) meetings and currently attend only at the invitation of the Chair of the Committee. The Programme currently provides both financial and technical support to four districts in the Northern Province: Mbala, Isoka, Luwingu and Mpika.

2. SWSP was initiated in 1998 through the signing of a financial agreement worth DM 27 million between the Zambian and German Governments. The agreement covered 8 towns in the Southern Province, excluding Livingstone. Later in 2000, an additional agreement for Livingstone worth DM 13 million was signed. The objective of the project was to provide a continuous and sufficient supply of hygienically safe drinking water for the majority of the population and industry in the nine towns of the Southern province, through the repair of existing water supply systems and the expansion of new networks. The Project also provided support to the provision of adequate sewage and human waste disposal services in those towns that have sewage systems. SWSP was funded through German Financial Cooperation (KfW) and required a small counterpart funding from the Government of the Republic of Zambia. Although the Project was originally scheduled to commence in July 2000 and end by September 2003, a number of delays resulted in its extension to February 2009.

3. WSPIP was established in 2007 under a concessional loan agreement from the World Bank for US\$ 23 million. It was initially planned to be completed within a period of three years, but has since been extended to 2012, with an additional injection of US\$ 10 million. The objective of the Project is to support the Government's on-going commitment to urban and rural water sector reforms, and increased access to services, through the expansion of existing facilities. It includes support to the Government and its utilities to implement a comprehensive institutional structure which will lead to a better, more sustained and co-ordinated approach to the public and private provision of water and sanitation services.

4. PROFIT is a five-year USAID project that began in June 2005. The project is implemented by the Co-operative League of USA (CLUSA) in partnership with the global development consulting company, the Emerging Market Group (EMG). Funding of the Project was obligated in the bilateral Strategic Agreement for Economic Growth between the Zambian Government and the Government of the United States, and the total finance for PROFIT is US\$ 17.5 million. PROFIT seeks to improve the competitiveness of selected industries in which large numbers of medium and small enterprises participate. This will enable firms and industries to respond to market demands, both in the short and long term, and to raise the benefits that these firms provide to market participants.

The rules and regulations for procurement differ across the four donors/projects. In the case of the Irish AID-supported WSSNP, the Project is completely untied, uses local procurement rules, regulations and systems, and has no restriction on procurement to a particular geographic region. The other three projects use donor rules and guidelines for procurement. Although these rules and regulations do not usually restrict sourcing of goods and services to the donor country, it was found that there are certain specifications that may require the sourcing of both equipment and consultants from the donor country. Furthermore, most Zambian local firms do not have the financial or technical capacity to meet the tender requirements of large donor projects. As a result, in the German-funded SWSP, about 85% of the project money went to German firms, whereas around 29% of the total funding from the USAID-funded PROFIT went to US organisations.

Cost and developmental effectiveness

All four projects examined demonstrated their developmental relevance to the extent that they are aligned to the Fifth National Development (FNDP) priorities. Partly as a result of untying, donors are seen to be working towards harmonising their programmes through the Joint Assistance Strategy for Zambia (JASZ). In addition, more of the donors currently use GBS and SBS as aid approaches (rather than project specific funding). Delegated co-operation is also being employed in Zambia.

Due to the limited number of projects evaluated in this study, it has not been possible to assess fully whether the untying of aid leads to improved developmental effectiveness. Nevertheless, the evidence provided by these four projects suggests that, in general, the extensive use of local sub-contractors, which is made easier in an untied environment, has contributed to the creation of employment opportunities and a transfer of skills. This is certainly true of the WSSNP project, in which all works are now handled by Zambian firms. In other cases, however, such as the SWSP project, there was no sub-contracting involved (except for one joint-venture between a Zambian and a German company) and the development effectiveness is, therefore, likely to be considerably lower. The size and technical requirements of the project clearly have a strong bearing on the extent to which goods and services can be provided by local firms.

Another spin-off benefit of untying, in the Zambian context, is that it has probably contributed to the strengthening of local procurement systems. For example, the Irish-funded WSSNP is implemented at the district level, and the project has had to invest in improving planning, procurement, accounting, and monitoring and evaluation with councils, to enable them to contract local suppliers. Similarly, in the case of the German-funded SWSP, the use of local procurement systems helped to instil a sense of local ownership.

Measuring the cost effectiveness of untied aid proved difficult, and was limited to a set of items in one case study. In this example, the price of the goods procured using untied aid was lower by at least 6%, relative to the import parity price. There was no other evidence to suggest that untying had raised costs, in any of the studies, though this may require more comprehensive analysis. Such analysis would need to look beyond the monetary cost of untying and also consider the expected time benefits of procuring locally.

Conclusion

Zambia is a major beneficiary of ODA and aid flows constitute a substantial share of the country's budget and GDP. Improvements in the development and cost effectiveness of ODA are, therefore, likely to have a significant impact on individual beneficiaries and the country as a whole. The four case studies confirm the significant contribution made by these specific projects in Zambia and show how untying in general, and the use of local procurement systems and sub-contractors in particular, can contribute to employment creation and skills transfers.

In the actual procurement of goods and services, there is some evidence of implicit or de facto tying by donors. In the case of PROFIT, no local firms were involved in the initial tender, and participation by other international organisations was poor. In the award of SWSP, the Government indicated that it was asked to suggest firms for consideration and that German firms should be amongst those recommended. This project has made no use of local sub-contractors (except in one instance, as a joint venture with a German company).

There are two main reasons for the use of host country companies, consultants and materials in Zambia:

1. Although rules and regulations do not restrict the sourcing of goods and services, there are certain specifications that may require sourcing from the donor country. For example, in SWSP, replacement parts had to be purchased from Germany because this is where the existing water pumps came from. USAID imposes restrictions on the procurement of specific goods and services, such as motor vehicles and air travel (although these are not always enforced). In projects that require a consultant or an implementing agent, the prime contractor or consultant usually comes from the donor country.
2. Most Zambian firms do not have the financial capacity or technical experience to tender for large donor projects, regardless of whether or not the project is tied. For example, in the case of WSSIP, post qualification rules required that the bidding company should have delivered at least two contracts of at least the same value in the last three years, that have been successfully and substantially completed and that are similar to the proposed works. This criterion effectively disqualified almost all Zambian-based firms.

In addition to these examples, the increasing use of vertical funding arrangements such as the PEPFAR and the Global Fund, which are better resourced than most other programmes in Zambia and remain strictly tied, may diminish the gains from untying.

Finally, interviews with various donors and the statistical analysis revealed that untying has facilitated the increased use of GBS and SWAPs in Zambia. This improves the transparency and alignment of aid, but also raises new challenges. For Zambia, procurement capacity and systems need to be improved to manage additional funds well and provide donors with sufficient confidence. For the donors, there is need to work towards integrating their supported projects into the national system, and to reduce the transaction costs emanating from the parallel structures that often threaten the sustainability of project/programme outcomes.

| | |
|---------|------------------------------------------------------------|
| ABB | Activity-based Budgeting |
| ACC | Anti Corruption Commission |
| AfDB | African Development Bank |
| AIDS | Acquired Immune-Deficiency Syndrome |
| CLUSA | Cooperatives League USA |
| CIF | Cost, Insurance and Freight |
| CRS | Creditor Reporting System |
| DAC | Development Assistance Committee (of OECD) |
| DIIS | Danish Institute for International Studies |
| DCI | Development Cooperation Ireland |
| DNA | Development Network Africa |
| DfID | Department for International Development |
| EC | European Commission |
| FDI | Foreign Direct Investment |
| FTC | Free-standing Technical Cooperation |
| FNDP | Fifth National Development Plan |
| GDP | Gross Domestic Product |
| GBS | General Budget Support |
| GRZ | Government of the Republic of Zambia |
| HIV | Human Immune Virus |
| HIP | Harmonisation in Practice |
| HLM | High Level Meeting |
| IDA | International Development Association |
| IMF | International Monetary Fund |
| IFAD | International Fund for Agricultural Development |
| ICT | Information Communication Technology |
| ICB | International Competitive Bidding |
| IFI's | International Financial Institutions |
| JASZ | Joint Assistance Strategy for Zambia |
| LDC | Least Developed Country |
| LWSC | Lusaka Water and Sewerage Company |
| MLGH | Ministry of Local Government and Housing |
| MDGs | Millennium Development Goals |
| MCC | Millennium Challenge Corporation |
| NCB | National Competitive Bidding |
| OAG | Office of the Auditor General |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Cooperation and Development |
| ODI | Overseas Development Institute |
| PAF | Performance Assessment Framework |
| PD | Paris Declaration |
| PEMFA | Public Expenditure Management and Financial Accountability |
| P-WASHE | Provincial Water, Sanitation and Hygiene Education (WASHE) |
| PEPFAR | (United States) President's Emergency Plan for AIDS Relief |
| PRSP | Poverty Reduction Strategy Paper |
| PIU | Project Implementation Unit |
| PSUs | Procurement and Supply Units |
| PROFIT | Production, Finance and Technology |
| SBS | Sector Budget Support |
| SAP | Structural Adjustment Programme |
| SWAp | Sector-Wide Approach |
| SWSC | Water Sector Performance Improvement Programme |
| TA | Technical Assistance |

| | |
|----------|---------------------------------------------------------|
| UNCITRAL | United Nations Commission on International Trade Law |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations Program on HIV and AIDS |
| UNAIDS | United Nations AIDS |
| UNFPA | United Nations Fund for Population Activities |
| USAID | United States Agency for International Development |
| V-WASHE | Village Water, Sanitation and Hygiene Education (WASHE) |
| WHIP | Wider Harmonisation in Practice |
| WASHE | Water, Sanitation and Hygiene Education (WASHE) |
| WSPIP | Water Sector Performance Improvement Programme |
| ZPPA | Zambia Public Procurement Authority |
| ZNTB | Zambia National Tender Board |

1.1 Background and approach

It has been argued that tied aid raises the cost of goods, services and works by a significant percentage and, thus, untying is good for both the partner country and the donor. Consequently and following extended negotiations, the OECD/DAC adopted in 2001 a recommendation to untie ODA to Least Developed Countries (LDCs). This recommendation, which was amended in 2006, also invites DAC Members to provide untied aid in areas not covered by it. The 2005 Paris Declaration on Aid Effectiveness endorsed the 2001 DAC Recommendation and has included this aspect in its monitoring of ODA effectiveness (indicator 8). In addition, the European Community has adopted two regulations governing access to EC external assistance under which all aid to LDCs is provided untied. Similarly, the US Millennium Challenge Corporation (MCC) strives to provide its aid in untied form.

This Study on Zambia, which is part of a larger multi-country assessment, has been commissioned and is being undertaken on behalf of the Coalition for the Evaluation of the Paris Declaration (PD) and the Development Assistance Committee (DAC) of OECD. The purpose of the study is to provide the DAC and the 2009 High Level Meeting (HLM), as well as the wider development community, with a comprehensive assessment of current donor policies and practices regarding the tying status of aid and the effects of the untying status on aid effectiveness. Phase I of the multi-country evaluation (which has been completed) focused attention at the donor headquarter level and covered, *inter alia*, the degree of formal ODA untying that has been reported by donors to the DAC.¹ The results of Phase I of the evaluation called for a fuller understanding of how untied aid works through partner country-level analyses. In this regard, the current phase (Phase II) consists of a number of country case studies, including: Ghana (pilot country), Zambia, South Africa, Laos and Vietnam.

The aim of these case studies is to obtain a better appreciation of, first, how untying works in practice and, second, the sourcing of aid-funded procurement. Bearing in mind that these country studies are exploratory and restricted to a small number of donor projects, the approach is to provide provisional, yet evidence-based, conclusions about the implications of untying for aid effectiveness. Ultimately, the intention is to provide a benchmark against which further steps could be taken towards a more effective strategy for the untying of ODA.

1.2 Scope and Methodology

The multi-country thematic study under this Phase is being managed by a team operating under the Overseas Development Institute (ODI) in London while this Zambia Study was undertaken by Premier Consult Limited, a Lusaka-based consulting Firm.

A wide number of methods were used to collect the necessary information for this study, including:

- Comprehensive consultations with the main donors in Zambia regarding the multi-country DAC evaluation. The Ministry of Finance and National Planning was also briefed at the onset of the Study. The main donors in Zambia were subsequently requested to complete a standard questionnaire, which aimed to map out the current status of aid in Zambia. The list of the people interviewed/consulted is given at the end of this Report.

¹ The study during that Phase included case studies for five donors, namely, Australia, Canada, Denmark, Norway, and Switzerland. The Report can be downloaded from <http://www.oecd.org/dataoecd/5/22/41537529.pdf>.

- A statistical review of the available data to identify the status and trends in aid flows to South Africa. The data used was based on the completed questionnaires as well as the information provided by donors to the Organisation for Economic Co-operation and Development's (OECD's) Creditor Reporting System (CRS) database.
- Primary and secondary data was collected from donors, government officials, and beneficiary communities, as well as a field visit to Southern Province, which included the ground-truthing exercise. This included the review of key donor documents for preparation, agreement and implementation of supported projects.

As a result of these consultations and the initial data analysis, a decision was reached to include four case studies in the Zambia Study, targeting mainly the water and sanitation sector. These are the Water Sector Support in Northern Province, supported by Irish Aid; the Southern Water and Sanitation Project, funded by Germany; and the Water Sector Performance Improvement Programme financed by the World Bank. In order to include the United States in the representative projects, the Production, Finance and Technology (PROFIT) Project, funded by USAID, has also been included.

1.3 *Zambian Context*

External assistance to Zambia ought to be appreciated in the context of the country's macroeconomic and social conditions.

Zambia, which until three decades ago was one of the most prosperous countries in Sub Saharan Africa, ranks today as one of the Least Developed Countries. At independence in 1964, the country's rich mineral resources were well developed and during the first ten years, world market conditions were generally favourable. The major decline in copper prices in 1974 marked the beginning of Zambia's protracted economic collapse. The country's fortunes were adversely affected by external shocks that came in quick succession first in 1973, when the price of oil quadrupled, and next in 1974 when copper prices declined considerably. For a country that depended at the time on this product for more than 90 percent of its export revenue, the economy experienced severe difficulties in adjusting to these shocks and by 1975, Zambia was faced with a sharp decline in government revenue as well as an escalation in the balance of payments and budget deficits. By the early 1980s, it became evident that the economy was in serious stress.

Zambia continued into the 1990s and in the early 2000s to register a poor economic record. The economy has remained un-diversified and continues to exhibit heavy dependence on mineral resources and exports, in particular copper. Overall, the GDP growth rate fell from an average of 1.5 percent in the 1970s to 1.4 percent in the 1980s and 0.3 percent in the 1990s.

In the recent past, Zambia has registered significant improvements in the economic and social spheres. During the three years (2006-2008), real GDP growth rate improved from 5.2 percent in 2005 to 6.2 percent in 2006, 6.3 percent in 2007 while preliminary estimates for 2008 stood at 6.0 percent (see Table 1.1). Consequently, substantial investments have been recorded in some of the major sectors, particularly in mining, manufacturing, tourism, and, in some years, in agriculture. Social sector spending has improved significantly, thanks to Government's more focused policies as guided by its Fifth National Development Plan and Vision 2030. Cooperating partners have also come to Zambia's assistance and external support, guided by the Joint Assistance Strategy for Zambia (JASZ), has continued to be better coordinated, harmonised and aligned to Government's stated priority areas.

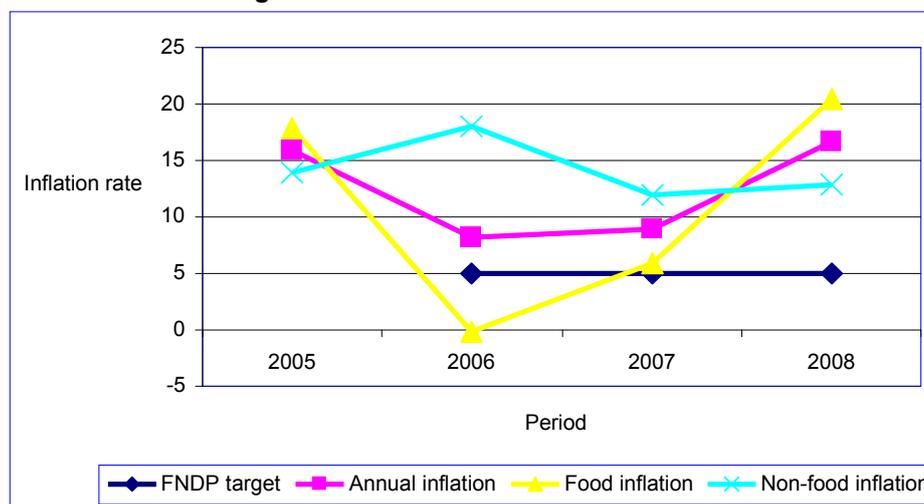
Table 1.1 Selected Macroeconomic Indicators, 2006-2008

| | 2006 | 2007 | 2008 |
|--------------------------------------------------|------|------|------|
| Real GDP growth rate | 6.2 | 6.3 | 6.0 |
| Money Supply (annual % change) | 45.1 | 26.3 | 14.9 |
| Inflation (end year) | 8.2 | 8.9 | 16.6 |
| Commercial Bank Lending rates (end year) | 27.9 | 24.4 | 26.9 |
| Employment Rate | 55 | - | - |
| Gross International Reserves (months of imports) | 2.2 | 2.5 | 2.8 |

Source: Ministry of Finance and National Planning

The performance of the monetary and financial sector during the last three years was mixed with fluctuations recorded in inflation and exchange and interest rates. Single digit inflation was achieved at 8.2 percent and 8.9 percent in 2006 and 2007, respectively, which was above the FNDP target of 5 percent (see figure 1.1). Notwithstanding this development, inflation in 2008 rose to double digits ending the year at 16.6 percent. Interest rates also remained high, averaging 26.4 percent.

Figure 1.1: Inflation trends 2006-2008



Source: Central statistics office

The external sector performance was favourable with external debt servicing maintained within sustainable levels and overall balance of payments remaining positive. The Balance of Payments position in 2006 improved remarkably with an overall surplus of US\$821.6 million, compared to the deficit of US\$115.8 million the previous year. Export earnings grew by over 100 percent to US\$ 4,876 billion in 2008 from US\$ 2,178 billion in 2005. In this regard, Gross International Reserves build-up improved from 1.5 months of import cover in 2005 to 2.2, 2.5 and 2.8 months of import cover in 2006, 2007, and 2008 respectively. The favourable export earnings performance in the review period was a positive stride in achieving the FNDP strategy of promoting export development as one of the economic growth drivers. Nonetheless, the continued instability in the exchange rates is adversely impacting the export sector.

Zambia's development, in general, and external support to the country in the form of aid, in particular, focuses on poverty reduction. Table 1.2 shows the poverty profile of Zambia, based on the latest comprehensive statistics. During the 2006-2008 period, overall poverty levels in the country reduced marginally, mainly as a result of a reduction in urban poverty levels. However, rural poverty levels showed an upward trend. Expenditures on pro-poor sectors increased in 2006 and 2007, while 2008 experienced a marginal reduction. In the investment pattern in the social sector is sustained, there is potential to meet some of the country's MDG targets for social sectors, particularly access to basic education.

Table 1.2: Poverty trends, 2004 - 2006

| Residence/Province | Indicators | 1998 | 2004 | 2006 |
|--------------------|-----------------|------|------|------|
| Total Zambia | Total Poor | 73 | 68 | 64 |
| | Extremely Poor | 58 | 53 | 51 |
| | Moderately Poor | 15 | 15 | 14 |
| | Non-Poor | 27 | 32 | 36 |
| Rural Areas | Total Poor | 83 | 78 | 80 |
| Urban Areas | Total Poor | 56 | 53 | 34 |

Source: CSO, Living Conditions Monitoring Survey, 1998, 2004 and 2006.

The high poverty levels have been compounded by the poor performance of the agricultural sector which employs the majority of people in the rural areas. On the other hand, the increase in overall economic activity exhibited over the past few years has predominantly been an urban phenomenon as demonstrated by rapid developments particularly in the sectors of construction, mining and transport.

This has mostly contributed to a remarkable drop in urban poverty. Moreover, 70 percent of agricultural workers in Zambia are involved in informal agricultural activities. Thus, despite Zambia's GDP per capita increasing from US\$635 in 2005 to US\$934 in 2007, this positive growth has not translated into significant reduction in poverty levels. Moreover, income distribution continues to be skewed as the Gini-coefficient stood at 0.60 in 2006. It is clear from the foregoing that the growth experienced over the years, without complementary appropriate resource targeting, has not been able to reduce the high levels of poverty in Zambia. (Table 1.2).

Lastly, the good growth prospects Zambia has enjoyed over the years are now under serious threat from the current global economic crisis and it is becoming clear that, if appropriate action is not taken in a timely manner, the impending challenges would undo the development achievements that the country has registered thus far. A number of consequences of the crisis are increasingly becoming evident, including:

- (a) Declining international commodity prices have led to significant decline in Zambia's export revenue which, in turn, has resulted in reduced revenue base that is threatening the attainment of some of the MDGs.
- (b) Fear that Official Development Assistance (ODA) to countries such as Zambia is likely to decline despite pledges that have been offered from donor countries.
- (c) The dampened consumer demand in industrialised countries has resulted in reduced demand for Zambia's exports, including non-traditional ones.
- (d) The initial impact of the global crisis on the Zambian economy has been felt in the foreign exchange market. As a result of lower copper prices and the weaker outlook for the domestic economy, some investors began to withdraw their money from the local capital markets. This withdrawal, combined with reduced inflows from copper export earnings, has caused a sharp depreciation of the Kwacha, which, in September 2009, averaged K4,600 per United States dollars (as opposed to K3,200/US\$ in October 2008).
- (e) Investments and re-investments are under threat, particularly for companies that borrow from the currently stressed stock markets. These include the large mining houses that have invested in Zambia. Zambia has witnessed a significant number of foreign direct investment (FDI) cancellations or postponements of projects largely due to the global economic meltdown.
- (f) Zambia has witnessed declining government revenue against the backdrop of the collapse of big companies, particularly in the strategic mining sector. This has led to two adverse effects, namely, the laying off of a large number of workers, thus, relegating them and their families further into poverty; and significantly reduced Government revenue base as the collapse of companies has meant a reduction in the country's tax revenue.

Perhaps the greatest challenge associated with the global economic crisis in the country relates to worsening poverty levels.

2.1 Overview

Zambia's relationship with the donor community has undergone multiple revisions. During its first decade of independence, Zambia financed much of its development expenditure from internally generated resources. After external shocks hit Zambia in the mid-1970s, however, the country became a large aid recipient. Zambia accepted its first conditioned loan as part of a 1973/4 IMF stabilisation package to help it to cope with the drop in copper revenues. From 1983, the World Bank became involved in the programme, introducing a wide range of policy conditions. Since that time, aid conditionality has been an important part of Zambian politics. The result has been marked fluctuations of aid, mainly in relation to the country's compliance with and fulfillment of donor conditions and expectations. Though the Zambian government has protested at times, and even tried to go it alone, it has always had to return to the negotiation table with the donor community led by the IMF and World Bank.

Despite these fluctuations, Zambia has and continues to receive significant levels of external assistance. The country currently ranks among the top 10 among African country recipients in total ODA. Compared to national GDP, Zambia is a highly aid dependent country and aid continues to finance a large share of public expenditure. During 2000 to 2005, for example, aid accounted for an average 43 per cent of the total state budget, having peaked at 53 percent in 2001 (i.e. the year when the DAC Recommendation on aid untying was passed). In 2006 and 2007, the figure dropped to below 30 percent. In the budget speech of January 2008, foreign grants and loans were said to have fallen to 24 per cent, from 28 per cent in the previous year. This relative drop in the contribution of aid to the government budget was mainly on account of debt relief and rising copper prices.

Table 2.1 shows the position of aid relative to selected economic indicators for Zambia for the period 2000 to 2007.

Table 2.1: Selected Economic Indicators

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------------------|------|------|------|------|------|------|------|------|
| Aid (% of central government expenditures) | .. | 95 | 134 | 98 | 104 | 71 | 79 | 40 |
| Aid (% of GNI) | 26 | 16 | 22 | 18 | 22 | 17 | 15 | 10 |
| Aid (% of gross capital formation) | 141 | 80 | 98 | 68 | 85 | 68 | 58 | 38 |
| Aid (% of imports of goods and services) | 53 | 31 | 45 | 38 | 44 | 36 | 32 | 18 |
| Aid per capita (current US\$) | 76 | 52 | 73 | 68 | 100 | 101 | 122 | 88 |
| GDP growth (annual %) | 4 | 5 | 3 | 6 | 5 | 5 | 6 | 6 |
| GDP per capita (constant 2000 US\$) | 310 | 318 | 321 | 333 | 345 | 356 | 371 | 386 |
| GDP per capita (current US\$) | 310 | 341 | 342 | 395 | 490 | 640 | 931 | 953 |
| GDP per capita growth (annual %) | 1 | 3 | 1 | 4 | 4 | 3 | 4 | 4 |

Source: World Bank WDI

2.2 Aid policies and instruments

2.2.1 Grants

According to OECD/DAC statistics, bilateral aid in 2001 accounted for about 61 percent of total net ODA while multilateral sources contributed 39 percent in the same year. Grants, compared to loans, have constituted a larger share of ODA flows to Zambia.

The Zambian Government's broad policies in the field of grants acquisition, planning and management are as follows:

- (a) Zambia aims to progressively reduce its dependence on external assistance. Where external assistance is required, preference shall be given to grants as opposed to loans.

- (b) All external resources given to the Government (both financial and human), shall be delivered, managed, monitored and reported through the existing public sector management system in the same manner domestic resources are handled.
- (c) The National Development Plan (currently the Fifth National Development Plan – FNDP) and the annual national budget shall define the areas where external resources shall be required.
- (d) The Government shall require timely information on cooperating partners’ aid commitments and disbursement schedules so as to secure the required predictability of external support and its effective integration into the national planning system.
- (e) Zambia’s cooperating partners, to the extent possible, are urged to programme their support to the country over a multi-year timeframe that is synchronised with the financial planning horizon of the Government.

2.2.2 Loans

Zambia is still in the process of finalising its debt management strategy. Discussions with Ministry of Finance officials point to a number of preferred strategies with respect to debt policy and management. Overall, Government aims to keep debt to manageable and sustainable levels. In this respect, any new borrowing shall be aligned to the country’s capacity to repay and on terms that would not unduly expose the country to preventable risk of defaulting. There are indications that Government aims to target concessional finance and will negotiate only those loans with a 35 percent minimum grant element. Government also aims to ensure that arrears accumulation due to bad loan and/or investment decisions is eliminated. This shall entail the provision of more debt oversight authority to Parliament through legislative review and relevant legislation to this effect is currently receiving scrutiny under the on-going Constitutional Reforms. This would also entail closer monitoring by Parliament regarding how loans are contracted and applied, based on the country’s debt management strategy yet to be approved by Cabinet. It is currently Government view that in order to deal with debt repayment obligations of the country in a sustainable manner, external debt policy will primarily be anchored upon a more comprehensive view of fiscal risks arising from the broader public sector and the economy as a whole. In this regard, the Government aims to strive to maximise economic productivity, focusing on those factors that have continued to contribute to the country’s low output record.

2.2.3 Technical Cooperation

In its Aid Policy and Strategy, the Zambian Government recognises that, when better facilitated and managed within an enabling policy environment, TA could play a useful role in institutional and human resource development in the country in those areas where certain competencies are inadequate or non-existent. It is also increasingly becoming clear to the Government that the demands of SWAp implementation as well as the emerging approaches that touch on harmonisation and alignment of donor interventions do require externally-sourced competencies and skills that should complement local talent.

While the Government recognises the many positive contributions that cooperating partners have made through TA, the lack of an overall, consistent and coherent strategy in this area is seen to have inadvertently frustrated a number of capacity building efforts. In many cases, assistance to the country has included, and sometimes specifically tied to, foreign consultants/experts who are meant to transfer technical skills and knowledge through the supported projects. Quite often, however, permanent skills transfer does not happen due to a host of factors that include the following:

- (a) TA is often supply-driven, or imposed as a price for financial assistance rather than a response to local demands.
- (b) Projects are over-designed, revealing, quite often, limited appreciation of the virtues of ensuring local input and adaptation.
- (c) The usually uncoordinated and sometimes duplicative flow of bilateral and multilateral sources of TA has created monumental co-ordination problems among donors themselves and for the country.

Moreover, TA does not come cheap. TA still continued to be tied to external assistance and, globally, there seems to be little effort to untie TA from the external support ‘packages.’ For these reasons, the Zambian Government maintains that the need for TA must be defined by, and supportive of, national efforts

and that, rather than being an isolated component of aid, it ought to be carefully calibrated into, and become an integral part of, the country's national planning, in general, and human resource development strategy, in particular. In the final analysis, the value of TA should be measured by the degree to which it has facilitated the transfer of technical expertise to Zambians. Similarly, Government expects TA to be more demand-driven and responsive to the institutional and human resource capacity needs of Zambia. In this regard, the country's Aid Policy and Strategy underscores the need for Government to: (a) develop guidelines for TA solicitation, recruitment, contracting/procurement, management, monitoring of performance and evaluation of the impact of this component of aid; and (b) ensure that TA is answerable/accountable to the Zambian Government system. In order to enhance country ownership of the TA processes, the Government aims to work towards the establishment of TA pooling whereby cooperating partners shall be encouraged to put resources into a Government-managed common basket that is then used to acquire technical assistance. The guiding principle for the Government utilisation of TA, the Aid Policy and Strategy states, shall focus less on the reduction of its volume *per se* and more on the careful redefinition of its purpose, and the improvement of the design, context, selection and mode of its provision.

2.3 Structural Issues

The Zambian experience with aid suggests that during the period when there was an absence of real agreements with the main international financial institutions with respect to economic reforms, major bilateral donors also reduced or abandoned their aid commitments to the country. While the term 'untying' is used in this Study, as in the DAC Recommendation, to exclusively refer only to transactions that are related to the *source* of procured goods and services, it is important to observe that there are a number of other factors that have greatly influenced the scale and development effectiveness of ODA to Zambia.

Over the last five decades, the volume and composition of external assistance to Zambia has been conditioned principally by the country's willingness to reform its economy. With a few exceptions, the pattern of aid flow has correlated closely with the country's policy changes. During the first four years of independence up to 1968, aid to Zambia maintained a steady and upward movement. When the government decided to expropriate foreign assets through its policy of nationalisation, a significant drop in external assistance was registered. When the Zambian economy began in mid-1974 to experience serious external shocks caused mainly by the drop in the price of copper and the increase in the price of oil, the donors responded positively by increasing their aid to the country. Over the 1974 to 1980 period, for example, external assistance to Zambia increased threefold. When the IMF embarked on structural adjustment programmes (SAP) world-wide in 1980, Zambia's failure to design and implement an acceptable structural reform package led to a noticeable reduction in external support particularly from the main bilateral donors. When the country adopted SAP over the 1983 to 1987 period, this was rewarded with an appreciable increase of external assistance and, expectedly, when the government unilaterally decided to abandon the IMF/World Bank-supported SAP in May 1987, many donors significantly reduced (and some completely eliminated) their aid to Zambia.

2.4 Institutional and Aid Management Reforms Issues

In response to the Declaration on Harmonisation formulated at the first high-level meeting on aid effectiveness in Rome in 2003, seven donors in Zambia² agreed to come together in support of harmonisation and alignment, marking the beginning of what became known as the Harmonisation in Practice (HIP) Initiative. The donor group commissioned a study³ in late 2002 to recommend on aid harmonization. This study formed the basis of the *Joint Statement of Commitment by Donors and GRZ to increase aid effectiveness and reduce transaction costs for Zambia* through the adoption of

² Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom

³ Saasa, O.S. and J. Claussen, Harmonisation of Donor Practices for Aid Effectiveness in Zambia, Study commissioned by the Royal Netherlands Embassy, Lusaka, March 2003

OECD/DAC Guiding Principles and Good Practices. The Joint Statement was signed by the Zambian Government and Directors-General of the seven aid agencies in March 2003. The parties to the MoU agreed, *inter alia*, (a) to harmonise their aid support and processes, including procurement processes; (b) to increase the share of budget support they provide; and (c) to coordinate their policy inputs. The HIP Initiative, as it became known, was expanded in 2004 to create the Wider Harmonisation in Practice (WHIP) group. This followed the decision of all the remaining major donors in Zambia to join the HIP Initiative. However, new actors, such as China, and the new phenomenon of ‘vertical funds’ - for which donors set parallel standards of resource management and accountability-have remained outside of the more harmonized process, thus weakening it considerably.

The Joint Assistance Strategy for Zambia (JASZ), signed by all the major donors⁴ and the Zambian Government, has cemented the new relations between donors and the Zambian Government. It is a unique document in the history of aid cooperation, representing donors’ joint response to Zambia’s Vision 2030, the Fifth National Development Plan (FNDP) and Aid Policy and Strategy, which together constitute the national framework for reducing poverty and promoting sustainable development. JASZ also relates to the Paris Declaration in emphasising local ownership of the development process and enhancing aid effectiveness and mutual accountability. The JASZ states seven key objectives:

- (a) establish a shared vision and guiding principles for the cooperating partners’ support to the FNDP objectives, which is the first stage in meeting the Vision 2030;
- (b) articulate priorities for support during the FNDP period;
- (c) replace or better align the cooperating partners’ country strategies (including resource allocations) with national priorities, targets and systems;
- (d) improve aid delivery by achieving a more effective division of labour and allocation of aid resources;
- (e) deepen the results focus of assistance programmes;
- (f) simplify aid management and improve aid predictability;
- (g) reduce transaction costs for the Zambian government.

In accordance with the Zambian Aid Policy and Strategy, the JASZ gives major responsibilities to the Government of Zambia, positioning it to take on ownership and aligning external assistance with well-established and functioning Zambian systems. It also requests donors, in turn, to collaborate to improve funding predictability and alignment with Zambia’s own financial management systems.

For Zambia, capacity remains a foremost challenge and several efforts are on-going to address this aspect. The strengthening of the donor coordination capacity of the Ministry of Finance and National Planning has been part of this process. Ownership, harmonisation and alignment plus the emergence of new aid modalities (budget support in particular), heighten the importance of effective institutions, legislation and regulations in Zambia.

With respect to the improvement in effectiveness in resource application/use, Government is focussing on Public Service Reform; continuous improvement of public finance management systems through, for example, the Public Expenditure Management and Financial Accountability (PEMFA) programme; and fiscal decentralisation through the development and consolidation of

⁴ The signatories to the JASZ are 12 bilateral donors, the European Commission, the United Nations, the World Bank and the African Development Bank. Five of the bilateral donors (Germany, Ireland, Norway, Sweden and the United Kingdom) will replace their current strategy for development cooperation with Zambia with the JASZ. The others will base their ongoing country strategies on the JASZ, which should lead to overall diminished transaction costs in terms of government consultations. For example, the European Commission’s Country Strategy paper for 2008–13 aligns well to the JASZ principles.

intergovernmental fiscal architecture that focuses on different transfer modalities of grant funds to the local level. Government is making some efforts to adopt concrete developmental indicators with targets under the Performance Assessment Framework (PAF) of the Poverty Reduction Budget Support programme.

Budget execution still poses major systemic challenges and donor resources have not yet been fully captured in both the budgeting process and budget execution. While fiscal discipline has somewhat improved, budget implementation still lacks effectiveness and full efficiency (value for money is generally not the guiding spending principle, also due to poor tender regulations and procedures). Nevertheless, allocations to priority poverty programmes (mainly capital) have generally been spent since 2004. In addition, with the introduction of quarterly cash allocation plans and cash-flow frameworks, predictability of the availability of donor funds has been enhanced.

With respect to internal controls, financial management has improved, thanks to the provision of monthly expenditure returns and quarterly expenditure reports. Accounting regulations have also been improved especially following the introduction of Activity-based Budgeting (ABB) and the new Finance Act. However, compliance with accounting regulations remains difficult and the Controlling Officers of each ministry are rarely held to account. In addition, internal procurement oversight remains weak. Audited financial reports are regularly presented to Parliament and the Public Accounts Committee of this legislative body is increasingly calling upon the Executive to account. However, recommendations by the Office of the Auditor General (OAG) and Parliament Public Accounts Committee are often not followed-up by the Executive. In addition, the independence of the OAG is hampered by lack of adequate staff and financial resources. As a result, audits do not meet INTOSAI standards in terms of coverage.

While Government procurement has improved in recent years, procedures that have been introduced in order to rationalise public spending are biased towards a strict application of the lowest bid, with no measures in place to compare value for money. In this respect, capacity building is still needed. Through PEMFA, some of the shortcomings in public procurement are being addressed, and the Office of the Auditor General has been restructured and has been tasked to scrutinise of the value for money principle in its audits.

3.1 Trends and Structure of Foreign Aid

According to the DAC list of ODA recipients, Zambia has received US\$4,635.6 million ODA over the 2005-2007 period of which 90.4 percent came from bilateral donors. Over the period, there were 22 active bilateral donors and all (except Australia, Greece, Luxembourg and Spain) made commitments for over US\$2 million. Tables 3.1 and 3.2 show the volume and categories of ODA flows to Zambia over the 2005-2007 period. The top five bilateral donors by commitment to Zambia are Japan, USA, Germany EC and UK. Together, these bilaterals accounted for 69.5 percent of total bilateral ODA during this period.

Table 3.1: Bilateral and multilateral commitments by donors in Zambia: 2005-2007
(US\$ million)

| Donor | 2005 | 2006 | 2007 | 2005-2007 |
|-------------------------------|---------------|---------------|--------------|---------------|
| Japan | 750.3 | 24.8 | 96.6 | 871.7 |
| United States | 139.5 | 372.2 | 205.9 | 717.6 |
| Germany | 108.9 | 297.4 | 55.0 | 461.3 |
| EC | 129.4 | 252.3 | 57.2 | 438.9 |
| United Kingdom | 388.9 | 24.6 | 10.0 | 423.5 |
| Netherlands | 41.1 | 147.7 | 80.1 | 269.0 |
| Norway | 66.0 | 51.6 | 128.7 | 246.3 |
| Denmark | 61.5 | 16.5 | 98.5 | 176.6 |
| Sweden | 38.1 | 111.4 | 23.0 | 172.5 |
| IDA | 53.9 | 93.3 | 25.0 | 172.2 |
| Global Fund | 87.2 | 0.0 | 68.6 | 155.7 |
| France | 15.6 | 85.2 | 1.1 | 102.0 |
| Ireland | 25.8 | 31.0 | 34.8 | 91.6 |
| Canada | 46.1 | 1.3 | 30.1 | 77.6 |
| Finland | 11.5 | 14.5 | 35.7 | 61.7 |
| AfDF | 4.8 | | 53.6 | 58.4 |
| Italy | 1.1 | 51.5 | 1.0 | 53.6 |
| UNICEF | 5.4 | 6.8 | 10.0 | 22.2 |
| UNDP | 5.9 | 8.5 | 4.6 | 19.0 |
| IFAD | 10.1 | | | 10.1 |
| Belgium | 3.5 | 4.3 | 1.1 | 8.9 |
| Austria | 0.0 | 8.4 | 0.0 | 8.4 |
| UNFPA | 1.7 | 1.2 | 1.9 | 4.8 |
| UNAIDS | 0.8 | 1.2 | 2.0 | 4.0 |
| Switzerland | 1.1 | 0.5 | 0.6 | 2.2 |
| New Zealand | 0.5 | 0.8 | 0.8 | 2.1 |
| Australia | 0.3 | 0.5 | 0.9 | 1.6 |
| Spain | 0.2 | 0.3 | 0.9 | 1.5 |
| Greece | 0.1 | 0.2 | 0.3 | 0.5 |
| Luxembourg | | 0.0 | 0.0 | 0.0 |
| <i>Total bilateral ODA</i> | <i>1829.6</i> | <i>1497.1</i> | <i>862.4</i> | <i>4189.1</i> |
| <i>Total multilateral ODA</i> | <i>169.9</i> | <i>111.0</i> | <i>165.6</i> | <i>446.5</i> |

| | | | | |
|-------------------------------------------------|---------------|---------------|---------------|---------------|
| Total ODA (bilateral & multilateral) | 1999.5 | 1608.1 | 1028.1 | 4635.6 |
|-------------------------------------------------|---------------|---------------|---------------|---------------|

Source: Authors' calculations from OECD-DAC CRS data

Table 3.2: Commitments by donor and flow over the period 2005-2007

| | Grant % | Loans % | Equity investment % | Grant-like % | Grants (US\$ million) | Loans (US\$ million) | Equity investment (US\$ million) | Grant-like (US\$ million) | Total (US\$ million) |
|----------------|--------------|--------------|---------------------|--------------|-----------------------|----------------------|----------------------------------|---------------------------|----------------------|
| Australia | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 | 1.6 |
| Austria | 0.2 | 0.0 | 0.0 | 0.0 | 8.4 | 0.0 | 0.0 | 0.0 | 8.4 |
| Belgium | 0.2 | 0.7 | 0.0 | 0.0 | 7.9 | 1.0 | 0.0 | 0.0 | 8.9 |
| Canada | 2.0 | 0.0 | 0.0 | 0.0 | 77.6 | 0.0 | 0.0 | 0.0 | 77.6 |
| Denmark | 4.5 | 0.0 | 0.0 | 0.0 | 176.6 | 0.0 | 0.0 | 0.0 | 176.6 |
| EC | 6.9 | 64.8 | 83.9 | 0.0 | 275.1 | 94.8 | 69.1 | 0.0 | 438.9 |
| Finland | 1.6 | 0.0 | 0.0 | 0.0 | 61.7 | 0.0 | 0.0 | 0.0 | 61.7 |
| France | 2.6 | 0.0 | 0.0 | 0.0 | 102.0 | 0.0 | 0.0 | 0.0 | 102.0 |
| Germany | 11.4 | 0.0 | 11.3 | 0.0 | 451.9 | 0.0 | 9.3 | 0.0 | 461.3 |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| Ireland | 2.3 | 0.0 | 0.0 | 0.0 | 91.6 | 0.0 | 0.0 | 0.0 | 91.6 |
| Italy | 1.3 | 0.0 | 0.0 | 100.0 | 53.5 | 0.0 | 0.0 | 0.1 | 53.6 |
| Japan | 22.0 | 0.0 | 0.0 | 0.0 | 871.7 | 0.0 | 0.0 | 0.0 | 871.7 |
| Luxembourg | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Netherlands | 6.8 | 0.0 | 0.0 | 0.0 | 269.0 | 0.0 | 0.0 | 0.0 | 269.0 |
| New Zealand | 0.1 | 0.0 | 0.0 | 0.0 | 2.1 | 0.0 | 0.0 | 0.0 | 2.1 |
| Norway | 6.2 | 0.0 | 0.0 | 0.0 | 246.3 | 0.0 | 0.0 | 0.0 | 246.3 |
| Spain | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 0.0 | 0.0 | 0.0 | 1.5 |
| Sweden | 4.4 | 0.0 | 0.0 | 0.0 | 172.5 | 0.0 | 0.0 | 0.0 | 172.5 |
| Switzerland | 0.1 | 0.0 | 0.0 | 0.0 | 2.2 | 0.0 | 0.0 | 0.0 | 2.2 |
| United Kingdom | 10.6 | 0.0 | 4.8 | 0.0 | 419.5 | 0.0 | 3.9 | 0.0 | 423.5 |
| United States | 16.8 | 34.5 | 0.0 | 0.0 | 667.3 | 50.4 | 0.0 | 0.0 | 717.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 3960.4 | 146.2 | 82.4 | 0.1 | 4189.1 |

Source: Authors' calculations from OECD-DAC CRS data

Grants currently constitute the largest share of ODA to Zambia. Table 3.4 reveals that, over the 2005-2007 period, grants represented 94.5 percent of bilateral ODA while loans accounted for a much smaller percentage, at 3.5 percent.

Table 3.4: Loan and grant shares of bilateral ODA 2005-2007

| Percentage | 2005 | 2006 | 2007 | 2005-2007 |
|-------------------|--------------|--------------|--------------|--------------|
| ODA Grants | 95.5 | 90.3 | 100.0 | 94.5 |
| ODA Loans | 0.1 | 9.7 | 0.0 | 3.5 |
| Other flow | | | | |
| Equity investment | 4.5 | 0.0 | 0.0 | 2.0 |
| ODA Grant-Like | | 0.0 | | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Authors' calculations from OECD-DAC CRS data

Table 3.5 shows the tying status of bilateral ODA for most DAC donors over the 2005-2007 period. The table reveals that the large part of bilateral ODA is reported as untied (85.6 percent) while around 13 percent of bilateral ODA is either tied (3.6 percent) or partially tied (9.0 percent). The tying status of only 1.8 percent of bilateral ODA is not reported. The United Kingdom, Sweden, Austria, Ireland and Luxembourg reported all their aid as untied while the Netherlands, Denmark, France and Italy

reported that over 95 percent of their ODA is untied. Among the top five bilateral donors to Zambia, Japan reports 94.2 percent of its aid to Zambia as untied; the USA, 81.8 percent untied; Germany, 94.5 percent; and EC, 17.7 percent. A larger proportion (82.3 percent) of the EC aid is partially untied. The highest shares of tied aid per donor ODA are reported by Switzerland and United States (46.1 percent and 18.2 percent of ODA to Zambia, respectively). More than 86% of all tied aid comes from the United States! High shares of non-reporting are noticed for Greece, Australia, Spain and Switzerland (for more than one 20 percent of their aid, the tying status is not reported).

Table 5: Tying Status of bilateral ODA by DAC donors: 2005-2007

| | Untied aid share of donor ODA (%) | Partial tied share of donor ODA (%) | Tied share of donor ODA (%) | Not Reported share of donor ODA (%) | Donor share of untied bilateral ODA (%) | Donor share of partially tied bilateral ODA (%) | Donor share of tied bilateral ODA (%) | Donor share of not reported bilateral ODA (%) | Bilateral ODA commitments reported to CRS (US\$ millions) |
|-------------------|-----------------------------------|-------------------------------------|-----------------------------|-------------------------------------|-----------------------------------------|-------------------------------------------------|---------------------------------------|-----------------------------------------------|-----------------------------------------------------------|
| Japan | 94.2 | 0.0 | 0.0 | 5.8 | 22.9 | 0.0 | 0.0 | 68.2 | 871.7 |
| United States | 81.8 | 0.0 | 18.2 | 0.0 | 16.4 | 0.0 | 86.6 | 0.0 | 717.6 |
| Germany | 94.5 | 0.0 | 1.6 | 4.0 | 12.1 | 0.0 | 4.8 | 24.7 | 461.3 |
| EC | 17.7 | 82.3 | 0.0 | 0.0 | 2.2 | 96.1 | 0.0 | 0.0 | 438.9 |
| United Kingdom | 100.0 | 0.0 | 0.0 | 0.0 | 11.8 | 0.0 | 0.0 | 0.0 | 423.5 |
| Netherlands | 97.5 | 0.2 | 2.3 | 0.0 | 7.3 | 0.1 | 4.1 | 0.0 | 269.0 |
| Norway | 100.0 | 0.0 | 0.0 | 0.0 | 6.9 | 0.0 | 0.0 | 0.0 | 246.3 |
| Denmark | 98.8 | 0.8 | 0.0 | 0.4 | 4.9 | 0.4 | 0.0 | 0.9 | 176.6 |
| Sweden | 100.0 | 0.0 | 0.0 | 0.0 | 4.8 | 0.0 | 0.0 | 0.0 | 172.5 |
| France | 98.6 | 0.0 | 0.7 | 0.7 | 2.8 | 0.0 | 0.5 | 1.0 | 102.0 |
| Ireland | 100.0 | 0.0 | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 0.0 | 91.6 |
| Canada | 82.7 | 13.9 | 3.1 | 0.2 | 1.8 | 2.9 | 1.6 | 0.2 | 77.6 |
| Finland | 97.3 | 0.0 | 1.0 | 1.7 | 1.7 | 0.0 | 0.4 | 1.4 | 61.7 |
| Italy | 95.0 | 2.1 | 1.6 | 1.4 | 1.4 | 0.3 | 0.6 | 1.0 | 53.6 |
| Belgium | 88.6 | 0.0 | 11.4 | 0.0 | 0.2 | 0.0 | 0.7 | 0.0 | 8.9 |
| Austria | 100.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 8.4 |
| Switzerland | 33.1 | 0.0 | 46.1 | 20.9 | 0.0 | 0.0 | 0.7 | 0.6 | 2.2 |
| New Zealand | 49.1 | 39.8 | 0.0 | 11.2 | 0.0 | 0.2 | 0.0 | 0.3 | 2.1 |
| Australia | 54.8 | 0.0 | 14.2 | 31.0 | 0.0 | 0.0 | 0.2 | 0.7 | 1.6 |
| Spain | 69.2 | 3.2 | 0.0 | 27.6 | 0.0 | 0.0 | 0.0 | 0.5 | 1.5 |
| Greece | 44.3 | 0.0 | 0.0 | 55.7 | 0.0 | 0.0 | 0.0 | 0.4 | 0.5 |
| Luxembourg | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| All donors | 85.6 | 9.0 | 3.6 | 1.8 | 100.0 | 100.0 | 100.0 | 100.0 | 4189.1 |

Source: Authors' calculations from OECD-DAC CRS data

Table 3.6 shows the tying status of ODA in terms of grant/loan categories. Total bilateral ODA grants amounted to US\$3,960.4 million, accounting for 94.5 percent of total bilateral ODA for the period 2005-2007. The table also reveals that 90 percent of bilateral ODA grants were untied, 5.3 percent was partially tied, and 3.8 percent was tied. Virtually all bilateral ODA grants with a partial Free-standing Technical Cooperation (FTC)⁵ component and most bilateral ODA grants without a FTC component (82.5 percent) are untied. Conversely, around 55 percent of bilateral ODA grants with only a FTC component are untied. Around 30 percent of bilateral ODA grants with only a FTC component is either partially tied (4.7 percent) or tied (25.2 percent). The tying status of 15 percent of bilateral ODA grants with only a FTC component is not reported. At US\$146.2 million, loans represent only 3.5 percent of bilateral ODA.

⁵ *Free-standing technical co-operation (FTC)* is defined as financing of activities whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population of developing countries, i.e. increasing their stock of human intellectual capital, or their capacity for more effective use of their existing factor endowment.

Zambia receives other flows of ODA mainly in the form of equity investment. Of the total equity investment, 84 percent were partially tied and only 16 percent were untied. Grant-like ODA represents only US\$0.1 million during the 2005-2007 period and was all reported as partially tied. Most untied bilateral ODA is represented by grants without an FTC component (22.7 percent) or by grants whose component information is missing (68 percent); whereas the highest shares of partially tied bilateral aid are mainly constituted by grants or loans without a FTC component (45.6 percent and 25.2 percent, respectively). The highest shares of tied bilateral aid are constituted by grants with only a FTC component (78.4 percent) or grants whose component information is missing (20.5 percent). Table 7 shows the tying status of bilateral ODA by sector. Most of the social sectors have a high proportion of bilateral ODA in the sector that is untied. The water supply and sanitation sector is the ninth most targeted sector by bilateral donors with US\$106.8 million.

Table 6: Tying status of bilateral ODA by aid flow and technical components: 2005-2007⁶

| | Untied aid share of grants/loans ODA (%) | Partial tied aid share of grants/loans ODA (%) | Tied aid share of grants/loans ODA (%) | Not Reported aid share of grants/loans ODA (%) | Grants/loans share of untied bilateral ODA (%) | Grants/loans share of partially tied bilateral ODA (%) | Grants/loans share of tied bilateral ODA (%) | Grants/loans share of not reported bilateral ODA (%) | Bilateral ODA commitments reported to CRS (US \$ millions) |
|-------------------------|------------------------------------------|------------------------------------------------|----------------------------------------|------------------------------------------------|------------------------------------------------|--------------------------------------------------------|----------------------------------------------|------------------------------------------------------|------------------------------------------------------------|
| Grants ODA | 89.0 | 5.3 | 3.8 | 1.9 | 98.2 | 56.4 | 99.3 | 100.0 | 3960.4 |
| Grants no FTC | 82.5 | 17.4 | 0.1 | 0.0 | 22.7 | 45.6 | 0.4 | 0.2 | 987.4 |
| Grants with partial FTC | 100.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 10.9 |
| Grants wholly FTC | 54.8 | 4.7 | 25.2 | 15.2 | 7.2 | 5.9 | 78.4 | 96.3 | 469.9 |
| Grants - missing | 97.9 | 0.7 | 1.2 | 0.1 | 68.0 | 4.8 | 20.5 | 3.6 | 2492.2 |
| Loans ODA | 34.5 | 64.8 | 0.7 | 0.0 | 1.4 | 25.2 | 0.7 | 0.0 | 146.2 |
| Loans no FTC | 0.0 | 98.9 | 1.1 | 0.0 | 0.0 | 25.2 | 0.7 | 0.0 | 95.8 |
| Loans - missing | 100.0 | 0.0 | 0.0 | 0.0 | 1.4 | 0.0 | 0.0 | 0.0 | 50.4 |
| Other flow ODA | 16.1 | 83.9 | 0.0 | 0.0 | 0.4 | 18.4 | 0.0 | 0.0 | 82.5 |
| Equity Investment | 16.1 | 83.9 | 0.0 | 0.0 | 0.4 | 18.4 | 0.0 | 0.0 | 82.4 |
| ODA Grant-Like | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Total | 85.6 | 9.0 | 3.6 | 1.8 | 100.0 | 100.0 | 100.0 | 100.0 | 4189.1 |

Source: Authors' calculations from OECD-DAC CRS data

⁶ Note: In order to compute this table, all missing values have been considered as zero. Therefore, the table should be interpreted carefully. "Grants no FTC" are grants for which donors either reported the absence of a free-standing technical cooperation component or for which donors did not report at all (and so there may be grants which in reality have a partial technical cooperation component which are erroneously categorized under "grants no FTC"). Similarly, "grants wholly FTC" are grants for which donors reported a free-standing technical cooperation component and no sector programme/investment project component or for which donors reported a free-standing technical cooperation component and incomplete/missing information on sector programme/investment project component (therefore there may be grants which in reality have a partial technical cooperation component which are erroneously categorized under "grants wholly FTC").

Table 3.7: Tying status of bilateral ODA by sector 2005-2007

| | Untied aid share of sector ODA (%) | Partial tied share of sector ODA (%) | Tied share of sector ODA (%) | Not Reported share of sector ODA (%) | Sector share of untied bilateral ODA (%) | Sector share of partially tied bilateral ODA (%) | Sector share of tied bilateral ODA (%) | Sector share of not reported bilateral ODA (%) | Bilateral ODA commitments reported to CRS (US \$ millions) |
|------------------------------------------------|------------------------------------|--------------------------------------|------------------------------|--------------------------------------|------------------------------------------|--------------------------------------------------|----------------------------------------|------------------------------------------------|------------------------------------------------------------|
| I.1.a. Education, Level Unspecified | 92.1 | 0.0 | 0.0 | 7.9 | 1.6 | 0.0 | 0.0 | 6.5 | 60.6 |
| I.1.b. Basic Education | 98.9 | 0.1 | 0.3 | 0.7 | 5.5 | 0.0 | 0.4 | 1.9 | 198.9 |
| I.1.c. Secondary Education | 68.3 | 2.4 | 0.0 | 29.2 | 0.2 | 0.1 | 0.0 | 5.1 | 13.0 |
| I.1.d. Post-Secondary Education | 47.5 | 5.9 | 41.7 | 4.9 | 0.2 | 0.2 | 4.0 | 1.0 | 14.5 |
| I.2.a. Health, General | 70.0 | 17.2 | 0.1 | 12.7 | 1.5 | 3.5 | 0.0 | 13.1 | 77.0 |
| I.2.b. Basic Health | 89.8 | 6.4 | 2.9 | 0.9 | 6.4 | 4.4 | 5.0 | 3.0 | 256.3 |
| I.3. Population Programmes | 73.7 | 0.1 | 25.1 | 1.1 | 7.5 | 0.1 | 61.1 | 5.4 | 366.9 |
| I.4. Water Supply & Sanitation | 81.1 | 10.5 | 2.5 | 6.0 | 2.4 | 3.0 | 1.8 | 8.6 | 106.8 |
| I.5.a. Government & Civil Society-general | 73.7 | 20.8 | 2.3 | 3.3 | 4.2 | 11.4 | 3.2 | 9.0 | 206.6 |
| I.5.b. Conflict, Peace & Security | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| I.6. Other Social Infrastructure & Services | 76.3 | 0.0 | 14.2 | 9.5 | 0.7 | 0.0 | 3.3 | 4.5 | 35.0 |
| II.1. Transport & Storage | 66.7 | 32.7 | 0.0 | 0.7 | 3.0 | 14.2 | 0.0 | 1.5 | 163.9 |
| II.2. Communications | 17.6 | 5.8 | 0.0 | 76.7 | 0.0 | 0.0 | 0.0 | 1.8 | 1.8 |
| II.3. Energy | 10.7 | 71.5 | 7.7 | 10.1 | 0.0 | 2.5 | 0.7 | 1.8 | 13.2 |
| II.4. Banking & Financial Services | 97.4 | 0.0 | 2.4 | 0.2 | 0.5 | 0.0 | 0.3 | 0.1 | 19.1 |
| II.5. Business & Other Services | 89.2 | 4.1 | 1.0 | 5.7 | 0.4 | 0.2 | 0.1 | 1.3 | 16.6 |
| III.1.a. Agriculture | 66.3 | 24.1 | 0.1 | 9.6 | 2.1 | 7.3 | 0.0 | 14.8 | 114.6 |
| III.1.b. Forestry | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.6 |
| III.1.c. Fishing | 68.5 | 0.0 | 0.0 | 31.5 | 0.0 | 0.0 | 0.0 | 0.2 | 0.5 |
| III.2.a. Industry | 1.4 | 97.0 | 0.0 | 1.6 | 0.0 | 27.3 | 0.0 | 2.2 | 105.9 |
| III.2.b. Mineral Resources & Mining | 0.0 | 99.1 | 0.0 | 0.9 | 0.0 | 18.7 | 0.0 | 0.8 | 70.9 |
| III.2.c. Construction | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| III.3.a. Trade Policies & Regulations | 28.0 | 0.0 | 0.0 | 72.0 | 0.1 | 0.0 | 0.0 | 6.9 | 7.2 |
| III.3.b. Tourism | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 |
| IV.1. General Environment Protection | 95.3 | 3.0 | 1.1 | 0.5 | 0.8 | 0.2 | 0.2 | 0.2 | 28.3 |
| IV.2. Other Multi-sector | 56.1 | 15.8 | 24.3 | 3.7 | 0.8 | 2.1 | 8.2 | 2.6 | 50.7 |
| VI.1. General Budget Support | 100.0 | 0.0 | 0.0 | 0.0 | 13.7 | 0.0 | 0.0 | 0.0 | 490.7 |
| VI.2. Dev. Food Aid/Food Security Ass. | 54.7 | 12.1 | 32.8 | 0.4 | 0.6 | 1.3 | 9.0 | 0.2 | 41.3 |
| VI.3. Other Commodity Ass. | 100.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| VII. ACTION RELATING TO DEBT | 100.0 | 0.0 | 0.0 | 0.0 | 45.9 | 0.0 | 0.0 | 0.0 | 1648.3 |
| VIII.1. Emergency Response | 72.5 | 20.0 | 6.2 | 1.3 | 1.0 | 2.6 | 2.0 | 0.8 | 49.2 |
| VIII.2. Reconstruction Relief & Rehabilitation | 0.0 | 100.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 2.1 |
| VIII.3. Disaster Prevention & Preparedness | 91.7 | 0.0 | 0.0 | 8.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| IX. Administrative costs of donors | 76.7 | 0.0 | 7.2 | 16.1 | 0.2 | 0.0 | 0.4 | 1.8 | 8.5 |
| X. Support to NGOs | 91.8 | 0.0 | 8.1 | 0.0 | 0.2 | 0.0 | 0.3 | 0.0 | 6.4 |
| XI. Refugees in donor countries | 100.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 3.0 |
| XII. Unallocated/Unspecified | 67.1 | 2.4 | 0.1 | 30.4 | 0.2 | 0.1 | 0.0 | 3.7 | 9.0 |
| Total | 85.6 | 9.0 | 3.6 | 1.8 | 100.0 | 100.0 | 100.0 | 100.0 | 4189.1 |

Source: Authors' calculations from OECD-DAC CRS data

3.2 Modalities and Approaches of ODA

Due to lack of reported aid in terms of modality of aid used, Premier Consult collected data on how ODA is disbursed. Although not all donors responded to the questionnaire, a fairly good number (11) responded. Table 3.8 shows the extent to which donors use different modalities to disburse their aid. The table reveals that 7 out of the 10 donors use general budget support (GBS) and/or unearmarked sector budget support (SBS) to disburse ODA to Zambia. Canada, Japan and the USA are among the

countries that prefer not to disburse their ODA through this channel. In terms of using GBS and/or unearmarked SBS, the EU ranks highest with 66.7 percent of its disbursements through this channel, followed by the UK at 60.6 percent and Finland at 39.0 percent. Others are Germany (23.1 percent), Sweden (27.2 percent), Norway (24.9 percent) and the World Bank (18.4 percent). Earmarked budget support is not used by most donors. Using this channel are UK (with 10.8 percent of its disbursements made through this channel) and Norway (22.7 percent).

World Bank, Germany, Norway, Sweden, Japan, Canada and UK are among the donors that finance non pooled projects although they use the Zambian procurement system. The World Bank is the highest with 71.3 percent of its disbursements in 2007/8 being channelled through the non-pooled projects modality. The UK is in the second place with 44.2 percent of its disbursements in 2007 using this channel. The third is Norway with 10.3 percent. Donors financing non-pooled projects using non state procedures other than their own include the USA (99.9 percent of total disbursements); Norway (36.7 percent); and Finland (14.7 percent). Outside of GBS and SBS, most donors prefer to use other pooled funding arrangements. The donors that mostly use this modality include Canada with 82.7 percent of its disbursements in 2007 being disbursed through this channel, Finland (43.5 percent) and Sweden (42.7 percent). Others include World Bank (10.1 percent), Germany (11.2 percent), the UK (13.2 percent), EU (5.7 percent) and Norway (5.4 percent). The picture coming out is that the majority of donors still prefer a mixture of modalities of aid disbursement. This approach gives flexibility especially when the local procurement system is still weak.

From Table 3.8, one can draw broad implications for untying and deduce indications on how each donor fairs towards meeting the Paris Declaration. By the definition of GBS and un-earmarked, SBS is untied and implies use of country procurement systems, thereby promoting local ownership. A look at the total percent of aid disbursed through GBS and SBS suggests variations between different donors. The table shows that 71.4 percent of the UK's funding to Zambia is both untied and uses government procurement systems. The EU follows at 67 percent, Norway at 47.6 percent, Finland at 39 percent, Sweden at 27.2, and Germany at 23.1 percent. Countries that do not use GBS and SBS include Canada, Japan and the USA. Two of these countries (Japan and USA) are among the largest donors to the country, an aspect that suggests a threat to local ownership of the supported projects/programmes. To the extent that GBS and SBS are generally unties and usually use the pooled funding modality, these remain fundamentally untied and are, thus, expected to respect the principles of the Paris Declaration. Adding amounts of GBS, SBS and pooled in Table 3.8 reveals that the majority of bilateral donors have made progress towards the harmonisation of a larger proportion of their support. It is particularly noteworthy that 99.9 percent of US funding is not pooled and uses non-state procedures that follow US rules and guidelines in their operations. Similarly, 97.4 of Japanese aid is disbursed as project funding that follows Japanese rules.

Table 3.8: Disbursements of ODA by Selected Donors

| Source | Total Disbursements US\$ million | GBS & Unearmarked SBS (% of total) | Earmarked SBS (% of total) | Non-Pooled Projects using Zambian System (% of total) | Non-Pooled Projects Using non-state procedures other than your own (% of total) | Pooled Funding (% of total) | Project Funding involving agency's own procurement at local office (% of total) | Project funding involving your agency's own procurement through HQ (% of total) | Hybrid project 3 & 6 or 3 & 7 (% of total) |
|------------|----------------------------------|------------------------------------|----------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------|
| World Bank | 54.4 | 18.4 | 0.0 | 71.3 | 0.0 | 10.1 | 0.0 | 0.0 | 0.0 |
| Canada | 15.65 | 0.0 | 0.0 | 1.5 | 0.3 | 82.7 | 5.9 | 9.6 | 0.0 |
| Japan | 34.43 | 0.0 | 0.0 | 2.6 | 0.0 | 0.0 | 97.4 | 0.0 | 0.0 |
| EU | 58 | 66.7 | 0.0 | 0.0 | 0.0 | 5.7 | 27.6 | 0.0 | 0.0 |
| Germany | 29.4 | 23.1 | 0.0 | 44.2 | 3.4 | 11.2 | 18.4 | 0.0 | 0.0 |
| USA | 212.9 | 0.0 | 0 | 0.0 | 99.9 | 0.1 | 0 | 0 | 0.0 |
| Finland | 17.7 | 39.0 | 0.0 | 0.0 | 14.7 | 43.5 | 0.0 | 0.0 | 2.8 |
| UK | 72.9 | 60.6 | 10.8 | 0.5 | 0.0 | 13.2 | 1.9 | 12.9 | 0.0 |
| Sweden | 52.2 | 27.2 | 0.0 | 8.2 | 4.6 | 42.7 | 17.2 | 0.0 | 0.0 |
| Norway | 72.7 | 24.9 | 22.7 | 10.3 | 36.7 | 5.4 | 0.0 | 0.0 | 0.0 |

Source: Donors through questionnaire administered by Premier Consult Limited

Consequences of Untying for Aid Uses

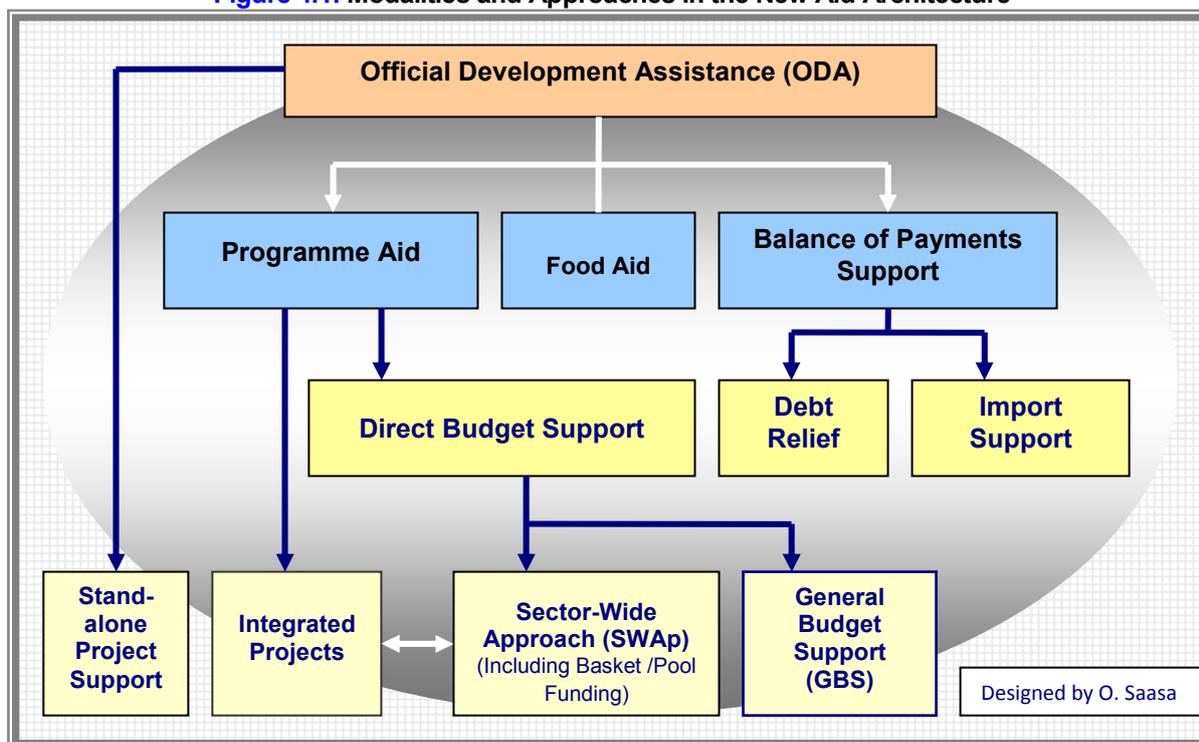
4.1 Aid and procurement

In the discussion of aid and its tying or untying status, the Zambian case demonstrates the dynamism of the aid relationships over the years from the earlier period when procurement procedures were significantly influenced by the donor preferences to the current state of affairs where, in the light of the Paris Declaration of Aid Effectiveness, the JASZ, and the country's Aid Policy and Strategy, the majority of donors are progressively moving towards relaxing their procurement restrictions in favour of local systems. This has contributed to a marked increase in the proportion of aid that is now classified as 'untied'. Both GBS and SWAp, being the Government's preferred aid approaches, have played an important role in this regard.

4.2 New Aid Modalities and Approaches

There currently exist four main approaches to external support in Zambia. These are (a) Project Support, (b) Integrated Project Support; (c) Sector-Wide Approach (SWAp), and (d) General Budget Support (GBS). It is often not appreciated that all these approaches ultimately set up projects. Thus, what distinguishes one modality from the other is not the existence (or otherwise) of projects at the operational level. Rather, it is the *process* and *procedure* that led to the identification of the supported intervention and how resources are transferred, managed and monitored that ultimately determine the approach/modality classification. The *project* approach, for example, gets its reference not from the existence of projects *per se* (which actually exist in most other approaches) but from the manner the support is conceived (usually as an isolated process by the donor and at times outside the recipient government programmes/priorities) and managed (usually with parallel Project Implementation Units established). Figure 1 shows the relationship of the different modalities.

Figure 4.1: Modalities and Approaches in the New Aid Architecture



The GBS and SWAp are two categories of Direct Budget Support. Integrated Projects are distinguishable from stand-alone project support in the sense that they are designed and integrated into the existing government programmes and stated priorities. Thus, although they are not part of the direct budget support

characterisation, resources may be placed in separate bank accounts that are managed by the recipient government.

4.2.1 Projects

Whereas stand-alone projects have generally been discredited and are not widely used, a number of donors favour an integrated project-based approach in Zambia. This category of projects entails external support that is aligned with the government's spending priorities and they try, as far as headquarter rules allow, to integrate with the recipient country's planning and programming system. In a number of cases, such projects might be created as targeted programme interventions under SWAp arrangements (hence the double-pointed arrow in Figure 1 between SWAp and Integrated Projects). Donor-funded activities under this approach support the sector policy framework but are managed as separate projects. Generally, this category of projects covers resources that are sourced from bilateral agreements between the donor and the Zambian Government. Usually, the funds are deposited in separate bank accounts and controlled by the donor that provides them. However, as in the case of many Japanese Grant Aid projects in Zambia, the donor may open a separate bank account which is directly managed/controlled by the Zambian government.

4.2.2 Sector-Wide Approach

With respect to SWAp, donors in Zambia support a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, which progresses towards relying on Government procedures to disburse and account for all funds. Support through SWAp involves arrangements whereby both the Zambian Government and the donor come together and agree on sector priorities and collectively carry out the sector programme based on country ownership of the process. It is noteworthy that a SWAp (which is an aid *approach*) does not necessarily imply that there is only one funding modality. Rather, while a diversity of funding arrangements could be employed, these should revolve around commonly-agreed principles and prioritised expenditure framework within a common sector frame.

In the Zambian system and under SWAp arrangements, donor support is usually put in a common basket (pooled funding) from which agreed sector expenditures are financed or routed directly into the Government's own accounts for general budget expenditures. Although many projects have remained operational under SWAp arrangements, such projects are conceived and implemented within sector policies, goals and priorities. In this context, the aim of SWAps in Zambia has been to ensure that all significant funding for a given sector are allowed to support a *single* sector policy and a *single* expenditure programme that is defined by, and being implemented under, government leadership; adopting common approaches across the sector; and, in the spirit of harmonization and alignment (canons that find expression under the Paris Declaration on Aid Effectiveness), progress towards the reliance on the government's own procedures with respect to expenditure planning, disbursement, reporting, monitoring and evaluation (M&E), accounting, procurement, and auditing for all funds. The advantages of SWAp include the following:

- a) Improvement of coherence in policy and planning for the sector.
- b) Strengthening government systems and their capacity in managing financial resources.
- c) Improvement of accountability for results.

4.2.3 General Budget Support

GBS entails the transfer of funds from a donor government directly into the government budget of a recipient country to allow the partner to increase public expenditure or reduce borrowing. There are some challenges that are often associated with GBS. For Zambia, they have included the following:

- a) By its nature, GBS implies donor governments having the confidence in the probity and financial capacity of the beneficiary government. The Zambian case has, over the years, demonstrated that this is not something which can always be taken for granted.
- b) The funding of the whole budget, regardless of its main objective, associates the donor with all aspects of the recipient government activities. When there are failures of governance and/or human rights abuses and corruption, this close engagement can mean that the donor country becomes associated with the recipient government's actions.

- c) For GBS to result in poverty reduction, a policy environment which facilitates pro-poor growth must be in existence and on an improving trend. The political will to deliver policy is also essential.
- d) The focus of donor engagement is often on the ministry in charge of Finance. The Zambian case as revealed that there is often the danger that this ministry could be overstretched and unable to cope with the demands made on it. Sectoral ministries may also lack the capacity to effectively utilise GBS-induced central funding.

GBS, therefore, involves greater fiduciary risk because good financial management and procurement systems are required across the public service rather than in a specific targeted sector or sub-sector. Consequently, GBS is usually considered appropriate where (a) there is a history of macroeconomic and political stability and a reasonable expectation of continuing stability; (b) a strong, country-owned policy environment exists; and (c) the fiduciary risk is deemed acceptable; (d) a strong public finance reform programme is in place; and (e) there are low levels of corruption.

4.2.4 Consequences of untying

The interviews with various donors during the course of this Study revealed that untying has facilitated the process of donors using GBS and SWAPs. In chapter 3, it was demonstrated that some donors have a larger proportion of their aid channelled through these approaches. Untying aid was found to enable donors to engage in pooled funding where their money is able to mingle with that of government and other donors. None of the four projects studied considered the use pooled funding mechanisms. Nevertheless, countries like Ireland and Germany do have GBS and pooled funding arrangements outside of the selected projects. Untying has also led to efficient implementation of programmes as lengthy processes for obtaining waivers or approvals are foregone.

4.3 Public Procurement⁷

4.3.1 Policy and legal environment

Zambia's Aid Policy and Strategy clearly provides for the conditions under which procurement using donor funds should be conducted. In general, the Government has committed itself to developing clear guidelines, supported by improved enabling legislation that is in line with the United Nations Commission on International Trade Law (UNCITRAL) Model Law on the Procurement of Goods, Construction and Services as well as existing international best practices.

Zambia's legislative framework for public procurement was recently revised following the enactment of the Public Procurement Act of 2008. The Procurement Act provides that procurement procedures should be transparent and among the measures in the new piece of legislation is to ensure enhanced transparency and fair play. This is secured by the requirement in the Act that a procuring entity notifies all the bidders of the best evaluated bidder and value within seven days and that, for ten days after such notification, no contract should be signed. Another important innovation in the new Public Procurement Act is that the oversight of procurement shall be done by the Zambia Public Procurement Authority (ZPPA), which means that the procurement authority has now been separated from the actual process of procuring as this has now been left to procuring entities within Government ministries, departments and parastatal organization.

Government also aims to standardise procurement processes, procedures and methods. Consequently, standardised procurement regulations shall be employed, as opposed to the current practice whereby the Government uses the procurement regulations of the donor that provides the resources, resulting in diverse procurement systems that are capacity-draining. In this regard, it is Government policy that Cooperating partners should align all their procurements for externally-supported interventions to its principles and standardised procedures. Any exception to this rule, Government maintains, shall be a subject of negotiations between the Government and the concerned cooperating partner.

⁷ A detailed description of Zambia's procurement System is given in the Annex

To support the implementation of these standardised procedures, Government aims to put in place a capacity building programme for the consolidation of its procurement system, focusing on the following:

- (a) The establishment of a professional procurement cadre that operates under attractive operational environment.
- (b) The implementation of supportive infrastructure, particularly an enhanced electronic database that would capture key procurement information as well as the use of ICT solutions to publish/share information on procurement opportunities and awards of contracts.
- (c) The progressive decentralization of procurement functions to ministries and provinces.

4.3.2 Constraints and challenges

Public procurement plays an important role in the Zambian economy. The World Bank estimated that the total value of public procurement in 2001 was equivalent to 15 percent of Zambia's GDP. This is a higher proportion than the 10 percent estimated for most countries in Sub-Saharan Africa. Recognizing the importance of efficient procurement for the national economy, public procurement system reform has been on the Zambian Government agenda for almost a decade during which a number of donor-funded projects supported this process.

Until recently, antiquated legislation (ZNTB Act of 1982) and procurement practices tainted by political interference and the perception that 'any one can perform the procurement function' had provided a fertile ground for corruption. Neglected oversight functions include: (a) monitoring and gathering statistics on public procurement, (b) developing procurement capacities and capabilities, and (c) implementing public procurement reform. Procurement planning as a tool for conducting efficient and economic procurement has been largely non-existent.

Another major weakness of the current legislative framework is that it does not provide for severe sanctions for culpable offenders who violate the existing legislation. Compounding this weakness is the fact that the Auditor General's Office (OAG) has proved ineffective in checking abuse of public funds through bad procurement practices. The OAG lacks organizational autonomy and adequate professional staff. It is generally agreed that the enabling legislation should spell out harsh criminal penalties for individuals whose procurement malfeasances cost the country substantial resources. The Anti Corruption Commission (ACC) has equally not been effective in curbing procurement-related corruption.

There are still issues that need addressing to strengthen Zambia's procurement system so as to secure more willingness among donors in the use the local procurement system. Delays attributed to the lengthy procurement process came out during discussions with some donors, especially those that prefer to use their own system of procurement. Under the new Act, it is required that procurement plans be prepared. It is generally agreed that preparation of procurement plans helps to complete procurements in good time.

Discussions with procurement specialists outside the government system revealed more weaknesses of the Zambian procurement system in its current form. For example, there are no standard bidding documents for procurement of goods, works and services. ZPPA has adopted World Bank bidding documents without orienting these to the local needs and situation. Most of these bidding documents are tailored towards large procurement, which, in most cases, may not be appropriate in the Zambian case. This, in turn, disadvantages most local contractors who do not understand fully these bidding documents. Although in the past four years there has been a move by most donors to use the adopted World Bank bidding documents, these need to be further simplified in conformity with the type and magnitude of local procurements. In addition, the procurement system in Zambia does not have a strong stores/receiving function. Generally, stores records are not properly kept. This has led to payments being made for goods that were never delivered. Furthermore, there is no price index developed to compare prices to previous purchases. This makes the government vulnerable to inflated prices, which leaves room for corruption.

In some sectors there is lack of competitiveness such that the number of bidders is small particularly when one goes to rural districts or lower levels. In some cases, the lack of competition leads to inflation of prices that impact negatively on the implementation of projects. Related to this is the lack of trained procurement personnel at district level and in most government ministries. This has resulted in delays as knowledge on procurement guidelines and procedures remains weak. Moreover, most local suppliers are basically traders that do not have links with major manufacturing companies. This has disadvantaged such firms during the bidding process.

4.3.3 Consequences of untying

The state of procurement system in Zambia has a lot to do with the degree to which aid is, or realistically could be, 'untied' in a *de facto* sense. This is because under conditions where the institutional and legislative system is not supportive of an effective, transparent and accountable system of procurement, the mere declaration by a donor that its aid is untied need not necessarily imply that this is truly the case on the ground. A closer interrogation of what really happens is, thus, always merited. This is particularly so when systemic capacity at the country/government level to support effective untying is frail.

As some of the projects examined in the Zambian case will demonstrate, the weak capacity by local firms to put up a 'winning bid' has often resulted in a situation whereby the notion of 'untied aid' only exists on paper and that, in the final analysis, the donor's decision of who supplies the goods and/or services is biased against local or regional suppliers. This need not be a bad thing if procurement from outside the country or the region secures better quality goods or services and, hence, secures the efficiency of delivery. However, it is noteworthy that the *developmental effect* of untied aid under such conditions would remain checked as local systems may not fully benefit from this modality of aid delivery. Overall, the conclusion here is that what makes aid effective and/or efficient has to go beyond the mere notions of 'tying' or 'untying' (especially when this refers exclusively to procurement) to include the need to interrogate the nature of the environment within which aid is transferred; the capacity limitations therein; and the nature of the aid relationships between the national system (both Government and the local private sector suppliers of goods and services) and the donor camp, including their contracted external firms.

5.1 Brief Background of Covered Projects

This Chapter looks at various procurement rules, guidelines and practices used by the four selected donor projects. The selected projects include the Production, Finance and Technology Project (PROFIT) funded by USAID; the Water Sector Support in Northern Province (WSSNP) supported by Irish Aid; the Southern Water and Sanitation Project (SWSP) funded by Germany; and the Water Sector Performance Improvement Programme (WSPIP) financed by the World Bank. The aim is to describe the rules and regulations that govern untied aid, as well as to present what actually happens in practice.

5.1.1 USAID: Production Finance and Technology (PROFIT)

PROFIT is a five-year USAID project that began in June 2005. The project is implemented by the Cooperative League of USA (CLUSA)⁸ with the Emerging Market Group (EMG) as a subcontractor. CLUSA and EMG partnered to bid for the project though the contracted party is CLUSA. In this regard, CLUSA is directly responsible to USAID for the contract and effectively manages the sub-contracts and agreements. The total finance for PROFIT is US\$17.5 million. Funding of the Project was obligated in the bilateral Strategic Agreement for Economic Growth between the Zambian government and the government of the United States under USAID Grant Agreement number: GR-611-005-G-04-0000. Funds are obligated in an incremental manner to the overall strategic objective and then committed to various activities such as PROFIT. CLUSA covers its overheads from the PROFIT funding while EMG can charge up to 5 percent of total funding as fees. PROFIT seeks to improve the competitiveness of selected industries in which large numbers of MSEs participate and benefit. The Project also aims (a) to foster the sustainability of competitiveness to enable firms and industries to respond to market demands, both in the short and long run; and (b) to increase the breadth and depth of benefits at the industry, MSE, and household levels.

5.1.2 Irish Aid: Water Sector Support in Northern Province (WSSNP)

WSSNP bears its origin from the Irish government support to water supply and sanitation activities in the Northern Province since 1983. Initially, the programme was implemented directly by Development Cooperation Ireland's own staff. After an evaluation, the Programme began its full integration into the Zambian Government's Water, Sanitation and Hygiene Education (WASHE) system in 1998. Full integration was achieved in 2002 and DCI staff reduced their direct participation in Provincial WASHE (P-WASHE) meetings and currently attends only at the invitation of the Chair of the Committee. In the 2000-2002 Country Strategy Programme, the Programme extended support to water and sanitation to all the 12 districts in the Northern Province. DCI support included both financial and technical support. The programme continued in 2003-2005 with a similar focus. In the current Strategic Plan, the support has been reduced to four districts, namely, Mbala, Isoka, Luwingu and Mpika. The Annex describes in detail how the supported WASHE system in Northern Province works, including some of the challenges identified.

5.1.3 Germany: Southern Water and Sanitation Project (SWSP)

The feasibility study of the Southern Water and Sanitation Project was conducted in 1996. In 1998 a financial agreement worth DM 27 million was signed between the Zambian and German governments. The agreement covered 8 towns in Southern Province, excluding Livingstone. Later in

⁸ Before PROFIT there was another USAID project called Rural Group Businesses (RGB) that was also managed by CLUSA after a competitive process. Lessons learnt from RGB were used to design PROFIT but this does not imply that PROFIT is a continuation of the old project.

2000, an additional agreement for Livingstone worth DM 13 million was signed. The objective of the project was to provide year-round, continuous, sufficient supply of hygienically safe drinking water for the majority of the population and for institutions, trade and commerce in the nine towns of Southern province. The Project, which aimed at the reduction of health risks, also covered support to the provision of adequate sewage and human waste disposal services in the towns that have sewage systems. The project involved the repair of the existing water supply systems, expansion of the transmission networks in residential areas lacking supplies or lacking sufficient supplies of water (see the Annex for more details). The Project was funded through German Financial Cooperation (FC) and required a small counterpart funding from the government of the republic of Zambia. Although the Project was originally scheduled to commence in July 2000 and end by September 2003, a number of delays resulted in its extension to February 2009.

5.1.4 World Bank: Water Sector Performance Improvement Programme(WSPIP)

The Water Sector Performance Improvement Programme (WSPIP) funded by the World Bank was established in 2007 under a concessional loan agreement for US\$23 million. It was initially planned to be completed within a period of three years. This has been extended to 2012 with an additional injection of US\$10 million.⁹ The objective of the Project is to support the Government's on-going commitment to urban and rural water sector reforms by improving access through expansion of facilities. It includes support for a more comprehensive institutional structure which will lead to a better, more sustained and coordinated approach for water and sanitation sector, both public and private (see the Annex for details). A key outcome of the LWSC support is to enhance efficiency and customer service; expand access; and expand the utility company's business to an improved financial position in a manner that will allow enable it to graduate from public subsidies and become operationally self-sustaining. The Project also supports MLGH to help it ensure that an investment mechanism for RWSS is adopted by the government that possesses clear guidelines on allocation and tracking system.

5.2 Rules and Regulations

The Zambian case study established that that the rules and regulations for procurement differ across the four projects. In the case of the Irish AID-supported WSSNP, the Project is completely untied and uses local procurement rules, regulations and systems and has no restriction on procurement to a particular geographic region. The other three projects use donor rules and guidelines for procurement. Notwithstanding this, the content of the rules differ from donor to donor and are illustrated below.

According to USAID rules and regulations, there are largely two funding mechanisms, namely, (a) assistance through a cooperative agreement; and (b) acquisition through a contract. PROFIT falls under the first category (see details in the Annex). When a project is procured under either of these two mechanisms, there are various USAID regulations and requirements that govern the implementation of the Project. They include audit guides, sourcing or origin rules, audit rules, etc. Apart from extending procurement geographically to all areas or countries with the exception of those countries restricted by USA foreign policy, there are many other restrictions that pertain to procurement. For example, special source rules require procurement from the USA (22 CFR 228.13), procurement restrictions covering agricultural commodities, motor vehicles, pharmaceutical products, and air travel (see Annex for details). It is possible to obtain waivers for these restrictions. However projects in Africa benefit from the Development Fund for Africa (DFA) rules that exempt African countries from obtaining waivers. Notwithstanding this, the National Contracting Officer should get approvals for the purchase of such equipment. An example of the key restrictions applicable to PROFIT includes the purchase of motor vehicles and air travel. On both these purchases, the Study established that, within a day, PROFIT is able to get approval from the National Contracting Officer. Discussion with the PROFIT Chief of Party revealed that the approval process has been effective in

⁹ The additional US\$10 million is meant to facilitate LWSC's provision of services to consumers in 3 districts of Lusaka, Kafue and Luangwa.

ensuring that untying is effected at the country level and has helped to rationalize procurement of goods and services.

WSSNP, on the other hand, uses local procurement rules and regulations that govern Zambia's public procurement at local government level. Under the WSSNP, Irish Aid signs an agreement with the local district council and the money is channelled directly from Irish Aid to the Council. The cooperating partner's role includes financial and technical support, monitoring, auditing and advocacy while the recipient council is expected to do planning and coordination, management implementation, monitoring, internal auditing, offer technical support to sub-district structures and communities, advocacy, and local policy formulation. Although District Councils follow Zambian public procurement rules and regulations, Irish Aid demands a prior review for any procurement in excess of €10,000. To give a 'No Objection' during the prior review, Irish Aid verifies that the tendering process was fair, transparent and that any conflicts of interests are declared. According to Zambian government guidelines, if the threshold of expenditure by the council is equal to or less than K50 million, then the Council Secretary is allowed to handle procurement through shopping by collecting three quotations. For procurements above K50 million to K500 million, the District Tender Committee does the procurement through an open tender. For any procurement above K500 million, the district is at liberty to use either the National Tender Committee or the Provincial Tender Committee. To encourage local tendering, adverts are placed in national papers and on posters. All tenders are either done at the district or provincial level through the Provincial Tender Committee or the District Tender Committee. Private contractors engaged to develop water points in the districts enter into an agreement with the P-WASHE.

To implement SWSP, the project-executing agency, in this case the Ministry of Local Government and Housing (MLGH), follows KfW global rules and regulations. According to these rules, the project-executing agency is required to use the services of local or foreign consultants for preparation, execution and possibly operation of the project. The project executing agency in the recipient country is always responsible for the preparation, implementation and operation of all supported projects. It carries out the entire tender procedure; concluding the contracts; and supervising their fulfilment as contracting party to the consultant. KfW ensures that the contracts are awarded on the basis of fair and transparent competition that is adequate and offers equal opportunities to all the bidders. In addition, KfW examines the tender documents, assessment reports, proposals for the award of contracts and draft contracts, which must be presented to it as part of the tender procedure. The publication of the documents for pre-selection and the tender, the selection of consultants, and the consultancy contract always require the prior approval of KfW. There are no restrictions regarding the bidder's country of domicile or the country of origin of supplies and services.

Notwithstanding the above, in special circumstances, KfW guidelines allow for restrictions of procurement to Germany, the European Union and the recipient country. On the condition that KfW gives its prior no-objection, a deviation from the principle of international competitive bidding is possible in specific cases. When competition is adequate, the procurement process may be limited to enterprises domiciled in, for example, Germany or the EU, that conduct a significant portion of their business there and that do not resort to supplies or services from third countries to provide the supplies and services to be contracted. If adequate competition is expected and if it is likely that international enterprises will not take part in the bidding process because of the moderate size of the project (for logistical reasons or because of the low local price level), the bidding process may be restricted to the recipient country. Limited competitive bidding, price quotations, multi-stage process, discretionary award and force account are the other types of procurements allowed in special circumstances. The procurement notice must be published in Germany in the journal '*Nachrichten für Außenhandel*' and in the databases of the *Bundesagentur für Außenwirtschaft (bfai)* before or at the same time as its publication elsewhere. It is also supposed to be published in the recipient country using the requirements of that country. The guidelines also indicate that bidding documents of the international financial institutions (IFI's) can be used in the process of bidding.

The World Bank procurement rules and regulations are followed during procurement under WSSIP. Although actual procurement is undertaken by the Project implementing agency through a procurement committee, the World Bank uses its international guidelines for the implementing agency

to follow. Generally, The World Bank has defined procurement thresholds to undertake post or prior review of procurement and whether to use National Competitive Bidding (NCB) or International Competitive Bidding (ICB). According to the old World Bank thresholds that was followed under WSSIP, any works worth US\$500,000 and above were to be contracted through an ICB while for works worth between US\$50,000 and less than US\$500,000 NCB was to be used. Procurements involving less than US\$50,000 qualified for shopping. For consulting services, the thresholds are lower. For consultancy contracts equal or above US\$100,000, the agent must use QCBS and all these contracts are subject to prior review by the World Bank. For contracts less than US\$100,000, the types of procurement used is CQS, LCS, QBS, FBS, SSS and all first contractors are subject to prior reviews.

The World Bank has now introduced new thresholds so as to increase the use of local procurement systems and enhance local capacities. Under the new thresholds, any procurement of works in excess of US\$3 million will use ICB while the use country systems will apply for amounts below this. Any procurement of goods in excess of US\$500,000 will use ICB while anything below uses national systems. Any consultancies in excess of US\$200,000 should use ICB while below that uses national systems.

5.3 Procurement Practice

5.3.1 Practices and Technical Specifications that Favour Donor Nation Sources

Although rules and regulations do not restrict sourcing of goods and services to the donor country, it is found that there are certain specifications that may require sourcing from the donor country. A clear example is the case of SWSP where certain machine replacement parts had to be purchased from Germany because old water pumps already in place were from Germany. Another issue that favours procurement from a donor country would be the requirement that a firm should have done a similar type of work preferably in the country where the project is being undertaken. In the case of PROFIT, the winning of the contract by CLUSA could in part be attributed to the fact that CLUSA had been running a similar project called Rural Group Businesses (RGB) from which lessons were used to draw up the terms of reference for PROFIT's request for applications. Moreover, past performance is cited as a key factor in that document. It is, thus, no doubt that past performance played a critical role in awarding PROFIT to CLUSA.

In interviews with the Lusaka Water and Sewerage Company (LWSC), it was observed that certain firms would prefer to specialize in, and bid for, specific donor projects. It was observed that no matter how much advertising is done both locally and internationally, certain firms would prefer to bid, e.g., for Germany, DANIDA or World Bank-funded projects. This state of affairs tends to compromise competition as the tendency seems to gravitate towards having preferred 'traditional' bidders. When this occurs, one likely adverse effect is that the 'competition space' is somewhat restricted to the 'chosen ones,' a phenomenon that minimises the attainment of some of the anticipated benefits from untied aid.

It is equally noteworthy that, for many Zambian local firms, mega type projects are well beyond their reach to bid for, let alone win the tender, an aspect that makes 'untying' to them basically an academic notion. The qualification rules also often technically disqualify most local firms. For example, in one instance in the case of WSSIP, post qualification rules required that the bidding company should have delivered at least two contracts of at least the same value in the last three years that have been successfully and substantially completed and that are similar to the proposed works. That criterion basically disqualified almost all Zambia-based firms.

5.3.2 Quantitative Indicators of Procurement Practice

It was found that in projects that required a consultant to implement, the consultant for that project would usually come from the donor country. In the case of the Germany-funded SWSP, the consultant of the project, Poyry Environment (formerly GKW GmbH), is a Germany firm. For CLUSA, the implementing agency of PROFIT is from the USA. There is nothing in the rules that shows that these firms were favoured, but the realities on the ground and the restrictive qualification rules make it difficult not to conclude that, in *de facto* terms, the project is quasi-tied. There is no consultant in the WSSNP funded by the Irish Aid. But it is worth noting that in another sister project in the Water

Sector in urban centres in Northern Province, Irish Aid contracted a non-Irish organization, CARE International, to do the project.

Although all the projects are categorized as untied, varying degrees of sourcing of goods and services was found across the four projects. In the Germany-funded SWSP, about 85 percent of the project money went to German firms. The consultant of the Project, Poyry Environment GmbH, accounts for 21.7 percent of the total project money, excluding the cost of projects in Livingstone. The main contractor of the Project was a joint venture between two Germany firms. Excluding Livingstone, this contractor accounts for 64 percent of the total project funds. The remaining 15 percent is shared by 3 Zambian companies, one South African and one Chinese. On the sources of the goods and services, it is clear that most of the pipes, water meters and other fittings were procured from regional markets, largely from South Africa. But there were spare parts for pumps which were imported from Germany because the machines are from Germany. This case demonstrates that procurement of goods and services were properly untied (See the Annex for details).

Under PROFIT, CLUSA subcontracts various organizations to offer different services to farmers. Of the total US\$17.5 million project funds, about 31 percent is given in subcontracts to various specialized organizations. In addition, 20 local professionals employed under PROFIT train, mentor and facilitate private sector engagement with farmers and 15 percent of the total funding goes towards this activity. Other direct costs of running 20 vehicles and motor cycles, salaries for professional staff, rent, insurance medical aid, etc. account for 25 percent. Then EMG¹⁰ is allowed to charge up to 5 percent in fees and CLUSA uses not more than 15 percent to cover its overhead costs. Among the subcontracted organizations, there is one US organization, Land O'Lakes,¹¹ which accounts for 8.8 percent of the total PROFIT funding. Therefore, adding up the amount going to EMG, CLUSA, and Land O'Lakes, this Study established that this came to approximately 29 percent of the total funding. This can be considered as the total proportion of PROFIT funding that goes to US organizations. The head of PROFIT is an Irish citizen, the Finance manger is American and there is a British expatriate. In addition, PROFIT employs 20 Zambian professionals. Under PROFIT, there are 20 motor vehicles of Nissan and Toyota make that were bought locally but manufactured in South Africa. In addition, there are 29 Honda motor cycles and one Honda quad bike also bought locally but manufactured in South Africa. Thus, in terms of procurement of motor vehicles and employment of staff, it can be said that the project is untied.

Overall, the Irish Aid Programme is a good example of support where procurement is totally untied. The supported councils are at liberty to engage whichever contractor they see competitive. The main outcome is that most of the works are done either by small contractors in the district or national contractors based in Lusaka or, in rare circumstances, from South Africa (see the Annex for more details). Since the beginning of the current phase, there have been no vehicle procurements by the districts from Irish Aid. Since the project is implemented by District Councils, all employed staff are local while Irish Aid has four Zambian advisors that are based at the regional Irish Aid offices in Northern Province. These advisors interact with the councils during project implementation.

Procurement in the World Bank-funded WSSIP is more balanced with both international and local firms having contracts. Because the procurement data was presented in three categories according to type, the analysis looks at contractual outcomes in each of these categories. Under procurement of works, 31 percent of the works procured so far are being implemented by a joint partnership between a Germany firm and a Zambian firm, another 29 percent is being undertaken by another joint venture

¹⁰ It is important to note that at the time of the contract, EMG was a fully US organizations but it was recently bought by Cardno Group which is Australian. Thus, we consider EMG as US because at the time it entered into partnership with CLUSA for the PROFIT project, it was a US organization.

¹¹ The sub grant to Land O'Lakes is a separate one from the food aid contract. The PROFIT subcontract was awarded after CLUSA put up a public request for proposals in the local papers and the contract was granted after a formal review by CLUSA.

between a South African firm and the same Zambian firm, 16 percent by a Chinese firm and the remainder by Zambian firms under several separate contracts. Capacity constraints of most Zambian firms testify to their general exclusion from larger projects. From the results of the Zambia Study, only one Zambian firm managed to engage in a mega joint venture contract while the others hold fairly small contracts that were won through NCB. The goods procured are purchased either locally, regionally or internationally. Internationally, goods originate from USA, Germany, Italy, UK, Thailand, India, Japan and Israel and, regionally, from South Africa. The limited diversity and sophistication of the Zambian market in manufactured goods principally explains why there is very limited procurement from the local sources.

5.3.3 Reasons for Restricted Sourcing to Donor and/or Recipient Country

Looking at the USAID and KfW projects, interviews with officials did not come up with justification for restricting sourcing to the donor countries. In both case, it appears that where sourcing is from the donor country and an ICB applied, factors that influenced the choice of consultant being one from the donor country may find explanation in the manner the tendering process was handled. In the case of PROFIT, there were no local firms that bid for the Project and participation by other international organizations was poor. In the case of SWSP, the MLGH indicated that it was asked to suggest firms for consideration and that German firms should be among those the Ministry to be recommended. This communication seemed to be informal because there were no minutes or other documentation to confirm the authenticity of this condition.

With respect to the USAID Project, the process of procurement starts by USAID advertising for a project/programme. If a local Zambian organisation submits applications, then the USAID local office does an assessment of the financial and personnel policy of the organisation. If not satisfied with the financial and personnel systems, USAID sets milestones for the organisation to meet. An audit is asked for and if the amount of the project the local organisation is applying for is in excess of \$300,000. If a US organisation is involved, the audit is done centrally and available to the local office through a single database. CLUSA won the international competitive bid to manage PROFIT. The same guidelines which govern procurement at the international level are also used at the national level by CLUSA under PROFIT. The fact that past performance has a bearing on the selection process no doubt gave CLUSA an advantage in the bidding process. From 1996 to 2004, CLUSA implemented a USAID funded project called Rural Group Business Programme, which also worked with farmers in various districts of Zambia.

Developmental and Cost Effectiveness of Aid

6.1 AID Effectiveness of untying

In analysing the effectiveness of untying aid, the key pillars of effectiveness that are identified by the Paris Declaration are used. These relate to alignment, ownership, harmonization and results. Although these pillars are much broader than the focus of this study, which is the effect of untying, an assessment is made of the extent to which untying in each of the case studies considered has facilitated or impeded these factors.

The Irish Aid-funded WSSNP, for examples, illustrates how a fully untied which uses the local government procurement system and operates within the district plan, contributes to improved alignment and ownership. Moreover, because this support is totally untied, it has also been easier for the project to harmonise its activities with those of other donors. The USAID –funded PROFIT project, on the other hand, does not use the government system and is therefore less effective, from an alignment and ownership perspective. But according to the Chief of Party, this enables them to be more innovative (and effective) in addressing some of the challenges faced by farmers in Zambia. The net impact, in terms of overall aid effectiveness, is therefore less clear.

6.2 Developmental Effectiveness

6.2.1 Overview

Although it is not possible, due to the limited cases looked at in this Study, to assess fully whether aid untying leads to developmental effectiveness, indications suggest that untying in Zambia has contributed to developmental effectiveness. All four projects under study show evidence that untying has contributed to the creation of employment opportunities for both skilled and unskilled workers. In addition, with the exception of the USAID project (PROFIT), untying has generally led to the strengthening of local procurement systems. It was also found that untying, to the extent that it uses local procurement systems, has helped to build a stronger basis for the sustainability of the studied projects. Local and regional trade has also been impacted positively through untying. However, challenges still exist on improving Zambia's public procurement system in order to realize the full benefits of untying. Analysis is made below regarding the extent to which each one of the case studies have scored with regard to developmental effectiveness.

6.2.2 USAID: Production, Finance and Technology Project

Most of the organizations engaged by PROFIT are not US-based and they have been instrumental in ensuring a successful implementation of the Project. The locals that are engaged by PROFIT, particularly the 20 employees in professional scales, are given the opportunity to acquire skills that should be important at other levels of national developmental pursuits. The Project's creation of opportunities for local car dealers has further contributed to the enhancement of income levels locally and the Project also has a positive impact on regional trade in that most cars for the project, though sourced locally, originate from South Africa. Since no ground-truthing was done on this Project and, hence, no beneficiary farmers were interviewed, its sustainability could not be fully established.

To the extent that procurement under PROFIT is done by CLUSA using its own system, it is difficult to determine the level of the Project's contribution to the strengthening of local procurement systems. Effectively, PROFIT has chosen to bypass public procurement systems even in cases where there are opportunities to use these in the agriculture sector. Notwithstanding this, PROFIT has managed to meet its intermediate objectives that include that of linking up farmers to markets by creating the critical mass for buyers both local and international. This is an important developmental outcome. The Annex shows in detail some results of the Project.

6.2.3 Irish Aid: Water Sector Support in Northern Province

The WSSNP has made full use of local procurement systems and this has certainly contributed to strengthening of planning, procurement, accounting, monitoring and evaluation at the district level. In most cases, local people are trained to be borehole pump minders. This is perhaps one of the most important benefits from the process of untying under WSSNP. This should not suggest that use of local systems does not have its own teething problems. Insider trading in procurement processes, for example, was established during fieldwork as a major problem. Another downside of using local systems is that there is a high rate of attrition of staff due to ill health and poor remuneration in the councils. This calls for sustained training programmes.

The appropriateness of the goods procured and services procured under the WSSNP varies from district to district. Evaluation reports of the project show that, in some cases, 30 percent of installed boreholes do fail six months after installation. Such high failure rate is largely due to lack of strong supervision by the Councils and also weak technical specifications on how the boreholes should be constructed. This is the reason why Irish Aid has put on hold borehole procurement until a consultant develops appropriate technical guidelines. This shows that, in the case where aid untying is not accompanied by appropriate technical guides and systems, it could lead to undesired results. The other small works of wells construction and springs have been done to the satisfaction of beneficiaries.

With regard to local employment, the Project has enabled councils to contract local and regional organizations, an aspect that has contributed to employment and the sharpening of local skills. In a few cases, the use of local companies to undertake works has resulted in the growth of the local companies and this has, in the process, helped to enhance compliance to standards set by the supported council. During the pre-2007 period when procurement of boreholes was done by either national companies or regional companies from South Africa, there was a clear indication that the local and regional economies benefited from the Irish Programme.

Although the impact of the Project could not be attributed exclusively to untying, there is evidence that untying has played a key role in achieving positive results.

6.2.4 Germany: Southern Water and Sanitation Project (SWSP)

The ground-truthing process established that SWSP was of high standard and has been able to meet its intended objectives with increased water supply and sewerage facilities. In 2004, water losses were around 70 percent due to dilapidated infrastructure. Currently, water losses have been reduced to 40 percent. There has also been improvement in management which has led to improved efficiency.

Most goods were procured from outside Germany and were of appropriate specifications, quality and relevance to the Project. In one deliverable that involved a Chinese contractor, however, the works were of sub-standard and this led to delays in the implementation of that component of the Project. The use of local procurement system was considered good in terms of the creation of local ownership although the system was quite slow and resulted in significant delays in Project implementation. This was partly attributed to the absence of procurement plans.

The Project contributed to generating local employment through the sourcing of labour and other services from the local market. Although the Project has had limited engagement with local firms,¹² the engagement, through employment, of local people has contributed to income generation. The Project consultant, Poyry, and the contractor, JR international, employed both Zambian and expatriate personnel. Although much of this employment did come to an end at the end of the contract, the long term skills gain has proved important to the wider economy upon the completion of the Project. In Livingstone, for example, SWSC employed both skilled and semi-skilled workers that previously worked for the Project contractor.

¹² The only Zambian company involved was RACEC Zambia limited. No other local companies were subcontracted.

To a limited extent, the project had a positive *impact* on local level business opportunities/prospects in the served areas. The presence of the project in the areas of Choma and Livingstone, for example, contributed to a short-term business boom. House rentals rose, which was good for the housing market/landlords although a disadvantage to the tenants who had to pay higher rents. However this benefit was short-lived since immediately the contractor demobilized and left the Province, rentals reduced and the volumes of business followed suit. The Project also resulted in improvement in national and regional trade since much of the materials (mainly pipes and water meters) were procured from South Africa as well as from local sources. Japanese motor vehicles were also procured from South Africa. Some equipment and spares were bought from Germany.

6.2.5 World Bank: Water Sector Performance Improvement Programme (WSPIP)

The WSPIP has seen relevant goods procured and works done to improve the efficiency of the Lusaka Water and Sewerage Company (LWSC). Being untied, the project enables LWSC to procure the best technology, regardless of source. Like the other three projects assessed above, contracted firms under the Programme contributed to local employment and the procurement of goods locally, regionally and globally implies that the Programme has contributed to trade at all levels. Moreover, all the consultancy works under the Programme have been done by local organizations, which have contributed to trade in services locally.

Generally, the Programme is being implemented efficiently with minimal delays because the implementing agencies are required to prepare procurement plans beforehand. Preparation of procurement plans and having qualified procurement personnel at the Lusaka Water and Sewerage Company (LWSC) has shown that it is possible to use local systems and procure goods and services efficiently, a state of affairs that could be easily replicated by the other projects examined, particularly PROFIT, that still operates almost exclusively outside the national system. However, the oversight/approval function of the World Bank is excessive and the local executing agency has largely been relegated to a clearing house. For example, after the executing agency's evaluation of the bids where this is a requirement, these are sent to the World Bank for a further review and only when a 'No Objection' verdict is passed by the Bank would the implementing agency contact the winning bidder. While the rationale for this may be understandable especially in the light of the capacity challenges that still dog the national procurement systems, including at the local government level under which the supported utility company falls, the dangers of undue 'conditionalities' could compromise the aspects of local ownership and alignment that are stressed under the Paris Declaration on Aid Effectiveness. The protracted nature of procurement also makes it difficult for a poorly equipped local firm to comply. Hence, even if aid under this Programme may be untied, there still remain the challenges of 'possible exclusion' of the less competent local firms purely on the basis of the bureaucratic process competing firms may have to go through to win.

6.3 Cost effectiveness of Aid

To evaluate the cost effectiveness of untied aid, an assessment was made of selected goods that were purchased using untied aid. As per the Zambian Study design, only one of the four selected Projects was considered for a cost effectiveness analysis: the Southern Water and Sanitation Project (SWSP). The cost effectiveness analysis focused on a small subset of the goods that were procured in the Project. It is assumed that the analysis will nonetheless be a good indicator of the general procurement picture for the good in the whole Project because it covers the major components, namely, pipes and fittings.

The methodology used follows the cost difference method recently used in Ghana by Osei (2003).¹³ This method estimates the excess cost on a commodity by determining the mark-up on the price of the

¹³ Osei, B., 2003, How tied aid affects the cost of aid funded projects in Ghana, *AERC Research Paper*, 137, Nairobi, African Economic Research Consortium, November.

commodity relative to the price of an alternative source of supply for the same or similar commodity. The mark-up on a funded commodity is calculated as:

$$\text{Excess cost of aid} = \left(\frac{A - B}{B} \right)$$

Where A is the per unit cost of the good bought using untied aid and B is the import parity price of that good.

Using this rather simple framework, it is possible to assess whether the item bought using untied aid was cost effective (meaning a negative value of excess cost) or not (with a positive value). The goods considered in this cost effectiveness analysis were sourced from South Africa by a South African company, Mercury Inter Trade Limited. The per unit cost of the goods were in Euros but have been converted to dollars for easy comparability. The import parity prices were obtained from the Zambia Revenue Authority using their recently updated value for duty purposes. Using the HS codes, it was possible to track the estimated value for duty purposes for the goods. The value for duty purposes includes the cost of the item plus freight and insurance to Lusaka (i.e. CIF Lusaka). After this, the values were adjusted for the cost of deliver to the site by adjusting by half percent upwards. Since the value for duty purposes were the recent ones for April 2009, the final import parity prices were adjusted for inflation to the month of November 2007 when the goods were bought. Table 7.1 shows the estimated cost effectiveness of untying aid.

Table 6.1: Cost Effectiveness of Untied Aid

| Description | Unit | Cost per unit (US\$) | Import Parity Cost Per unit (US\$) | Excess cost of untied aid |
|-----------------------------------------------|------|----------------------|------------------------------------|---------------------------|
| | | A | B | (A-B)/A |
| PCV-M Pressure Pipes | | | | |
| ND 75 mm diameter AC Class C pipes with PVC-M | m | 1.46 | 1.56 | -0.07 |
| ND 63mm pipes | m | 1.07 | 1.17 | -0.09 |
| ND 90mm | m | 2.11 | 2.23 | -0.06 |
| ND 110mm | m | 3.01 | 2.72 | 0.11 |
| PVC-M unequal tee | | | | |
| ND 110mm-63mm | no. | 25.98 | 24.96 | 0.04 |
| ND 110mm-90mm | no. | 6.62 | 26.00 | -0.75 |
| PVC-M equal tee | | | | |
| ND 90mm-90mm | no. | 23.09 | 16.47 | 0.40 |
| ND 110mm-110mm | no. | 30.13 | 27.66 | 0.09 |
| PVC-M plain 90 degree bend | | | | |
| ND 63 mm | no. | 20.57 | 10.67 | 0.93 |
| ND 90mm | no. | 30.22 | 37.19 | -0.19 |
| ND 110mm | no. | 33.79 | 59.36 | -0.43 |
| PVC-M plain 45 degree bend | | | | |
| ND 63mm | no. | 20.57 | 16.60 | 0.24 |
| ND 90mm | no. | 30.22 | 44.66 | -0.32 |
| ND 110 mm | no. | 33.79 | 79.31 | -0.57 |
| ND 160 mm | no. | 73.41 | 74.87 | -0.02 |
| Total | | 336.04 | 425.43 | -0.21 |

Source: Calculated from Bill of quantities of Mercury Inter Trade PTY and Zambia Revenue Authority Value for Duty Purposes Schedules

Table 7.1 reveals that, for 9 out of the 15 goods procured by the project, the price was significantly lower than the import parity price. On the other hand, the analysis also shows that for the remainder of the goods, the purchase price of the goods was significantly higher than the import parity price. Looking at the overall element of cost effectiveness, the total per unit cost of the goods is calculated and compared to the total of the import parity prices. This tries to raise the question: If the company in question were to purchase only a unit of each good, would it have been cheaper than purchasing elsewhere? Overall, the total cost of the basket of goods on a per unit cost basis would have been cheaper than the import parity price by 21 percent.

Despite the inadequacy of this analysis, the findings of this study show that the project evaluated does appear to have been cost effective (relative to Zambia's other imports of these same products). It would however be desirable to undertake a comprehensive cost effectiveness study on untied aid. In such a study, it would be necessary to look beyond the monetary costs of procurement to include aspects such as time savings. It became apparent in the discussions with various respondents that in this regard, untying has contributed to the faster and more efficient procurement of goods and services in Zambia.

This Study seeks to explore the developmental and cost-effectiveness of untied aid through four donor case studies. Several positive impacts of aid have been noted in all the examined projects. However, it is not easy to attribute such positive effects to the process of untying as many factors usually come to play in the explanation of project/programme efficiency and/or effectiveness. Notwithstanding this, a number of generalisations can be made to the extent that aid untying has had an important facilitative role. With this qualification, some of the identified benefits/effects of untied aid are presented below.

- *Firstly*, because Zambians and other nationals are employed in the supported projects and, in many cases, called upon to bid for jobs in these projects, aid has contributed to the employment of local personnel as well as in the enhancement of business opportunities for local firms. In several of the case studies covered, contracted firms have had to relocate to site areas, which have led to increased demand for goods and services (including housing and foodstuff) within the served locality. This has had positive economic and poverty-reducing effects on the local communities resulting from increased incomes from project-derived incomes.
- *Secondly*, in cases where local procurement is encouraged and/or possible, untying has led to increased local trade. With respect to regional trade, this has also taken place albeit at a limited level. Particularly noteworthy is that regional trade has generally been uni-directional with South Africa, the main source of imported goods and services, assuming the largest share of such trade benefits.
- *Thirdly*, there is a general appreciation that untying improves country ownership and equips the recipient country to have an important say and influence in the procurement of goods and services that are meant to benefit them.
- *Fourthly*, local firms are given the opportunity to participate in international bidding for projects that are supported by untied aid.

Despite these achievements and benefits, the case studies also reveal that in practise, untying does not always lead to the increased involvement of local firms. In the actual procurement of goods and services, there is also some evidence of implicit or “de facto” tying by donors. In the case of PROFIT, no local firms were involved in the initial tender and participation by other international organizations was poor. In the award of the SWSP, the Government indicated that it was asked to suggest firms for consideration and that German firms should be amongst those recommended. This project has made no use of local sub-contractors (except in one instance, as a joint venture with a German company) and German firms accounted for over 85 percent of project expenditure.

There are two main reasons for the use of host country companies, consultants and materials in Zambia:

- Although rules and regulations do not restrict the sourcing of goods and services, there are certain specifications that may require sourcing from the donor country. For example, in the SWSP, replacement parts had to be purchased from Germany because this is where the existing water pumps came from. USAID imposes restrictions on the procurement of specific goods and services, such as motor vehicles and air travel (although these are not always enforced). In projects that require a consultant or an implementing agent, the prime contractor or consultant usually comes from the donor country.

- Most Zambian firms do not have the financial capacity or technical experience to tender for large donor projects, regardless of whether the project is tied or not. For example, in the case of WSSIP, post qualification rules required that the bidding company should have delivered at least two contracts of at least the same value in the last three years that have been successfully and substantially completed and that are similar to the proposed works. This criterion effectively disqualified almost all Zambian-based firms.

Donors spoken to during the course of this Study also revealed a number of threats to untying. The emergence of aid from China, that attaches little conditionality to what it gives, risks undermining the activities of other donors. Similarly, the increasing use of vertical funding arrangements such as the PEPFAR and the Global Fund, which are better resourced than most other programmes in Zambia and remain strictly tied, may diminish the gains from untying. Although these vertical approaches focus on results-based management as expected under the Paris Declaration, it is clear that they are operating independently of the more harmonised aid modalities and approaches and could legitimately be challenged for setting up parallel operational structures that are capacity-draining and that could result in high transaction costs. In this regard and looking at aid at the broader developmental level, vertical funding approaches pose a danger to both aid effectiveness and aid cost-effectiveness.

In the light of the above conclusions, what are the prospects for increasing the proportion of untied aid in Zambia and raising its effectiveness? The challenge at one level is primarily to see how best recipient countries like Zambia could claim ownership of both the processes and substance of aid. This calls for a continued shift towards GBS and SWAp arrangements, focusing, with respect to the latter, on pooled financing modality. In doing so, the capacity of government procurement systems needs to be strengthened; and the ability of the Zambian private sector to bid and participate in donor projects must be enhanced. The report identifies a number of specific recommendations which could be considered to address these particular shortcomings:

- *Firstly*, Donors and the recipient government need to ensure that tender procedures are designed with an eye on the existing capacities of the local firms. Specifically, World Bank and similar bidding documents (that are generally designed for large-scale projects) need to be adapted to make them suitable for the needs of small-scale local firms.
- *Secondly*, Government should ensure that procurement bodies have adequate qualified procurement personnel at both councils/municipalities and central Government. Procurement capacity building through continuous training of personnel in line with changing procurement trends is required.
- *Thirdly*, to ensure minimal delays in project/programme implementation, government and donors should ensure that procurement plans are made an integral part of project/programme and budget design. This will make the procurement process smoother.
- *Fourthly*, and lastly, the Zambian Government, donors and other stakeholders must ensure that guidelines and regulations for the new Procurement Act are put in place with minimum delay. This will enable procuring entities to put in effect the provisions of the new law.

Annex 1: Water Sector Support in Northern Province

Detailed Case Studies

1.1 Coverage

The Irish government, through Development Cooperation Ireland (DCI), formerly Irish Aid, has been supporting water supply and sanitation activities in the Northern Province since 1983. During the 2000-2002 Country Strategy Programme, Project support to water and sanitation covered all the 12 districts in Northern Province. In these early years, assistance included both financial and technical support that was done in close collaboration with the provincial office; the Ministry of Energy and Water Development through the department of water affairs, the Ministry of Health; and the Ministry of Education. The Programme continued in 2003-2005 with a similar focus. In the current Strategic Plan, support has been reduced to four districts only, namely, Mbala, Isoka, Luwingu and Mpika. The Project's activities include borehole rehabilitation and construction and rehabilitation of wells and latrines.

1.2 Operational Structure

Initially, the Programme was implemented directly by its own staff that was seconded from the Department of Water Affairs. After an evaluation, the Programme began the process of being integrated into the Zambian Government's Water and Sanitation and Hygiene Education (WASHE) system. Full integration was achieved by 2002 with DCI staff assuming advisory functions to the WASHE system. Currently, DCI staff have reduced their direct participation in provincial WASHE (P-WASHE) meetings and attend only at the invitation of the Chairmen.

At district level, Irish Aid does sign an agreement with the responsible district council authority. The agreement highlights the roles and responsibilities of the cooperating partner and the recipient council. The cooperating partner's role includes financial and technical support, monitoring, auditing and advocacy while the recipient council is expected to handle planning, coordination, management implementation, monitoring, internal auditing, technical support to sub-district structures and communities, advocacy, and local policy formulation. Whereas the task to monitor and report lies with the implementing agency, the cooperating partner does periodically monitor the programme. The Irish Aid conducts an audit of the implementing agency's accounts at least once every quarter and may also engage external auditors.

The Programme is run by the WASHE system in Northern Province. P-WASHE, a sub-committee of the Provincial Development Coordination Committee, has members from various line ministries, office of the Provincial Permanent Secretary and DCI and is chaired by the Local Government Officer. Each District WASHE (D-WASHE) is composed of representatives from line departments, the district council and local NGOs and is chaired by the District Secretary. Implementation of field work is through Sub-WASHE committees composed of staff from the relevant line departments at sub-district level. At community level, Village WASHE (V-WASHE) committees are composed of elected community representative. The detailed planning of Northern Province is in the hands of the D-WASHE committees supervised by the P-WASHE Committee. The D-WASHE committee plans are approved by the locally-elected council and endorsed by the P-WASHE, whose role is to manage funds and ensure that agreed guidelines are followed. The Department of Infrastructure and Support Services (DISS) in MLGH is responsible for ensuring that the activities of various actors in rural water and sanitation (RWSS) programme are coordinated.

Programme management is done by P-WASHE while Project management is handled by D-WASHE whose role is limited to coordination and plans monitoring. The Committee does not take part in implementation as this is left to the line ministries. M&E Guidelines and Operation and Maintenance Guidelines have been developed. It is noteworthy that personnel are mainly part time on WASHE activities since most of them belong to line ministries.

1.3 Financing Arrangements and Approaches

The March 2006 Memorandum of Understanding (MoU) governing interim support for the national Rural Water Supply and Sanitation Programme that was prepared in advance of a comprehensive Joint Financing Agreement between the Governments of Zambia and cooperating partners allows Ireland Aid to directly support district councils in Northern Province. In terms of process, Irish Aid disburses funds to a designated district council account. Administrative costs are not expected to exceed 10 percent of total programme funds. Under the MoU, part of the grants can be held at the provincial office with respect to Programme design and implementation. Where desirable, MLGH facilitates the tender process at district level to ensure the efficient use of funds. The Ministry is also mandated under the MoU to provide counterpart funds and sanction defaulting local government authorities in respect of the use of specific grants. The grant is disbursed by the Irish Aid to selected local authorities in Northern Province for the provision of water and sanitation services. There are also grants at the

provincial level to the office of the Permanent Secretary mainly for activities under P-WASHE. The Joint Financing Agreement for the NRWSSP lays ground for joint reviews of performance, common procedures on disbursement, reporting and auditing.

Irish Aid uses a mix of financing modalities. In 2004, pooled funding accounted for 46 percent of the total actual support while the remaining 54 percent was through direct project support. Looking at the funding approach, 31 percent was through the education SWAp although the Irish Aid money were not allowed to mingle directly with Government money. On the other hand, assistance to the water sector was under direct budget support and accounted for 9 percent of total support.

1.4 Procurement Rules and Regulations

The Project uses the Zambian Government procurement guidelines although Irish Aid has to give a 'No Objection' clearance for any purchase in excess of €10,000. In such a case, before the council can communicate to the winning contractor, all tender documents and minutes must be passed on to Irish Aid for verification. To give a No Objection, Irish Aid verifies that the tendering process was fair, transparent and that any conflicts of interests are declared.

According to Zambian government guidelines, if the threshold of expenditure by the council is equal to or less than K50 million, then the council secretary is allowed to do shopping by collecting three quotations. For procurements above K50 million and up to K500 million, the District Tender Committee does the procurement through open tender. For any procurement above K500 million, the district is at liberty to use either the National Tender Committee or the Provincial Tender Committee. To encourage local tendering, adverts are placed in national papers and on posters. All tenders are either done at the district level or at the provincial level through the provincial tender committee or the district tender committee. The committee is comprised of various representatives at these levels. Private contractors engaged to develop water points in the districts enter into an agreement with the P-WASHE.

1.5 Procurement in Practices

1.5.1 Overview

This is an example of projects where procurement is totally untied. The councils are at liberty to engage whichever contractor they deem competitive and there are no donor rules that govern how goods and services should be procured or from where they should be sourced. Most of the works are done either by small contractors in the district or by those in Lusaka. In rare circumstances, contractors from South Africa are awarded contracts. Members of the Procurement Committee at the district level are usually officers from different wings of government.¹⁴

One of the major problems of local procurement has been the lack of tender documents at both the provincial and district levels. Although the Province used to procure contractors for drilling of boreholes, there are no standard designs that are used for all contracts. As a result, the contracts were weak on technical details.

Annual district plans for all four districts currently being supported by Irish show that, in the last three years, procurements were supposed to have been undertaken in four areas, namely, the construction of VIP latrines; construction of wells; construction and repair of boreholes; and protection of natural springs.

A discussion with district officials from two of the four districts revealed that only the construction of boreholes has not been done according to plan. Borehole procurement is awaiting the engagement of a consulting firm that is expected to come up with new designs that will ensure quality and standardization of works. Smaller works are generally done by local contractors and much of the materials used are cement and other materials that are sources from within the country. Below are some of the findings on procurement from two of the four districts in the Project.

¹⁴ An example of who sits on the procurement committee at the district level was given by the Isoka District Council. The Council's Tender Committee consists of the Director of Health, The District Education Head (DEBBS), The District Agricultural and Cooperatives Officer (DACO), an officer from the Office of The President, Zambia Police, Buildings Department, Council Secretary (Chairs the Committee) and the Deputy Council Secretary (Secretary of Committee).

1.5.2 Procurement in Isoka District Council

According to the Acting Council Secretary, there was not much procurement during the past one year. For the construction of hand dug wells, the council contracted small scale local contractors most of whom were trained by Irish Aid. The 25 boreholes earmarked in 2008 have not yet been procured because Irish Aid is in the process of contracting a firm that can come up with designs that will be used as the standard template in a bid to safeguard against poor workmanship as this has been the case in the past when a large number of boreholes became dysfunctional within two years of construction. The council also procured hand pumps from Farrow Limited, which is a Zambian owned company based in Lusaka. The pumps were apparently from India. The Council is taking a number of measures to ensure that local contractors are given priority over national or regional contractors particularly where small works are involved.

1.5.3 Procurement in Mbala District Council

Irish Aid support to the district has been used to procure works for the construction of wells and the protection of natural springs. Since the amounts for these were within the Council's threshold, shopping was the method used to engage contractors. The main contractor was Sevetras General Dealers, a Zambian company located in the district. The nature of the works was such that the main materials in the works were cement, chains and buckets. All these products were bought from within Zambia. It was also found that the district council had used JICA funds to drill boreholes which were constructed by a Japanese contractor. This gives a good contrast. Whereas in the case of IRISH Aid, procurement was untied and the contractor depended on the best bidder from a competitive bidding process, The JICA project is tied and a Japanese contractor is engaged to do the works.

1.6 Effect

With regard to subcontracting, much of the work undertaken, especially on well construction, is done by small-scale local companies. Most of these companies employ local people; hence, they contribute to employment generation. In a few cases, the use of local companies to do works has resulted in growth of the local companies themselves and has helped to enhance compliance of the companies to standards set by the Councils.

With respect to local procurement, most of the purchases were within the locally-allowable thresholds, hence, the procurement of goods is either done at the provincial level by the provincial procurement committee or through the national procurement committee. The results of the evaluations of two previous country strategies of Irish Aid support to Northern Province show that, when procurements were done by the provincial procurement committee and the contracts were signed between the contractor and the province, there were challenges with respect to the capacity of councils or districts to supervise contractors.

The view by Irish Aid is that public procurement has been problematic due to weak regulation and monitoring capacities of councils and district administrations. Suspicion of corruption was reported on account of 'inside dealings.' The example of Chambeshi Water was given involving the procurement of pipes worth €1 million. Among the contractors selected were very small contractors with no capacity to meet the supply. And yet among the bidders was a manufacturing company that was not even selected. In Contrast to another Irish Aid-funded project in the urban sector in Northern Province, which was implemented through Care International, Irish Aid felt that there has not been many fiduciary problems. Thus, building transparent, accountable and efficient public procurement system becomes a critical factor in ensuring that untied aid is both effective and cost efficient.

1.7 Impact

Over years, Irish Aid has strived to align its support to country national development programmes. For example, the 2003-2005 Country Strategy Programme was aligned to support the implementation of the Poverty Reduction Strategy Paper (PRSP) through sector support and the extension of assistance to PRSP monitoring under its area-based programme in Northern Province.

The 2004 evaluation of the Programme showed that the Irish Aid support to the water sector has been effective in several ways. In areas of high prevalence and incidence of water-borne diseases, there was a clear reduction in diarrhoeal diseases and a complete elimination of cholera. This was attributed to improved health and education as well as enhanced sanitation facilities. Adoption rates of better health and hygiene practices were high in communities that benefited from the Programme's sensitization activities. Another study,¹⁵ nevertheless, revealed that the effectiveness of the support was rather mixed. It was established that V-WASHE committees showed different levels of capacity to plan effectively and manage and implement their water and sanitation

¹⁵ Grindle, Chiwele, & Nkandu (2005)

activities. Some communities showed capacity to consult their communities; prioritise issues using PRA methods; train communities as pump minders, including women who are in charge of maintenance; and set clear rules to govern the operations of the water sources. However, some communities did not show this capacity.

In Isoka District, it was indicated that though local and national contractors were contracted by the Programme, community initiative remained generally weak. Breakdowns of common facilities were rarely attended to as communities would usually wait for the funder to come and do the repairs, thus, raising legitimate questions regarding the sustainability of supported programmes. The other threat to sustainability of supported projects at the local level relates to the high turnover of staff at the district councils, which calls for continued training.

Overall, aid untying has enabled local companies acquire skills that have facilitated their capacity to diversify beyond their originally contracted mandates. This is positive for the local communities as untying has resulted in multiplier effects that are generally positive to the developmental aspirations of the served communities. Similarly, since much of the workers employed by the contractor are mainly semi-skilled sources from the district, the process of untying has led to increased employment opportunities for the supported communities, an aspect that has important implications for improved livelihoods of these people. In a few isolated cases, there were reports that contracted firms that did not come from the served district were generally not responsive to the community expectations and sometimes would wind-up without paying it local employees their wages. This state of affairs, though reportedly isolated, has led the served communities preferring local contractors that are part of them.

Annex 2: Production, Finance and Technology Project

Detailed Case Studies

2.1 Coverage

PROFIT is a five-year USAID project that began in June 2005. The project is implemented by the Cooperative League of USA (CLUSA)¹⁶ with the Emerging Market Group (EMG) as a subcontractor. CLUSA and EMG partnered to bid for the project though the contracted party is CLUSA. Therefore CLUSA is directly responsible to USAID for the contract and effectively manages the sub-contracts and agreements. The total finance for PROFIT is US\$17.5 million. Funding of the project was obligated in the bilateral Strategic Agreement for Economic Growth between the Zambian government and the government of the United States under USAID GRANT AGREEMENT NO: GR-611-005-G-04-0000. Funds are obligated in an incremental manner to the overall strategic objective and then committed to various activities such as PROFIT. CLUSA covers its overheads up to 15 of PROFIT funding while EMG can charge up to 5% of total funding as fees

The PROFIT project contributes to USAID's objective of increasing private sector competitiveness in agriculture and natural resources via increased access to markets, enhanced value-added production and service technologies, increased access to financial and business development services, and an improved enabling environment for enterprise grow

Specific objectives of PROFIT include the following:

- (a) Systematically increase the capacity of the private sector enterprise to provide enterprise development services to small-scale farmers in order to increase farmers' productivity and income.
- (b) Facilitate the upgrading of local development and markets to ensure scalability and sustainability and build capacity among Zambian public and private sector institutions and structures.
- (c) Address cross-cutting issues including HIV and AIDS and gender.

The Project works directly with targeted communities and the business sector. Initially, at implementation level, PROFIT programmes had no government involvement. With time, however, government started being involved, in an informal manner, through its extension workers. PROFIT works in the agricultural sector and focuses on the improvement of livelihood incomes of the targeted farmers. The project works through business facilitation largely through training of selected farmers in communities. These trained farmers become focal persons for training other farmers in their communities.

2.2 Operational Structure

The Project operates in Lusaka with regional offices in Choma, Kabwe, Mongu, Serenje and Solwezi. PROFIT works directly with the communities and the business sector. Overall, PROFIT interventions are private-sector driven. Initially the Project did not directly engage with the Zambian government. With time, however, the Government become involved through its extension workers. This relationship occurs at the community level with no memorandum of understanding with government at the national level.

2.3 Financing Arrangements and Approaches

According to USAID rules and regulations, there are largely two funding mechanisms. The first is assistance which is done through a cooperative agreement and the second is acquisition that is done through a contract. Sourcing under acquisition is restricted to the USA but it is generally open globally under cooperative agreement¹⁷. The PROFIT project falls under the assistance and cooperative agreement mechanism. When a project is procured under either of these two mechanisms, there are various USAID regulations and requirements that govern the implementation of the project. Among those regulations are audit guides, sourcing or origin rules, audit rules etc.

¹⁶ Before PROFIT there was another USAID project called Rural Group Businesses (RGB) that was also managed by CLUSA after a competitive process. Lessons learnt from RGB were used to design PROFIT but this does not imply that PROFIT is a continuation of the old project.

¹⁷ For details see 752 AIDAR on www.usaid.gov/policy/ads/300/aidar.pdf

2.4 Procurement Rules and Regulations

The process of procurement starts through USAID advertising for a project/programme. If a local Zambian organisation submits applications, then USAID local office does an assessment of the financial and personnel policy of the organisation. If not satisfied with the financial and personnel systems, USAID sets milestones for the organisation to meet. USAID asks for an audit if a local organization is applying for a project in excess of \$300 000. If a US organisation is involved, the audit is done centrally and available to the local office through a single database. The same guidelines which govern procurement at the international level are also used at the national level by PROFIT.

Apart from limiting procurement geographically from those countries restricted by USA foreign policy, there are many other restrictions. For example, under the special source rules requiring procurement from the USA (22 CFR 228.13), the following restrictions apply:

- (a) Agricultural commodities and products thereof must be procured in the USA if the US domestic price is less than parity in the aid receiving country.
- (b) Motor vehicles must be manufactured in the USA to be eligible for USAID financing. This requirement excludes industrial vehicles for materials handling and earthmoving such as lift trucks, tractors, graders, scrapers, off the-highway trucks (such as off-road dump trucks) and other vehicles that are not designed for travel at normal road speeds (40 kilometres per hour and above).
- (c) Pharmaceutical products must be manufactured in the United States in order to be eligible for USAID financing.
- (d) All air travel and shipments financed by USAID are supposed to be made on a US flag carrier.

Notwithstanding this, the National Contracting Officer should get approvals for the purchase of such equipment. An example of the key restrictions applicable to PROFIT includes the purchase of motor vehicles and air travel. On both these purchases it was found that within a day, PROFIT is able to get approval from the National Contracting Officer. Discussion with the PROFIT Chief of Party revealed that the approval process has been effective in ensuring that untying is effected at the country level and has helped to rationalize procurement of goods and services.

Ineligible commodities for USAID funding include military equipment, surveillance equipment, commodities and service for support of police and other law enforcement activities, abortion equipment and services, gambling equipment, luxury goods such as alcoholic beverages, equipment for and supplies of gambling, certain recreational supplies etc. In case of Zambia most of these commodities are not manufactured locally.

2.5 Procurement Practices

In response to USAID's request for applications (RFA), four organizations applied for PROFIT. These include Copperbelt University (Zambian), Kabompo Business Plan/World Irrigation Network-Zambia, ACDI/VOCA (USA organization) and CLUSA (USA). The RFA was advertised on two US government websites (www.grants.gov and www.fbo.gov). After an international competitive bidding process for PROFIT that was open to the free world (using USAID code 935¹⁸), CLUSA emerged as the winner. Two USA organisations are party to the cooperative agreement arrangement. Notwithstanding this, among all the personnel working under the project only one is American (the Grants and Finance Manager), which suggests that recruitment is not tied to American citizens. EMG provides technical support in the areas of finance and outgrower management and one of the long-term professionals on the project. All the other staff members are recruited locally.

Much of the work by PROFIT is undertaken through subcontracting specialist organizations to deliver certain services to its target communities. In this regard, PROFIT has made grants to local firms/organisations that include the Zambia National Farmers Union, Zambia Agricultural Marketing Exchange, Conservation Farming Unit and Afya Mzuri. They offer certain services from farmer training to sensitization on HIV and AIDS. The total amount of grants to various subcontracted organizations come to about 31 percent of the total. A US organization, Land O'Lakes is subcontracted to provide specialist dairy expertise and its grant accounts for 9 percent of the total PROFIT grant. The largest grant recipient is a Scandinavian firm ,NAIRAS, which also accounts for 9 percent of the total. The other local organizations together account for 12 percent of the total

¹⁸ This is a code which allows the procurement of goods and services from any country in the world except a foreign policy restricted country

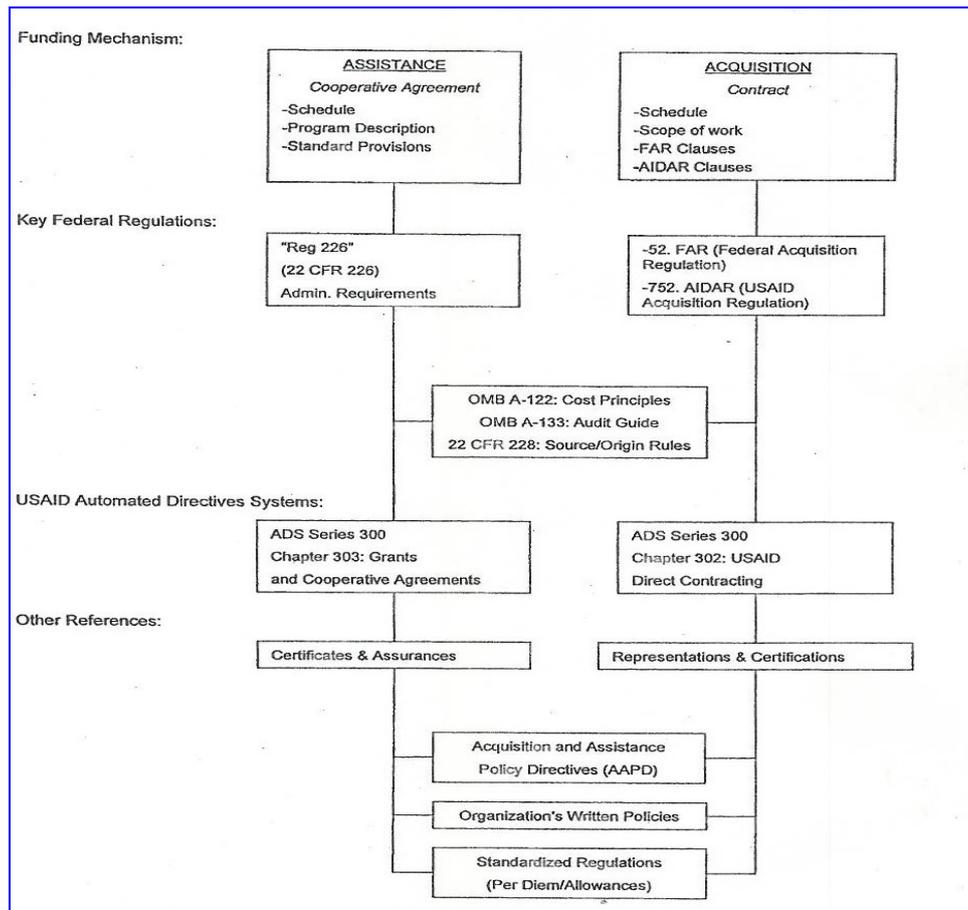
amount. PROFIT procured vehicles locally and sources dairy equipment from India after getting three quotations which were open for bidding internationally. The second table below shows the vehicles bought and their values. In terms of the employment, PROFIT has 20 employees most of whom are Zambians with some expatriates drawn from Ireland and Britain and the USA.

2.6 Effects

PROFIT works largely with the private sector and much of its work is carried through different subcontracted private sector organisations. The table below gives an outline of subcontracted organisations and what these are doing. Generally, subcontracted organisations are those with certain specialist organisations that deal with farmers in crop or livestock areas. These are largely Zambian farmer organizations or specialist organizations that offer certain services such as extension and market of inputs to farmers. What is clear is that there is one US organization while the remainder are non US organization. Sub granting is done on the basis of available expert organizations without necessarily following any bidding process.

| Contracted Organisation | What the organisation does | Amount US\$ |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Vgbdsa | To provide direct and indirect training (through farmer to farmer) on a large scale to upgrade smallholder farmer sustainable production capacity utilizing low input conservation farming technologies for hoe and ox farming practices, focusing on cotton as the primary commercial crop. An additional goal is to embed conservation farming skills and technology into the agricultural retail sector. | 663,065 |
| ABF (Zambian Organisation) | To provide a level of support to the Agribusiness Forum to establish itself as a industry think tank on matters pertaining to the engagement of smallholder farmers and producers in commercial high value or differentiated value chains within a Zambian context. The grant develops the capacity of the Forum to provide research and development, financial linkage and advocacy services to the contract farming sector. | 150,790 |
| Zambia National Farmers Union (ZNFU) (Zambian Organization) | To utilize the unique position of the ZNFU in the rural economy as a respected and strong advocacy body with the reputation for independence and lack of bias with a diverse membership base and large geographical footprint to fill a critical gap in the Zambian market for an organization independent of market interests that can provide elements of confidence, transparency and credibility to rural markets. Efforts are concentrated on: a) stimulating rural input and output markets through the establishment of commercially run trade fairs and livestock auctions, b) developing the capacity of the ZNFU to act as a mediator in regional and national disputes and building market confidence at the district level through market assurance mechanisms, c) supporting and enhancing the ZNFU's national SMS based price discovery system and developing local information brokerage capacity at District Farmers Association level | 319,000 |
| Forest Fruits (Zambian) | To develop incentives internal to the honey value chain for the adoption of improved honey production technologies and to test improved technologies at the processor level for increasing the extraction of wild honey and adding value to raw product through the development of high value products and markets. | 99,960 |
| Zambia Agriculture Commodity Exchange (Zambian organization) | To establish a commercially viable Agricultural Commodity Exchange, facilitating transparent, competitive and efficient marketing and trade in agricultural commodities in Zambian, regional and international markets, supported by a warehouse receipts and certification system to enhance market access, liquidity and credibility in the Zambian commodities market | 700,000 |
| Africonnect (Subsidiary of African organization) | To promote and demonstrate the benefits of pro-active marketing through mobile phone technology in the agricultural retail sector using Cropserve as a model and to demonstrate to farmers that cell phones can be key tools in their business. The grant aims to demonstrate the viability of an SMS marketing and information system in the agricultural inputs sector as a means to inform smallholder clients regarding on-farm practices, products and services. | 43,905 |
| Land O'Lakes (USA) | Under the PROFIT Dairy Industry Development Program, Land O'Lakes in partnership with ZDPA (Zambia Dairy Processors Association) focuses development resources on creating improved processing standards, dairy products and related services that are delivered through the value chain, resulting in the ability of the value chain actors to compete more competitively in local and export markets. | 1,550,000 |
| NIRAS - ScanAgri (Scandinavian Company) | Under the PROFIT Dairy Industry Development Program, NIRAS promotes growth, profitability and confidence in the Zambian dairy sector by using an industry value chain and market facilitation approach with the ultimate goal of a competitive and profitable Zambian dairy industry for the producers, processors and associated input supply companies within this sector. | 1,649,344 |
| ATI (African) | To establish a physical presence of the African Trade Insurance Agency (ATI) in Zambia in order to increase awareness within the Zambian export sector of ATI's risk mitigation and credit enhancement products and services. This physical presence will be achieved by placing an underwriter with a primary focus to increase the export sector and other stakeholders' awareness of ATI's products and services through nationwide promotional campaigns and networking. Other stakeholders include banks and insurance brokers. | 75,000 |
| Total | | 5,390 564 |

| Make | Model | Year | Purchase Date | USD |
|-----------------------|---------------------|------|---------------|-----------|
| MOTOR VEHICLES | | | | |
| Nissan | Hardbody J85 | 2005 | 05/06/2005 | 24 366.00 |
| Toyota | Corolla | 2000 | 01/02/2001 | 1 742.00 |
| Toyota | Corolla | 2000 | 01/02/2001 | 1 742.00 |
| Toyota | Landcruiser-S/Wagon | 2000 | 01/02/2001 | 3 547.00 |



It is difficult to attribute the positive impact of the project to untying as several other factors come to play. Notwithstanding this, the project has had a positive developmental effect on the served communities through its skills transfer. The following achievements are particularly noteworthy in this regard:

- (a) The Conversation Farming Unit has trained 200 trainers in the field of sustainable cotton production.
- (b) Dunavant Conservation Unit and financial service provider have been engaged to expand into cotton sector the availability of improved tillage technologies.
- (c) Forest Fruits has designed cutting-edge processing equipment for wild African honey. The result is increased smallholder yields in the area of processing honey from 350 to over 400 tons.
- (d) There has been engagement of Zambia's second largest honey exporter through financing an innovative revolving fund aimed at improved production technology.
- (e) 21 cattle production communities (48 000 heads of cattle) have been linked to veterinary doctors and companies to develop a herd health management plan that will ensure accountable and affordable treatment and disease control.
- (f) M-funds transfer system is being tested to determine the feasibility of electronic payment of cotton farmers.
- (g) The Project has facilitated 13 market research field days attended by 3,775 farmers. Field days supported by the Project have resulted in the purchase of inputs worth \$7,904 and the establishment of bulk buying mechanisms and stores in rural communities.
- (h) Over 150,000 individuals have been reached with community HIV and AIDS prevention programmes under the Project.

Regarding trade implications of untying, it is expected that untying would lead to regional trade is the case where PROFIT is in the process of aiding a Zambian company, Vetlab, procure laboratory equipment from South Africa for feedstock analysis. Currently, all feedstock is being analyzed in South Africa with turnaround times of two weeks. This initiative will make Zambia the centre of feedstock analysis for both central and eastern Africa. It is anticipated that the quality of feedstock will be improved, which will lead to exports of feedstock from Zambia.

Annex 3: Southern Province Water Supply and Sanitation Project

Detailed Case Studies

3.1 Coverage

The feasibility study for the Southern Province Water Supply and Sanitation Project was conducted in 1996 and in 1998, a financial agreement worth DM 27 million was signed between the Zambian and Germany Governments. This agreement covered 8 towns, excluding Livingstone. Later in 2000, an additional agreement for Livingstone worth DM 13 million was signed. The objective of the Project was to provide year-round, continuous, sufficient supply of hygienically safe drinking water for the majority of the population and for institutions, trade and commerce in the nine towns of Southern Province. Coverage included adequate sewage and human waste disposal services in the towns that have sewage systems. Better water supply and sewage disposal are to help reduce health risks.

The Project involved the repair of the existing water supply systems; expansion of the transmission networks in residential areas lacking supplies or lacking sufficient supplies of water; supply and installation of water meters for all house connections and standpipes; repair and replacement of existing sewerage systems and sewage ponds; supply of cleaning vehicles to empty the excrement pits in several Project areas as well as equipment for maintaining the pipelines; and construction of workshops and office buildings for the new water utility to be founded. It also included the supply of equipment, spare parts, and materials for repair work and limited expansion measures as well as for vehicles, emergency measures in those areas not covered by this Project phase. The Project also involved the supply of disadvantaged peripheral areas with water kiosks.

The Project was funded through Germany Financial Cooperation (FC) and required a small counterpart funding from the Zambian Government. Although the project was originally scheduled to commence in July 2000 and end by September 2003, the end period was extended to February 2009. These delays were due to:

- (a) modifications and extensions to the scope of works in the planning stage with additional funding (13 months)
- (b) temporary suspension of project implementation (12 months)
- (c) excessive tender prices received and subsequent retendering and change of implementation concept (24 months)
- (d) lengthy approval procedures and involvement of the Zambian Tender Board in all steps of tendering and contract award (7 months)
- (e) acquisition of additional funding to finance important works not included in the approved revised implementation concept (10 months)

3.2 Procurement Rules and Regulations

Financial cooperation projects under KfW generally require the project-executing agency to use the services of local or foreign consultants for preparation, execution and possibly operation. The project executing agency in the developing country is always responsible for the preparation, implementation and operation of all FC projects. It carries out the entire tender procedure, concluding the contracts and supervising their fulfilment as contracting party to the consultant. KfW ensures that the contracts are awarded on the basis of fair and transparent competition that is adequate and offers equal opportunities to all the bidders. In addition, KfW examines the tender documents, assessment reports, and proposals for the award of contracts, which must be presented to it as part of the tender procedure. The publication of the documents for pre selection and the tender as well as the selection of consultants always require the prior approval of KfW.

The procedure for the award of contracts for consultancy services takes the form of a public tender. The choice of consultants generally takes the form of pre-selection followed by tender. After submitting appropriate documents for pre-selection, a maximum of five applicants are picked. The pre-selection procedure is advertised in local and international media. Pre-selection requires the approval of KfW. After pre-selection, the project-executing agency will ask the preselected consultants to tender. According to the laid down KfW guidelines on selection of consultants, there appears to be no tying to Germany consulting firms.

In principle, supplies and services for projects financed from FC funds are to be procured by the contracting agency on the basis of international competitive bidding. Unless there are justified restrictions in individual cases, there are no restrictions regarding the bidder's country of domicile or the country of origin of supplies and services. During the awarding procedure the contracting agency is usually supported by an independent qualified consultant in the preparation of the bidding documents, the evaluation of the bids, the award of contract, the drafting of contract documents and contract negotiations.

In special situations, guidelines allow restrictions of procurement to Germany, the European Union or the recipient country. On the condition that KfW give its prior no-objection, a deviation from the principle of international competitive bidding is possible in specific cases. When competition is adequate the procurement process may be limited to enterprises domiciled in, for example, Germany or the EU, that conduct a significant portion of their business there and that do not resort to supplies or services from third countries to provide the supplies and services to be contracted. If adequate competition is expected and if it is likely that international enterprises will not take part in the bidding process because of the moderate size of the project, for logistical reasons or because of the low local price level, the bidding process may be restricted to the developing country in question. Limited competitive bidding, price quotations, multi-stage process, discretionary award and force account are the other types of procurements allowed in special circumstances.

The procurement notice must be published in Germany in the journal "*Nachrichten für Außenhandel*" and in the databases of the *Bundesagentur für Außenwirtschaft (bfa)* before or at the same time as its publication elsewhere. It is also supposed to be published in the recipient country using the requirements of that country. The guidelines also indicate that bidding documents of the IFI's can be used in the process of bidding.

3.3 Procurement Practice

The first stage is the procurement of a consultant for the project. The recipient government and KfW are expected to agree on the ToRs for the consultant. The bid documents are sent to both government and KfW who independently evaluate the bids. Finally, after approval from KfW, the consultant is engaged by the recipient government. After the consultant is engaged, the tender process for procurement of contractors is now done in collaboration with the project consultant in place of KfW. Bid evaluations would now be discussed with the consultant and not KfW.

Although the Southern Province Water Supply and Sanitation Project is supposed to be untied, in practice, much of the activities are handled by either the consultant or the main contractor who is of German origin. The German contractor, Pöyry, accounts for 21.7 percent of the project while a further 64 percent goes to a Germany contractor JR International. In the final analysis, over 85 percent of the total project money goes to Germany organizations. The remaining 15 percent is shared by 3 Zambian companies, one South African and one Chinese. The table below shows this clearly.

Regarding the sources of the goods and services, it is clear that most of the pipes, water meters and other fittings were procured from regional markets, largely from South Africa. Thus, procurement of goods and services appears to have been properly untied.

Southern Province Water Supply and Sanitation Project Procurements

| Subject | Entity | Amount € | % of Total | Country |
|--------------------------------------|---------------------|----------------------|---------------|--------------|
| Consulting Services | Pöyry/GKW | 2 988 737.74 | 14.91 | Germany |
| Test Drilling Fees Study | | 130 825.99 | 0.65 | Zambia |
| Well drilling | Getwell | 371 486.27 | 1.85 | |
| Dispo and Revolving Fund | Pöyry | 409 033.51 | 2.04 | Germany |
| Water Meter Fittings | GTZ-PAS | 10 225.84 | 0.05 | Germany |
| Water Meter Procurement | RACEC | 513 810.13 | 2.56 | Zambia |
| Water Meter installation | Miller Construction | 596 660.30 | 2.98 | Zambia |
| Livingstone Implementation | Jos Hansen&Söhne | Separate Agreement | | |
| Equipment Procurement | Pöyry/GKW | 727 600.00 | 3.63 | Germany |
| Southern Towns Implementation | Jos Hansen&Söhne | 11 986 000.00 | 59.78 | |
| Choma, Kalomo, Namwala, Sinazongwe | | | | |
| Civil Works Monze | China Jiangxi | 868 583.30 | 4.33 | China |
| Pipe and Equipment Procurement Monze | Mercury Intertrade | 348 051.87 | 1.74 | South Africa |
| Add Works Monze & Mazabuka | Jos Hansen&Söhne | 749 690.84 | 3.74 | Germany |
| Add Works Mazabuka | Jos Hansen & Söhne | 130 000.00 | 0.65 | Germany |
| Consulting Services | Pöyry/GKW | 217 897.61 | 1.09 | Germany |
| Total | | 20 048 603.40 | 100.00 | |

Source: Budget Review June 2008

3.4 Effects

The Southern Province Water Supply and Sanitation Project had very limited involvement of local companies. The only Zambian company involved was RACEC Zambia limited. No local companies were subcontracted. This means there was lack of incentives to engage local companies to be involved in the project. However to a lesser extent there was local capacity was only built through the involvement of local people who were employed. For example in Livingstone, SWSC has employed some less skilled and skilled workers that were previously employed by the contractor. The implementing agency of the project is MLGH. All procurements were done by MLGH in collaboration with KfW and the consultant. On other hand the utility company SWSC's main role was to inspect and ensure that the contractor was doing works according to agreed standards. The contractor was answerable to the consultant who was responsible for supervision of works. Due to this arrangement, SWSC had no control over the contractor in the field. SWSC had no powers to make decisions thereby having delays in making certain decisions. In this regard the best would be to engage the utility company as the main implementing agency.

3.5 Impact

According to SWSC, the Project was implemented very well and the quality of works was very good and appreciated very much by the utility company. However, the beneficiaries spoken to expressed concern with regard to the materials used. Their concern was that the PVC pipes used in most cases were inferior compared to the galvanized steel ones that were being replaced. In a way, this could be more of a perception than a reality. Moreover, community respondents also felt that there was poor workmanship with respect to the location of some of the piped laid as they feared they were exposed to damage from heavy moving vehicles or from due to exposure to the sun. It is evident that the poor communication between SWSC and the communities on the materials used resulted in expressions of concern on both the quality of the materials used and the workmanship. Generally, nevertheless, it was the community's view that the Project's works were good and have benefited them.

With respect to SWSC, the utility company showed keen interest in the Project and participated fully in its activities. The utility company also feels that there will be sustainability of the Project given that the revenue capacity of the company has been enhanced. In particular, the improvement in infrastructure has reduced water losses. In 2004, water losses were around 70 percent due to dilapidated infrastructure. Currently, water losses have been reduced to 40 percent. There has also been improvement in management, which has resulted in improved efficiency. In 2004, revenue collection was between 45 to 50 percent but as a result of the Project, there has been 100 percent collection. The improvement in revenue collection is also partly attributed to beneficiaries having the water supply for more hours and sensitisation by SWSC. The project also introduced the metering of water supply, which was at one point 100 percent in coverage. The coverage rate has dropped marginally though due to the expansion of water supply in the targeted communities. Furthermore, there has been noticeable improvement in sanitation in many places. For example, in Livingstone, Linda suburb used to have rivers of sewage but this is not the case anymore, thanks to the Project's interventions. In Freedom and Zambia compounds of Livingstone, there has been improved water supply and the prevalence of diarrheal diseases has gone down.

Community involvement in the project implementation was fairly significant at different levels. Apart from sensitizations through radio programmes and focused community level discussions, the Project, mainly through SWSC, engaged the community in the collection of information especially in the determination of the community willingness to pay for the services rendered by the Project. The communities were also involved in the location of kiosks. In low cost areas, communities were only sensitized through meetings and radio on water conservation and how to manage water and sewage facilities. This has helped with compliance and reduction of vandalism of water installations. Overall, it can be concluded that the Project had a short-term positive impact on the employment of local staff most of whom remained in the province to render services to the water utility. The Project also led to increased injection of income in the served province, which has long-term poverty-reducing effects. The price for rented houses also went up in the served areas, which translated into increased income for property owners. Various local businesses, especially those in the retail business, also saw an increase in volumes of businesses. However this benefit was short-lived. Immediately the contractor demobilized and left the Province, rentals reduced and the volumes of business declined too.

Lastly, due to untying, the Project facilitated improvement in regional trade since materials were sourced mainly from South Africa as well as from local suppliers. Japanese motor vehicles were also procured from/through South Africa. Some equipment and spares were bought from Germany to replace old German equipment. Generally the companies contracted in the Project employed local people especially for low skilled type of jobs. This helped to improve the local employment levels but this has been short-lived except in very few instances where former employees of the contractors have been retained by the supported utility company (SWSC).

Annex 4: Water Sector Performance Improvement Project

Detailed Case Studies

4.1 Coverage

The Water Sector Performance Improvement Project was launched in 2007 under a concessional loan agreement for US\$23 million with the World Bank. It was initially planned to be completed within three years but this was extended to 2012 with an additional injection of US\$10 million. The objective of the Project is to support the Government's on-going activities under the urban and rural water sector reforms. It aims to improve access to water services in Lusaka through support to the creation of a more comprehensive institutional structure which will support a more coordinated approach for investments by both the public and private sectors. This is supported through two approaches, namely,

- (a) Supporting modern management methods and introducing commercial initiatives in the Lusaka Water and Sewerage Company (LWSC) through Development Financing Agreement for Performance Enhancement (DFAPE)
- (b) Providing operational cost support so that, at the end of the project, LWSC can meet its operational cost from its revenues.
- (c) Financing small works that support the DFAPE to raise efficiency of operations in Lusaka as well as emergency works to increase bulk water production and to improve sewerage treatment capacity.

Under the second component, the World Bank gives support to the Ministry of Local Government and Housing (MLGH) through institutional support and capacity building to help pave way for a coordinated approach in the water supply sector. A key outcome of the LWSC support is to enhance efficiency and customer service, expand access, and grow its business to an improved financial position so that the utility company is able to graduate from public subsidies and become operationally self-sustaining. The outcome for support to MLGH is to ensure that an investment mechanism for RWSS is adopted by the Government, with clear guidelines on allocation and tracking system. The table below shows how the World Bank loan has been allocated for various uses.

Water Sector Performance Improvement Project (WSPIP) and Additional Financing (AF) Activities (in US\$ million)

| WSPIP | US\$ million | | Total |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|-------------|
| Component A: Support to LWSC | | | |
| Support to the implementation Development Finance Agreement for Performance Improvement | 12.0 | n/a | 12.0 |
| Rehabilitation works for bulk water production, repair of distribution systems, repair of sewer networks and plants and boreholes | 7.9 | 8.5 | 16.4 |
| Design and Implementation of human resource strategy | 2.0 | n/a | 2.0 |
| Support towards the restructuring of LWSC aimed at integrating the management of Additional Districts with LWSC's corporate structure Emergency goods and works | n/a | 1.5 | 1.5 |
| Subtotal | 21.9 | 10.0 | 31.9 |
| Component B: Support to MLGH | | | |
| Provision of Goods, TA and training | 1.1 | n/a | 1.1 |
| Total | 23.0 | 10.0 | 33.0 |

The additional US\$10 million extended to LWSC is meant to facilitate the utility company's provision of services to consumers in 3 districts of Lusaka, Kafue and Luangwa that are in Lusaka Province but outside Lusaka City. This extends the Project end year to 2012.

4.2 Procurement Rules and Regulations

As a multilateral creditor, the World Bank has no rules that limit the sourcing of goods and services to a particular region or country except where a country or region has UN restrictions. The main guiding principle for the application of World Bank funds is ensuring that funds are used in the most effective, accountable and transparent manner. The World Bank uses the same procurement rules in all its programmes.

According to World Bank guidelines, there are different thresholds for various types of procurements. Two types of thresholds are stipulated for World Bank funded projects. These are (a) thresholds for the World Bank to undertake prior review of a particular procurement; and (b) thresholds for when to use International Competitive Bidding (ICB) or National Competitive Bidding (NCB). Initially, the Project had set thresholds that have now been adjusted upwards with the general World Bank approach to use more of national systems of procurement. The old thresholds include provision that any works worth US\$500,000 and above should be contracted through an ICB while between US\$50,000 and less than US\$500,000 to use NCB while those that are less than US\$50,000 would qualify for shopping. Procurement for goods equal or greater than US\$200,000 would be procured under the ICB while that greater than or equal to US\$50,000 and less than us\$200,000 would qualify for NCB and less than US\$50,000 would be through shopping.

For consulting services, the thresholds are lower. For consultancy contracts equal to or above US\$100,000, the agent must use QCBS and all these contracts are subject to prior review by the World Bank. For contracts less than US\$100,000, the type of procurement used is CQS, LCS, QBS, FBS, SSS and all first contractors are subject to prior reviews. Less than US\$50,000 they use an IC method of procurement. To safeguard against corruption and ensure value for money, the World Bank undertakes prior reviews of large procurements and post reviews for less risky procurements that involve smaller values. From the Project document, for all consultancy procurements for US\$100,000, a prior review is to be undertaken by the World Bank to ensure that there is fairness, transparency and that the procurement committee had the right qualified personnel. For both works and goods, if the value of the procurement is above US\$200,000, then a prior review by the World Bank is mandatory.

In the new orientation, the World Bank intends to increase the use of national systems of procurement by increasing the prior review threshold and increase the ICB/NCB threshold. According to the World Bank Procurement Specialist, this is certainly a risk that the Bank is taking but it is done to ensure that procurement capacity in the Zambian Government is enhanced. The new thresholds for ICB/NCB are as follows:

- (a) Any procurement of works in excess of US\$3 million will use ICB while below that will use country systems.
- (b) Any procurement of goods in excess of US\$500,000 will use ICB while anything below uses national systems.
- (c) Any consultancies in excess of US\$200,000 should use ICB while below that uses national systems.

These new thresholds are significant compared to the old thresholds but the Project under review still uses the old thresholds.

4.3 Procurement Practice

During the time of project preparation, each implementation agency prepares a procurement plan where they identify goods, consultancies, services and works to be procured. The agencies use national procurement systems but with World Bank guidelines. The process is that when LWSC wants to contract for works, it prepares tender documents that are sent to the World Bank for a 'No Objection' approval. If this is given, the LWSC advertises in the UNDG and the local media and also sends adverts to local firms that do business with them. After the LWSC tender committee does evaluations, these are sent to the newly established Zambia Public Procurement Authority (ZPPA) and the World Bank. The World Bank should again give a 'No Objection' approval for the contract to be awarded. This procedure related to cases where a prior review is required. LWSC reported that it has no problem with this process in that it is done with minimal delays. However, the utility company reported that it would still prefer a more simplified framework similar to what bilateral donors use.

Regarding local suppliers, it appears that their capacity to participate in World Bank projects is limited. The World Bank reported having encountered some difficulties with the MLGH largely because the latter's staff members have insufficient skills in procurement processes. The multiplicity of procurement procedures of different donors supporting the Ministry has also introduces functional stress to the limited procurement personnel who must comply with different processes and procedures.

The World Bank loan is transferred to the Ministry of Finance and National Planning (MFNP) and an agreement is signed between that Ministry and the World Bank for onward channelling to the implementing agencies who in this case include MLGH and LWSC. Before the money is received by each of the implementing agencies, each recipient must prepare a separate account to which the money is deposited and to which the implementing agency has full drawing rights. So far, the Project has received 39 percent of the loan. The special account at LWSC has a float of US\$ 1 million and signatories to this account include MFNP.

Given the nature of procurement in the Project, there are three types of procurement undertaken. The table below shows the procurement of works. The table reveals that most of the procurement is through ICB. In the case of NCB, Zambian companies are involved in the procurement of works. While in the case of ICB, there are two cases where one Zambian company, RJR Zambia, has in one instance gone into a joint Venture with a South African Company. In another case, the same company went into partnership with a Germany company, JR international. A Chinese firm has also been involved in the ICB procurement.

Procurement of Works

| Description | Procurement Method | Estimated Amount (US\$'000) | Review | Supplier Name |
|-------------|--------------------|-----------------------------|--------|---------------|
| | | | | |

| | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------------------|-------|-----------------------------------------------------------------|
| Supply & install Bulk and Customer Meters | ICB | 2 871 129.80 | Prior | <i>Joint Venture: JR International (Germany) and RJR Zambia</i> |
| Kafue Water Works & Transmission Rehabilitation Including (Intake, Sedimentation basins and tanks, filtration system, chlorination system, high lift pumps, treatment plant instrumentation, and Kafue pipeline | ICB | 2 722 679.74 | Prior | <i>(JV)PSV Services & RJR Cons-South Africa and Zambia</i> |
| Borehole construction (including borehole development and exploration and construction of borehole compound and head works) | ICB | 1 470 590.00 | Prior | <i>Jiangxi Hauchang Infrastructure (China)</i> |
| Booster stations Rehabilitation | ICB | 721 171.00 | Prior | |
| Rehabilitation of Reservoirs and Water Distribution networks | NCB | 245 002.45 | Post | <i>Mango Trees Construction (Zambia)</i> |
| Sewer Networks and treatment plants Rehabilitation | ICB | 950 000.00 | Prior | |
| Refurbishment of 1 Area offices | NCB | 135 000.00 | Post | <i>M&S Aluminium (Zambia)</i> |
| Construction of 100 Water Kiosks | NCB | 220 000.00 | post | <i>Pozzolona Builders & Engineers (Zambia)</i> |
| Total Cost | | 9 335 572.99 | | |

Source: Procurement Status Report

The table below shows the procurement of goods. The table reveals the company contracted to procure goods and where these goods are procured from. While there are a number of Zambian local companies contracted to supply goods, none of the goods originated locally. In this respect, the Project has contributed to regional trade in that South Africa is the country of origin of a good number of the goods procured. Beyond regional trade, there has been a contribution to trade at the international level from such countries as the USA, Germany, Japan the UK, Italy, Israel, India, China and Thailand.

Procured Goods

| Description | Estimated Amount (US\$'000) | Procurement Method | Prior or Post Review | Supplier Name | Origin of Goods |
|----------------------------------------------------------------------|-----------------------------|--------------------|----------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Purchase of Computer and Office equipment | 365, 530.00 | ICB | Prior | Shreeji Investments (Zambia) | USA, U.K and South Africa |
| Purchase of Software and Imagery | 44 500.00 | Shopping | Post | Kelly & Kelly (Zambia) | U.S.A |
| Specialised leak detection & power factor correction equipment | 235 942.00 | ICB | Prior | Seba dynatonics (Germany) | Germany, U.S.A,U.K and Singapore |
| Specialised leak detection equipment for data base cleanup | 46 800.00 | Shopping | Prior | 1. Joh.Achelis (Germany) 2 Chamb Investments Zambia | Germany USA |
| GPS Survey equipment | 80 000.00 | NCB | Post | Optron Geomatics (South Africa) | South Africa |
| Specialised Water and Sewer Equipment | 446 682.00 | ICB | Prior | Tech Fab international pvt (India) | U.S.A and Italy |
| Purchase of Motor Vehicles | 783 200.00 | ICB | Prior | TATA (Zambia), GFS Ltd (Thailand), Honda (Zambia) | Thailand, India and Japan |
| Purchase of various pumps and valves | 783 200.00 | ICB | Prior | Techfab International (Lot 2 & 4) India | India |
| Purchase of fleet management software | 66 000.00 | Shopping | Post | Cellstop (Zambia) | South Africa |
| Purchase of water treatment chemicals | 600 000.00 | ICB | Prior | - Goodwill Holdings(Botswana) - Summerfield Inter (Zambia) - NCP South Africa - Tawinga Chemicals Zambia | South Africa, India |
| Supply and Install SCADA system and Radio equipment | 395 000.00 | ICB | Prior | Agmin Italy- Lot 1 & Mobitel Zambia -Lot 2 | Italy |
| Supply and delivery of Various Specialised Water and Sewer equipment | 368 682.00 | ICB | Prior | Techfab (Lot 2)-India Apollo (Lot 1&3)- India and | India and South Africa |
| | | | | Saro Agri Equipment (Lot 4) Zambia | |

| | | | | | |
|-------------------------------------------------------------|------------|-----|------|--------------------------------|-------------------------|
| Supply and Install Power Factor Correction Equipment | 100 000.00 | ICB | Post | | Germany |
| Supply and delivery of water network distribution materials | 161 000.00 | NCB | Post | Griffin Exports (South Africa) | South Africa and Israel |
| Purchase of Panel Vans | 100 000.00 | NCB | Post | CFAO Zambia | Japan |

Source: Procurement Status Report

Finally, the procurement of consultancy services is shown in the table below. Given the small nature of this type of procurement, almost all the consultancy services are offered by Zambian companies.

Consultancy Procurement

| Description | Selection method | Estimated Amount in US\$'000 | Prior/Post Review | Cons/Firm Name |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------------------|-------------------|----------------------------------|
| Consultancy Services to re-establish baseline survey | CQS | 15 000.00 | Post | Asco Consulting Engineers |
| Supervision of installation of customer and bulk meters | QCBS | 140 355.65 | Prior | Rankin Engineering Consultants |
| Human resources strategy | QCBS | 170 000.00 | Prior | |
| Supervision Emergency works | QCBS | 425 000.00 | Prior | Carl bro/Grontmij with V3 Zambia |
| Environmental officer | IC | 50 000.00 | Prior | Mr Jacob Chishiba |
| Improving Efficiency of the Sedmentation tanks and Filtration system at Iolanda treatment plant in Kafue | CQS | 49 500.00 | Prior | UNZA |
| Environmental Assessment of the Water Sector Performance Improvement Project (WSPIP) for Water Supply and Sanitation Services in 3 District Towns (Chongwe, Luangwa and Kafue) | SS | 90,000 | Prior | Norconsult |

Source: World Bank (Lusaka), Procurement Status Report

Discussions with respondents showed that the larger works are not taken up by Zambian firms largely due to certain conditions in the tender documents that make it practically difficult for local firms to participate in most ICBs. An example of stringent post qualification conditions that are seen generally to hinder the participation of most Zambian firms are as follows:

“Should have delivered at least two contracts of at least the same value in the last three years that have been successfully and substantially completed and that are similar to the proposed works. The similarity shall be based on the physical size, complexity, methods/technology or other characteristics as described in the Scope of Works. Evidence may be in the form of a statement from the employer/customer with copies of signed delivery notes”

“Submission of audited balance sheets or other financial statements acceptable to the Employer, for the last 5 years to demonstrate: (a) the current soundness of the applicant’s financial position and its prospective long term profitability; (b) capacity to have a cash flow amount of US\$335,000 equivalent”

It was generally felt that though there could be Zambian firms that are able to deliver the works satisfactorily, most are bared due to such conditions that specify a certain level of cash flow or a record of over five years of delivering similar works and yet, in most cases, these works are being undertaken in Zambia for the first time. In another post qualification condition, a firm must have turnover in excess of K3 billion for it to qualify for procurement of works. From the discussions, it was clear that there are local firms that would deliver similar works and have been used satisfactorily in works of a rather smaller magnitude elsewhere. Despite this, it is still possible, at least theoretically, for most of these Zambian firms to enter into joint ventures. But from the tables below, it is clear that joint ventures are a rare occurrence. In fact, it is only one Zambian firm that has gone into joint ventures with two firms on two separate projects.

4.4 Effects

Untying and use of local systems ensures that goods and services are procured in the most competitive manner. This should have cost effectiveness elements though not evaluated on this study. Although open bidding is used

in most cases, this has not lead to much competition among companies. It was observed that the same few companies continue to bid for projects. Even when some local companies are encouraged to apply, this does not lead to a wider pool of bids due to the restrictions presented above. This state of affairs has reduced the number of local players in the World Bank-funded Project under review.

4.5 Impact

The main outcome of the Project is to improve efficiencies of LWSC. In long-term, the benefit is improved health and well-being of the residents of Lusaka province resulting from improved access to safe water and sanitation. This would be achieved through improved water supply and sanitation. Since the project is still in its infancy it was not possible to get indicators related to impact. The other main goal of the Project is to improve efficiencies both in LWSC and MLGH. Again, it is still too early to conclude with certainty the impact of the Project at this level. It is true that with improved efficiency of these two organisations, there will be positive impact in terms of better service delivery. Since the Project is aimed at improving efficiencies in a sustainable way, it is anticipated that the benefits will be sustainable beyond the Project period.

Annex 5: Zambia National Procurement System

(Description and Brief Analysis)

5.1 Overview

Currently, Zambia's legislative framework for public procurement is based on the Public Procurement Act of 2008. Under the Act, the Zambia Public Procurement Authority's (ZPPA) main role is to regulate and have oversight over public procurement while actual procurement is undertaken by independent entities. According to the Act, ZPPA's specific responsibilities involve regulation, standards setting, compliance and performance monitoring, professional development and information management and dissemination in the field of public procurement. The Act also establishes tender committees and their composition in all Government ministries and departments and parastatal and statutory bodies. The tender committees are mandated to authorise the procurement of goods, works and services whose estimated cost is within the threshold of the respective institution.

The downside is that though the Zambia National Tender Board (ZNTB) has been transformed into ZPPA through an Act of Parliament, there are no new regulations and guidelines in place yet to ensure that the provisions of the new Act are effectively operationalised. A check at ZPPA revealed that guidelines and regulations are still being developed and no specific date was given when this will be completed and put in place. This raises the questions of what tendering guidelines and regulations are being used in the interim period before new ones are developed. This is of great concern particularly that the new ZPPA is only supposed to have oversight function and not actual procurement and tendering. Does it mean that even though the new law is in place separating the two functions, ZPPA will continue in the interim to conduct procurements and also have oversight of policy? This seems to contradict the spirit of the new law.

Under the Procurement Act, it is provided that procurement procedures should be transparent. Among the measures to ensure enhanced transparency and fair play is the requirement that a procuring entity notifies all the bidders of the best evaluated bid and value within seven days and for ten days after such notification no contract is signed. After the successful bidder signs a contract, the other bidders have to be informed within a short period of time that their bids were not successful and reasons are supposed to be given. Notwithstanding these measures, the image of public procurement in Zambia has recently been tainted by revelations of corruption scandals in the Ministry of Health where K27 billion (about US\$ 5 million) is alleged to have been siphoned illegally and these issues are currently before the courts of law. This has led certain donors threatening to withdraw financing to the ministry while others are of the view that use of general budget support and sector budget support puts the government at risk of losing donor funding when corruption cases are revealed. But another view is that when donors use more of the government procurement systems, this may lead to enhanced efforts by all concerned to curb corrupt practices and improve the capacity of public procurement.

The question of how corrupt practices in the government procurement system can be curtailed is a critical one, especially at this time when most donors are intending to use more of the government procurement system. The measures in the new Act to publish winning bids and to ensure that corrupt or inefficient contractors are blacklisted are good measures. But most importantly, corruption in public procurement will be reduced if the procurement rules, guidelines and regulations are not flouted particularly by controlling officers who wield power in these organisations. It is, therefore, important that there is political will for government and all concerned to ensure that the provisions of the new Act are implemented.

Delays attributed to the lengthy procurement process came out during discussions with some donors, especially those that prefer to use their own system of procurement and also in the KfW Urban Water Project in Southern Province where delays of up to 10 months were attributed to the lengthy procurement process. The views at ZPPA were, however, different. ZPPA views delays as a necessary part of the process to ensure that all procedures are followed. They argued that the average it would take to do a major procurement is seven months and the only way that this process can be viewed as a delay is when there is no procurement planning by government ministries and departments. Under the new Act, it is required that procurement plans be prepared well in advance. Preparation of procurement plans does help to handle the procurement functions in good time and this is what came out of the World Bank supported Project where the supported utility company (LWSC) has had no major delays attributed to procurement.

Discussions with procurement specialists outside the Government system reveal that one of the other weaknesses of the Zambian procurement system in its current form is that there are no standard bidding documents for procurement of goods, works and services. ZPPA has adopted World Bank bidding documents without orienting these to the local needs and situation. Most of these bidding documents are tailored towards large procurement which in most cases may not be appropriate in the Zambian case. This, in turn, disadvantages

most local contractors who do not understand fully these bidding documents. Although in the past four years, there has been a general move by most donors to use World Bank bidding documents, these need to be simplified in conformity with the type and magnitude of procurements locally.

A fairer, more transparent, accountable and efficient procurement system will no doubt encourage more donors to channel their funds through the government procurement system. This will, in turn, ensure that the process of untying leads to a mix of different modalities especially general budget support and sector budget support. The main consequence will be a situation where aid is more aligned with government programmes and government takes a lead in aid use. For now, however, what is needed is to ensure that the current procurement Act is implemented and capacity is built within entities to have qualified procurement personnel at all levels. ZPPA notes reported that most municipalities in the country have no qualified procurement personnel and yet councils are supposed to undertake procurements up to a certain threshold. Moreover, most government ministries have only one procurement person instead of the designated three. Due to good remuneration, parastatals generally possess adequate procurement personnel.

5.2 The Set-up of Zambia's Public Procurement System¹⁹

5.2.1 Main Functions

Among the key specific functions of the Zambia Public Procurement Authority's (ZPPA) are as follows:

- (a) Regulate the procurement of goods, works and services by procuring entities and ensure transparency and accountability in public procurement.
- (b) Monitor compliance of procuring entities.
- (c) Issue standard bidding documents and standard procurement documents.
- (d) Monitor execution of contracts entered into by the procuring entities.
- (e) Maintain a register of bidders and suppliers who are suspended or debarred from participating in public procurement.

5.2.2 Composition of Procuring Entities

Under the new law, a procurement entity will be composed of a controlling officer, a procurement committee, a procurement unit and user departments. Ensuring that all procurement of the entity is according to the procurement Act, the procurement committee will be made up of the controlling officer, four to eight other members and the head of the procurement committee.

5.2.3 Methods of Procurement (Options)

In the Procurement Act, several methods of procurement are allowed, including open bidding, open selection, limited bidding, limited selection, simplified bidding and direct bidding and force account. Open bidding and open selection is allowed to be done both at national and international level. Three criteria are used for open international competitive bidding (ICB) and open international selection. These happen when:

- (a) the estimated value of the procurement exceeds the prescribed threshold;
- (b) the goods, works or services are not available under competitive price and other conditions from at least three suppliers in Zambia; or
- (c) regional or international participation is required in accordance with an agreement entered into by the government

Otherwise, the procuring entities should conduct national competitive bidding (NCB). All the other bidding process do not distinguish between international and national bidding. Open bidding is used to ensure value for money and promote private sector participation through the maximum possible competition. When goods, works or services are only available from limited number of suppliers or there is an urgent need for consulting services and when engaging in open bidding would be impractical, then the procuring entity resorts to limited bidding. In a similar fashion, when consulting services are only available from limited number of suppliers or there is an urgent need for such services, then there is justification to use limited selection. When the procurement value does not exceed a prescribed threshold, the procurement entity is allowed to use simplified bidding.

Direct bidding under the Zambian Government procurement system is supposed to be used when a number of factors hold including:

¹⁹ This section relies heavily on the Public Procurement Act, 2008 and because tender guidelines and regulations for the new act are not yet out no thresholds are indicated to show the options available in a more practical manner.

- (a) The goods, works or consulting or non-consulting services are only available from a single source and no reasonable alternative or substitute exists.
- (b) Due to an emergency, there is an urgent need for the goods, works or services making it impractical to use other methods of procurement because of time involved in using these methods.
- (c) Additional goods, works or services must be procured from the same source because of the need for compatibility, standardization or continuity.
- (d) An existing contract could be extended for additional goods, works or services of a similar nature and no advantage could be obtained by further competition.
- (e) The estimated value of goods, works or services does not exceed a prescribed threshold.

5.3 Recommendations

From the analysis above, the following are recommended:

- (a) Government must ensure that procurement entities have adequate qualified procurement personnel at all levels especially in councils and government line ministries.
- (b) In a bid to strengthen local procurement systems, Government should ensure that capacity of procurement entities is enhanced through continued training of personnel in line with changing procurement trends.
- (c) To ensure minimal delays in programme implementation, government and donors should demand that procurement plans are part and parcel of project and budget design. This will ensure that enough time is allowed for the procurement process.
- (d) ZPPA should ensure that bidding documents being used locally are tailored towards the nature and size of procurements being undertaken. This should be done to ensure that participation of local contractors in ICB and NCB is enhanced.
- (e) Government, donors and other stakeholders must ensure that guidelines and regulations for the new procurement Act are put in place with minimum delay. This will enable procuring entities to put in effect the provisions of the new piece of legislation.

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Annex 7: List of People and Organisations Interviewed

| | Organisation | Position |
|--------------------------------------------------|-------------------------------------------|-------------------------------------------------------|
| Central Government | | |
| 1. Mr. Emmanuel Ngulube | Ministry of Finance and national Planning | Permanent Secretary |
| 2. Mr. Berlin Msiska | Ministry of Finance and National Planning | Permanent Secretary |
| 3. Paul Manda | Zambia Public Procurement Authority | Acting Deputy Director |
| 4. Mr Fred Sichilongo | MLGH | Principle Engineer- Urban Water Supply and Sanitation |
| Local Government | | |
| 5. Field Skanyika | Isoka District Council | Acting Council Secretary |
| 6. Mr Phiri | Mbala Municipal Council | Town Clerk |
| 7. MS Chungu | Mbala Municipal Council | Director- Planning |
| 8. Mr Enock Kandingo | Choma Municipal Council | Town Clerk |
| Commercial Utilities | | |
| 9. Jily Chiyombwe | Lusaka Water and Sewerage Company | Senior Engineer |
| 10. Sithabele Yankonde | Lusaka Water and Sewerage Company | Projects Accountant |
| 11. Chisulo Zimba | Lusaka Water and Sewerage Company | Senior buyer |
| 12. Margret Chinula | Lusaka Water and Sewerage Company | Purchasing manager |
| 13. Charles Shindaile | Southern Water and Sewerage Company | Technical manager |
| 14. Gift Moonde | Southern Water and Sewerage Company | Senior regional manager |
| 15. Oby Hangoma | Southern Water and Sewerage Company | worker |
| 16. Njamba Muyunda | Southern Water and Sewerage Company | worker |
| 17. Precious Simasiku | Southern Water and Sewerage Company | Community relations officer |
| Community Representatives / Beneficiaries | | |
| 18. Kennedy Mukuma | Choma Residents Association | Choma Residents Chairperson |
| 19. A Matongo | Macha main road location | Community representative |
| 20. Brenda Kapilingo | Macha main road location | Community representative |
| 21. Mudenda Amos | Macha main road location | Community representative |
| 22. Pamela Mumbi Tembo | Shampande | Community representative |
| Donor Organisations | | |
| Laurie Rodgers | Canadian High Commission | First Secretary - Development |
| 23. Opa Kapijimpanga | Canadian High Commission | Director- Zambia-Canada PSU |
| 24. Francesca DI MAURO | European Union | Counsellor- Head of Mission |
| 25. Mr. Gerry Cunningham | Irish Aid | |
| 26. Mr. Muya Mundia | Irish Aid | Advisor |
| 27. Mr. David Mwamba | Irish Aid | Advisor |
| 28. Mr. Mwape Chalwandya | Irish Aid | Advisor |
| 29. Toshihiko Horiuchi | Japanese Embassy | Minister-Counsellor |
| 30. Kaoru Tsurita | Japanese Embassy | Counsellor |
| 31. Kaori Ishiguro | Japanese Embassy | Coordinator, Economic Cooperation |
| 32. Ryoichiro Mochizuka | Japanese Embassy | Economic Attaché |
| 33. Yuki Shibuya | JICA | Assistant Resident Representative |
| 34. Philip Graf von Schwerin | KfW | Director |
| 35. Seti Misale | KfW | |
| 36. Henny Gerner | Netherlands Embassy | First Secretary |
| 37. Mark Wood | PROFIT | Chief of Party |
| 38. Karin Sverken | Swedish Embassy | Deputy Country Director |
| 39. Melissa Williams | USAID | Mission Director |
| 40. Jim N. Barnhart | USAID | General Development Officer |
| 41. Adam Jung | USAID | Program Officer |
| 42. Micheal McCord | USAID | Supervisory Program Officer |
| 43. Giness Mumba | USAID | Senior Program Budget Specialist |
| 44. Stella N. Mutale | USAID | Program Economist |
| 45. Joseph Chisoni Tembo | USAID | Senior Acquisition Specialist |
| 46. Helen Mbao | World Bank | |
| 47. Barbra Senkwe | World Bank | Water Specialist |
| 48. Cecil Nondwe | World Bank | |
| 49. Wedex Ilunga | World Bank | Procurement Specialist |