
President's report

Proposed loan

Republic of Zambia

**Financial Inclusion for Resilience and Innovation
Project (FIRIP)**

Addendum

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Addendum

The Executive Board is hereby invited to consider the amendments to document EB 2024/143/R.5. The changes to the document are reflected as follows: deleted text with strikethrough, added text underlined.

Page 6, table 1:

Table 1
Project costs by component and subcomponent and financier
(Thousands of United States dollars)

<i>Component/subcomponent</i>	<i>IFAD</i>		<i>Strategic partners</i>		<i>Private sector</i>		<i>Beneficiaries</i>		<i>Borrower/ recipient</i>		<i>Financing gap</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Improved availability and uptake of sustainable client-centric rural financial services														
1.1. Innovative financial products and delivery mechanisms for inclusive rural outreach	4 027 2 175	9 18			4 041	34			22	0.2	6 745 5 597	57 47	11 835	24
1.2. Increased access to affordable finance for agriculture and green investment	3 462 3 928	13 15			8 325	31	5 000	19	719	3	9 320 8 854	35 47	26 826	54
2. Enhanced enabling environment for inclusive rural financial services	1 944 752	49 19	300	8					235	6	1 514 2 700	38 68	3 987	8
3. Project coordination and implementation, monitoring and evaluation, and knowledge management	2 470 2 046	34 28							1 224	17	3 524 3 948	49 55	7 218	15
Total	8 900	18	300	1	12 366	25	5 000	10	2 200	4	21 100	42	49 866	100

Page 6, table 2:

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

Expenditure category	IFAD		Strategic partners		Private sector		Beneficiaries		Borrower/recipient		Financing gap		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Investment costs														
1. Technical Assistance	2 313 929	55 22			450	11			443	11	1 024 2 408	24 57	4 229	9
2. Training	587 307	77 40									176 456	23 60	763	2
3. Goods, services and inputs	1 551 844	29 16	300	6					227	4	3 211 3 918	64 74	5 289	11
4. Equipment and vehicles	426 420	86 85							66	13	5 10	4 2	497 496	1
5. IOF window grant	394 1 081	6 17			2 691	43					3 428 2 438	50 39	6 210	13
Community-based financial institutions window grant	360 908	8 20			900	20					3 240 2 693	72 60	4 500	9
7. Lines of credit	2 039 3 178	9 14			8 325	36	5 000	22	500	2	7 436 5 997	34 26	23 000	46
Total investment costs	7 667 7 666	17	300	1	12 366	28	5 000	11	1 236	3	17 919	40	44 488	89
Recurrent costs														
1. Salaries and allowances	1 018 1 016	24							648 646	15	2 655 2 648	61	4 321 4 310	9
2. Operating costs	215 218	20							316 317	30	526 533	50	1 057 1 069	2
Total recurrent costs	1 233 1 234	23							964	18	3 181	59	5 378 5 379	11
Total	8 900	18	300	1	12 366	25	5 000	10	2 200	4	21 100	42	49 866	100

Page 7, table 3:

Table 3
Project costs by component and subcomponent and project year
 (Thousands of United States dollars)

<i>Component/subcomponent</i>	<i>2025</i>	<i>2026</i>	<i>2027</i>	<i>2028</i>	<i>2029</i>	<i>2030</i>	<i>2031</i>	<i>Total</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
1. Improved availability and uptake of sustainable client-centric rural financial services								
1.1. Innovative products and delivery mechanisms for inclusive rural outreach		4 374 <u>1 373</u>	2 513	2 500	2 500	1 810	1 140	11 835
1.2. Increased access to affordable finance for agriculture and green investment		5 452	5 648	5 661	5 675	3 688	704 <u>702</u>	26 826
2. Enhanced enabling environment for inclusive rural financial services		843	1 049	716	589	562	227	3 987
3. Project coordination and management, monitoring and evaluation, and knowledge management	674	4 284 <u>1 282</u>	1 011	1 071	1 049 <u>1 048</u>	1 044 <u>1 042</u>	1 089 <u>1 091</u>	7 218
Total	674	8 954 <u>8 950</u>	10 222 <u>10 221</u>	9 949 <u>9 948</u>	9 812 <u>7 101</u>	7 102 <u>3 158</u>	3 160 <u>3 160</u>	49 866

Page 8–9, paragraph 28:

"FIRIP faces several risks, ranging from political commitment to financial management and procurement. As noted in table 4 below, ~~except for financial management and procurement, which are rated as having substantial risk,~~ the project's inherent risk rating is ~~moderate~~ substantial at design."

Table 4

Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Political commitment	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>
Sector strategies and policies	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>
Environment and climate context	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>
Project scope	Moderate	Moderate
Institutional capacity for implementation and sustainability	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>
Financial management	Substantial	Substantial
Project procurement	Substantial	Substantial
Environment, social and climate impact	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>
Stakeholders	Moderate	Moderate
Overall	Moderate <u>Substantial</u>	Moderate <u>Substantial</u>

Page 9, paragraph 31:

"FIRIP's climate risk classification is ~~moderate~~ substantial. Zambia faces significant challenges due to its high vulnerability score and low readiness score, ranking fifty-sixth in vulnerability and 141st in readiness according to the Notre Dame Global Adaptation Index. In early March 2024, the President of Zambia declared the drought a national disaster and emergency in response to the devastating consequences of prolonged dry spells affecting more than 1 million farming households across 84 of the country's 116 districts. The drought has impacted food production, water availability and energy supply."

Page 10, paragraph 34:

"~~Programme~~**Project oversight**. The project steering committee, chaired by the Permanent Secretary, ~~Budget and Economic Affairs~~ Economic Management and Finance of MoFNP, will oversee and guide implementation. The steering committee will have relevant representation at national level and ensure oversight, policy direction and coordination between key government institutions."

Page 14, Appendix III:

Project organization and staffing	Substantial	Substantial
Risk(s): The availability of Licensed Practicing Accountant (LPAs) is evidenced by the recently closed project (RUFEP) which well qualified accounting staff. This shows that the country has a sufficient pool of accounting professionals from which project FM staff can be recruited. <u>However, serious capacity issues were noted among the Finance Team of the current project E-SLIP who have been seconded from the government.</u> The current and past projects have had dedicated finance staff. There is a risk that staff recruitment will be delayed which may affect project implementation. Additionally, recruited staff are unlikely to have solid understanding of IFAD financial management procedures, including the new report-based disbursement model.		

Page 15, Appendix III:

Project budgeting	Substantial	Substantial
Mitigations: The LPA will ensure that PSC is set up within the first six months of project start-up. Preparation of AWPBs should strictly follow the IFAD guidelines, including submission for review and No Objection 60 days before the start of the fiscal year. <u>Signing of MoUs with key implementing partners as a condition precedent to withdrawal of the first disbursement.</u>		
Project funds flow/disbursement arrangements	Substantial	Substantial
Mitigations: Signing of MoU for the credit guarantee scheme with the relevant within the first six months of entry into force. Inclusion of co-financing in the annual work plans and budgets, clearly mapped to specific activities to enhance accountability. <u>With the support of FMD, develop tools during the start-up phase to capture and account for all counterpart contributions, including taxes, duties, salaries for counterpart staff at national and sub-national levels, in-kind contributions by government and beneficiaries. Submit quarterly financial progress report on counterpart funds to FMD.</u>		

Page 15-16, Appendix III:

Project accounting and financial reporting	Substantial	Moderate Substantial
Risk(s): Efforts to have the previous project (RUFEP) serve as a pilot for the government accounting system (IFMIS) did not materialise. The system is not tailored for IFAD financial reporting requirements and therefore could impede effective financial accounting of the project, especially due to the complex nature of the project structure. Hence, <u>previous projects acquired SAGE accounting software but continued to prepare reports in Excel because the tool was not customized to IFAD reporting requirements. Our review of the 2023 latest audited financial statements (E-SLIP project) identified significant discrepancies between the financial statements and the accounting software records.</u>		
Mitigations: Install Early acquisition and customization of an off-the-shelf accounting software within the first six months of project entry into force. The system should be tailored to generate financial reports, including interim financial reports in the required format (by category and components of expenditure, and by source of funds).		
Project external audit	Moderate	Moderate
Risk(s): The country's SAI is an independent body reporting to the Zambia parliament and has the relevant structures and capacity to undertake the project external audit. The SAI has experience conducting external audits of the previous IFAD financed projects in the country. However, the most recent PEFA assessment (2016) questioned the independence of the <u>Supreme Audit Institution because its appointment process (appointed by President) and financial autonomy (SAI's budget is approved by Parliament within the ceiling given by the MoF).</u> Further the quality of the latest audit conducted by SAI (E-SLIP project) was rated 3-moderately unsatisfactory because not all <u>audit TORs were complied with and a number of errors and incoherences were noted in audited financial statements. These audits are conducted in accordance with ISSAIs, globally accepted standards, with quality ranging between moderately</u>		

<p>satisfactory to satisfactory. FMD shall provide adequate capacity building to SAI around IFAD audit requirements. There is a risk that financial and partners institutions (PFSPs) are not equipped with adequate financial controls and lack proper understanding of IFAD finance procedures.</p>		
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Page 16, Appendix III:

<p>Environment, social and climate impact</p>	<p>Substantial</p>	<p>ModerateSubstantial</p>
<p>Biodiversity conservation</p>	<p>LowModerate</p>	<p>LowModerate</p>