Investing in rural people

Executive Board
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President's report
Proposed loan
Republic of Zambia
Financial Inclusion for Resilience and Innovation Project (FIRIP)

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 55.

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Map of the project area

IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 25-06-2024

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Zambia
Executing agency:	Ministry of Finance and National Planning
Total project cost:	US$49.87 million
Amount of IFAD loan [performance-based allocation system]:	US$8.90 million
Terms of IFAD loan:	Highly concessional: 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum in US$ (adjustments for single-currency loans)
Cofinanciers:	Private sector, strategic partners (to be determined)
Amount of cofinancing:	Private sector: US$12.3 million Strategic partners: US$0.3 million
Terms of cofinancing:	Cash, parallel cofinancing in the form of a loan
Contribution of borrower/recipient:	US$2.2 million
Contribution of beneficiaries:	US$5 million
Financing gap:	US$21.1 million
Amount of IFAD climate finance:	US$12.9 million
Cooperating institution:	Directly supervised by IFAD

I. Context

A. National context and rationale for IFAD involvement

National context

1. **Political, economic and social context.** Zambia has been recovering from a period of slow economic growth (2015–2018), triggered by high inflation, rapid public debt increase, low copper prices, and El Niño-related drought resulting in poor harvests. Inflation has gradually declined from 22 to 10.9 per cent between 2021 and 2023,[1] while GDP grew by 5.8 per cent in 2023, reaching US$28.16 billion and US$1,369 GNI per capita. The country's economy remains overly dependent on copper for tax revenue and foreign currency reserves.

2. Macroeconomic instability has impacted the financial sector, in particular the availability and costs of funding to the private sector, including agriculture. Driven by fiscal deficits, government borrowing has crowded out lending to the productive sector, which received only 27.7 per cent of total lending in 2022.[2] The share of private sector credit of GDP was just 10 per cent, against a sub-Saharan average of 34.5 per cent.[3]

3. **Poverty, food insecurity and smallholder agriculture.** In 2023, Zambia had a Human Development Index (HDI) of 0.559, ranking 153rd out of 193 countries.[4] The country struggles with high levels of poverty and inequality, with 60 per cent of the population living below the poverty line and a Gini index 51.2 in 2022. Rural poverty has increased slightly, from 76.6 per cent in 2015 to 78.8 per cent in 2022, 2.5 times higher than urban poverty (31.9 per cent). Food insecurity and malnutrition remain high: 31 per cent of the population is undernourished and a similar percentage of children under 5 years of age suffer from stunting. Agriculture remains the primary source of livelihood for 2.3 million rural households,[5] including 1.65 million rural smallholders.[6]

4. **National strategic framework.** Zambia's Eighth National Development Plan (8NDP) (2022–2026) identifies agriculture diversification as a key driver for economic transformation and job creation.[7] Other strategies include the National Financial Inclusion Strategy II (NFIS II) (2024), the Comprehensive Agriculture Transformation Programme (CATSP) (2024–2033), the National Adaptation Plan (2023), and the national policies on gender (2023), youth (2024), and micro, small and medium-sized enterprise (MSME) development (2023).

Special aspects relating to IFAD's corporate mainstreaming priorities

5. In line with IFAD's mainstreaming commitments, the project has been validated as:

☒ Including climate finance

☒ Gender-transformational

☒ Youth-sensitive

☒ Including adaptive capacity

6. **Gender.** Women make up over 50 per cent of the population in Zambia and 27 per cent of all households are headed by women. Although women account for about half of the workers in agriculture, most of them participate as family workers

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[1] World Bank Group, *Zambia Data*.
[2] Bank of Zambia, *Annual Report* (2023).
[3] https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?locations=ZG accessed on 28 July 2024.
[4] UNDP Zambia, accessed 27 August 2024.
[5] Zambia Statistics Agency (ZAMSTAT), *Census of Population and Housing* (2022).
[6] According to ZAMSTAT 2022 Poverty Assessment in Zambia.
[7] https://www.sh.gov.zm/wp-content/uploads/2022/09/EIGHTH-NATIONAL-DEVELOPMENT-PLAN-2022-2026-05-07-2022.pdf - pages 28 and 34.

or are engaged in informal and seasonal activities that challenge economic and financial stability.

7. **Youth.** Young people – aged between 19 and 34 – account for 26.7 per cent of the population (2.67 million women and 2.69 million men). Although they account for 56.2 per cent of the total labour force and constitute a key part of Zambia's society, they face considerable socioeconomic challenges, such as: (i) limited access to education; (ii) insufficient skills to access decent job opportunities; and (iii) high levels of unemployment. In addition, there is a negative sociocultural perception of youth (especially in rural settings), who are often regarded as transient/unreliable, lazy, irresponsible and not creditworthy.

8. **Building adaptive capacity.** Zambia also faces recurrent and severe climate shocks such as seasonal flash floods, droughts, extreme temperatures, and wet and dry spells, which pose serious threats to food security and livelihoods and lead to frequent power cuts.

Rationale for IFAD involvement

9. The challenges of financial inclusion in rural Zambia remain significant, despite some progress in recent years. Access to financial services has expanded rapidly in urban areas but rural regions have been left behind, with financial inclusion rising only slightly – from 50.1 to 56.9 per cent – between 2015 and 2020. This widening gap underscores the systemic barriers that rural groups face in accessing credit, savings and insurance products. Although smallholder farmers make up a significant portion of the rural population, just 0.5 per cent of them accessed formal agricultural credit in 2023, and 40 per cent remain financially excluded altogether. Rural MSMEs face similar barriers, with just 6.5 per cent having a bank account and less than 8 per cent seeking formal loans between 2017 and 2022.

10. These rural challenges are further compounded by the increasing frequency of climate-related shocks such as droughts and floods, which threaten the livelihoods of the 60 per cent of the population who are dependent on agriculture. Rural households are also vulnerable to risks related to markets and macroeconomic instability. Social inequalities affecting access to land, labour and markets disproportionately affect women and youth, whose potential for contributing to Zambia's development remains severely under-realized. Moreover, issues like gender-based violence continue to hinder women's full economic participation, with 52 per cent of women reporting experiences of physical violence. These intersecting challenges highlight the urgency for IFAD's intervention through the Financial Inclusion for Resilience and Innovation Project (FIRIP), which seeks to promote financial inclusion as a pathway to resilience, empowerment and economic growth for rural communities.[8]

B. Lessons learned

11. FIRIP builds on lessons from the Rural Finance Expansion Programme (RUFEP), other rural finance operations and other types of projects in Zambia, as well as from the recently concluded project cluster evaluation on rural finance in the East and Southern Africa region. These include:

- Building access points for first-generation digital financial services through agent networks and mobile money can foster rapid progress in financial inclusion, especially in rural areas with no or limited presence of formal financial service providers (FSPs). It also prepares the ground for more client-centric, second-generation financial services responding to specific needs of target groups.
- Generic digital financial services based on mobile banking are not responsive to many of the specific needs of different rural groups, often leading to low account usage. Client-centric financial services and delivery mechanisms that are tailored

[8] World Bank, *Promoting Skills Development for Youth in Zambia* (2023).

to the needs of smallholders, women and youth and the requirements of specific sectors and purposes such as agriculture, climate-smart and green technologies can address this gap. Developing and rolling out such services is expensive and risky for private FSPs.

II. Project description

A. Objectives, geographical area of intervention and target groups

12. The project's development objective is to improve access to and use of financial services to strengthen the resilience and green growth of rural production systems, value chains and livelihoods of rural poor men, women and youth. FIRIP aligns with IFAD's 2016–2025 Strategic Framework, the mainstreaming priorities and the 2019–2024 country strategic opportunities programme (COSOP), which emphasizes rural development, financial inclusion, climate adaptation and sustainable livelihoods.

13. **Project area.** FIRIP will focus on underserved rural areas nationwide, to be identified through a demand-driven process guided by clear selection criteria and cost-sharing arrangements. The expansion of formal financial access points will be realized through an innovation and outreach facility (IOF). Three different windows will be created. Window 1 will focus on financially excluded rural districts to be identified in collaboration with the Bank of Zambia and the Zambia Information and Communications Technology Authority at project start. Client-centric financial services for agriculture, rural MSMEs, greening and climate resilience (under IOF windows 2 and 3, Blended Finance Facility) will be rolled out in poor rural areas with basic financial and economic infrastructure and services in place, and where demand and absorption capacity for financial services exist.

14. **Target group.** FIRIP's outreach includes 370,110 beneficiaries through improved access to financial services and employment generated, specifically 315,511 through access to financial services and 54,599 through jobs creation (excluding beneficiaries of both). With an average household size of five, the total number of beneficiary household members is 1,850,550 (16 per cent of all rural households).

15. FIRIP will use a menu of identified targeting measures to ensure that project investments and services promote sustainable financial inclusion in rural areas, resilience, poverty reduction and food security for poor and excluded groups such as smallholders, women, youth, persons with disabilities, persons living with HIV/AIDS and other vulnerable groups.

B. Components, outcomes and activities

16. The project will have the following components and subcomponents:

Component 1: Improved availability and uptake of sustainable client-centric rural financial services.

- Subcomponent 1.1: Innovative products and delivery mechanisms for inclusive rural outreach.
- Subcomponent 1.2: Increased access to affordable finance for agriculture and green investment.

Component 2: Enhanced enabling environment for inclusive rural financial services.

Component 3: Project coordination and management, monitoring and evaluation, and knowledge management.

C. Theory of change

17. FIRIP targets vulnerable rural men, women and youth who face significant challenges related to climate change, health crises and weak integration into markets and value chains. Agriculture is their primary source of income, often supplemented by off-farm activities. However, financial inclusion in rural areas remains low, with many regions lacking formal financial access points. The available financial services often fail to meet the specific needs of agriculture, climate adaptation and groups such as smallholders, women and youth. This lack of client-centric financial services limits their ability to manage risks, invest in economic activities and adopt climate-smart technologies. Underlying issues include limited rural financial service penetration, high costs of finance, low capacity of FSPs to offer relevant products, financial illiteracy, and an inadequate policy environment for inclusive rural finance.

18. FIRIP aims to address these challenges by building the capacity of FSPs to extend their rural outreach and offer tailored financial products. Through the IOF, FIRIP will support FSPs in developing and rolling out innovative financial services, particularly for agriculture and climate-smart investments, while reducing costs for end-users. A Blended Finance Facility will also be established to leverage additional private funds and lower interest rates for rural people. To ensure that these financial services are used effectively, the project will enhance financial and digital literacy, focusing on women, youth and smallholders, while promoting business skills and green technology adoption.

D. Alignment, ownership and partnerships

19. FIRIP will contribute to Sustainable Development Goals 1, 2, 5, 8 and 13. In addition, it is in line with the IFAD Strategic Framework, the mainstreaming priorities and the 2019–2024 COSOP in emphasizing rural development, financial inclusion, climate adaptation and sustainable livelihoods. The project also complies with IFAD's policies and strategies on inclusive rural finance (2021), poverty targeting (2023), gender equality and women's empowerment (2021), private sector (2011), environment and climate change (2019–2025), and the Social, Environmental and Climate Assessment Procedures (SECAP) (2021).

20. The project fully aligns with Zambia's 8NDP and Vision 2030 agenda, supporting programmes in agriculture and productivity enhancement, value addition, financial inclusion, digital capacity, MSME development, green growth and climate resilience. It supports key national strategies, such as: (i) the NFIS II, 2024–2028 focusing on rural financial inclusion, support for agriculture and small businesses, reaching underserved groups, and promoting green financing; (ii) the National Agriculture Policy (2012–2030) and related investment plan (CATSP) (2022–2026) and the Sustainable Financing Facility (SAFF) launched in 2023; (iii) the Revised National MSME Development Policy (2023); (iv) the National Gender Policy (2023); (v) Zambia's Employment Act (2019); (vi) the National Youth Policy (2024); (vii) the National Adaptation Plan for Zambia (2023); (viii) National Green Growth Strategy 2024–2030; (ix) Updated National Determined Contributions (2021); and (x) National Policy on Climate Change (2016).

E. Costs, benefits and financing

21. The financing gap of US$21.1 million may be sourced through subsequent performance-based allocation system cycles and/or through the Borrowed Resource Access Mechanism (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation.

22. Project components 1 and 2 are partially counted as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance is

estimated as US$12.9 million or 43 per cent of financing, thereby meeting the climate finance target under Twelfth Replenishment of IFAD’s Resources (IFAD12).

Project costs

23. The total cost of FIRIP, including base costs and price contingencies, is estimated at US$49.8 million. Investment costs are estimated at US$43.7 million (89 per cent of base costs), and recurrent costs at US$5.2 million (11 per cent of base costs). Price contingencies have been estimated at US$0.9 million.

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

	IFAD		Strategic partners		Private sector		Beneficiaries		Borrower/ recipient		Financing gap		Total	
Component/subcomponent	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Improved availability and uptake of sustainable client-centric rural financial services														
1.1. Innovative financial products and delivery mechanisms for inclusive rural outreach	1 027	9			4 041	34			22	0.2	6 745	57	11 835	24
1.2. Increased access to affordable finance for agriculture and green investment	3 462	13			8 325	31	5 000	19	719	3	9 320	35	26 826	54
2. Enhanced enabling environment for inclusive rural financial services	1 941	49	300	8					235	6	1 511	38	3 987	8
3. Project coordination and implementation, monitoring and evaluation, and knowledge management	2 470	34							1 224	17	3 524	49	7 218	15
Total	**8 900**	**18**	**300**	**1**	**12 366**	**25**	**5 000**	**10**	**2 200**	**4**	**21 100**	**42**	**49 866**	**100**

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

	IFAD		Strategic partners		Private sector		Beneficiaries		Borrower/ recipient		Financing gap		Total	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
Investment costs														
1. Technical Assistance	2 313	55			450	11			443	11	1 024	24	4 229	9
2. Training	587	77									176	23	763	2
3. Goods, services and inputs	1 551	29	300	6					227	4	3 211	61	5 289	11
4. Equipment and vehicles	426	86							66	13	5	1	497	1
5. IOF window grant	391	6			2 691	43					3 128	50	6 210	13
6. Community-based financial institutions window grant	360	8			900	20					3 240	72	4 500	9
7. Lines of credit	2 039	9			8 325	36	5 000	22	500	2	7 136	31	23 000	46
Total investment costs	**7 667**	**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	24							648	15	2 655	61	4 321	9
2. Operating costs	215	20							316	30	526	50	1 057	2
Total recurrent costs	**1 233**	**23**							**964**	**18**	**3 181**	**59**	**5 378**	**11**
Total	**8 900**	**18**	**300**	**1**	**12 366**	**25**	**5 000**	**10**	**2 200**	**4**	**21 100**	**42**	**49 866**	**100**

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

	2025	*2026*	*2027*	*2028*	*2029*	*2030*	*2031*	*Total*
Component/subcomponent	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*
1. Improved availability and uptake of sustainable client-centric rural financial services								
1.1. Innovative products and delivery mechanisms for inclusive rural outreach		1 371	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	701	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	1 284	1 011	1 071	1 049	1 041	1 089	7 218
Total	**674**	**8 951**	**10 222**	**9 949**	**9 812**	**7 101**	**3 158**	**49 866**

Financing and cofinancing strategy and plan

24. The available IFAD financing is US$8.9 million. The project has been designed with a financing gap of US$21.1 million, which may be covered by subsequent cycles of the performance-based allocation system Should those resources materialize, it would bring the total IFAD contribution to US$30 million. Domestic cofinancing amounts to US$19.8 million, broken down as follows: private sector: US$12.3 million (25 per cent); FSPs under the Blended Finance Facility and other implementing partners under the IOF: US$0.3 million; beneficiaries: US$5 million; and the Government: US$2.2 million. The total recurrent costs represent 11 per cent of the total investment; similarly, the recurrent costs on IFAD financing are acceptable in both IFAD12 and IFAD13 as they are below the 15 per cent threshold. The Government’s contribution will be both in cash and in kind (duties and taxes).

Disbursement

25. A designated account will be opened at Bank of Zambia (the central bank) to receive IFAD funds. Designated accounts will also be opened for funds from other cofinanciers as required to ensure full traceability of financial transactions in line with government and donor requirements. Funds will then be transferred to the operational accounts to be opened with commercial banks. Government counterpart funding will be channelled through its integrated financial management information system and transferred to the project’s operational account. Withdrawal of funds from IFAD will be based on quarterly cash forecasts submitted to IFAD as part of the interim financial reports to be submitted 30 days after the end of each quarter.

Summary of benefits and economic analysis

26. FIRIP is projected to yield a baseline economic rate of return (ERR) of 33 per cent with a positive net present value (NPV) of US$33.9 million, equivalent to 847.8 million Zambian kwacha (US$1:ZMW 25). Quantifiable benefits have been discounted over a period of 20 years including a 7-year implementation period using a rate of 25.5 per cent. The overall benefit-cost ratio is computed at 3.7. The sensitivity analysis indicates that with a 20 per cent increase in costs and decrease in benefits, using the same proportion, the project yields an ERR of 32.7 per cent and 32.5 per cent with positive NPVs of US$31.4 million and US$24.6 million respectively. With an increase in project benefits of either 10 per cent or 20 per cent, the project yields a higher internal rate of return of 33.8 per cent or 34.1 per cent, with positive NPVs of US$38.5 million or US$43.1 million. A delay in project benefits of one or two years still yields positive results as the two scenarios yield an IRR of 32.1 per cent or 30.5 per cent with positive NPVs.

Exit strategy and sustainability

27. FIRIP's exit strategy and sustainability plan focus on ensuring long-term impact by engaging with other funders to expand the Blended Finance Facility and by exploring options for institutionalizing the facility and other support services. Sustainability will be achieved across five dimensions. Socioeconomic sustainability will be promoted by targeting financially excluded rural groups through savings-led initiatives and capacity-building. Institutional sustainability will focus on strengthening macro- and meso-level institutions, providing critical regulatory and support services, and fostering a strong enabling environment. Technical sustainability will be ensured through knowledge-sharing and collaboration with key institutions, while environmental sustainability will be supported by promoting green and climate-smart technologies. Financial sustainability will be encouraged by requiring FSPs to cofinance initiatives, which will improve their long-term business management and credit processes.

III. Risk management

A. Risks and mitigation measures

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 at design.

Table 4
Overall risk summary

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

B. Environment and social category

29. The environment and social risk category for FIRIP is moderate.

30. Key environmental and social risks include unsustainable natural resource use and pollution from livestock rearing (standard 2), informal wage employment, high gender inequality, and lack of equal opportunities (standard 5), risks related to gender-based violence (standard 6), limited land ownership affecting credit access (standard 7), and the need to enhance environment social management systems and complaint mechanisms for partnering financial institutions and service providers (standard 8). The project will conduct market research and feasibility studies to develop financial products for investments, ranging from climate-smart agricultural technologies, renewable energy, agroforestry and precision agriculture to labour-saving technologies, waste management, climate-resilient infrastructure, energy-efficient processing technologies and environmentally friendly packaging across agricultural and non-agricultural value chains.

C. Climate risk classification

31. FIRIP's climate risk classification is moderate. 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.

D. Debt sustainability

32. According to the latest Debt Sustainability Assessment published in June 2024 by the World Bank, Zambia is classified as "in debt distress". Zambia's high public debt (98.5 per cent of its GDP in 2022) remains a major challenge to economic development. Despite significant fiscal adjustment, in the absence of a signed debt restructuring agreement, Zambia is in overall and external debt distress and public debt remains unsustainable. This may curtail public investment, adversely affecting the country's poverty reduction goals.

IV. Implementation

A. Organizational framework

Project management and coordination

33. The lead implementing agency will be the Ministry of Finance and National Planning (MoFNP). The ministry has mandated the rural finance unit, created and supported under the predecessor project (RUFEP) and housed within the Economic Management Division, to be directly responsible for FIRIP implementation and technical oversight.

34. **Programme oversight.** The project steering committee, chaired by the Permanent Secretary, Budget and Economic Affairs 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.

35. A project coordination unit will manage day-to-day operations and will be composed of competitively selected or seconded staff.

Financial management, procurement and governance

36. Implementation will be cascaded to various implementing partners – such as banks and microfinance institutions – who will have primary responsibility for implementing the line of credit.

37. Financial management arrangements will be similar to those of RUFEP, which had a separate project coordination unit to handle day-to-day operations. The project coordination unit's finance team will comprise a financial controller, two accountants and an administrative assistant to ensure segregation of roles and efficient coverage of the financial management function.

38. The annual workplan and budget (AWPB) preparation will be participative, involving various implementing partners. The project steering committee will ensure oversight of the budgeting process. The AWPB will be submitted to IFAD for no objection 60 days prior to the end of each fiscal year.

39. The project will use an off-the-shelf accounting system, preferably one that can be customized to IFAD's financial reporting requirements. In-cash counterpart contributions will be recognized in the accounting software. Contributions in kind, such as office space and labour by beneficiaries, will be separately recorded as provided for in the project implementation manual. Interim financial reports will be prepared on a quarterly basis using data derived from the accounting system and submitted to IFAD via IFAD's Client Portal within 30 days of each quarter-end.

Target group engagement and feedback and grievance redress

40. Target group engagement will take place at different levels and phases. Engagement with the promoters of the community-based financial institutions will involve capacity-building, community sensitization, mentoring and periodic monitoring sessions and review of reports. Sensitization sessions will be held to present the project objectives, rules of engagement and expectations. Target group engagement will include market research to assess the needs of beneficiaries, which will help FSPs deliver appropriate financial services. End-user engagement will be conducted through sensitization meetings and consultations with the institutions that will provide financial services. The sensitization process will take the form of community-level public meetings to convey the project objectives, and describe the various financial products, services, criteria and expectations for participation in the project. These meetings will be conducted in local languages and at times that allow for maximum participation by different groups, i.e. women, men, youth and persons with disabilities.

Grievance redress

41. The grievance redress mechanism (GRM) will address potential challenges and complaints arising from FIRIP activities through a structured, three-tiered approach: a community-based system, a formal system and the IFAD complaints procedure, as a last resort. Individuals with grievances may opt for either the community-based or the formal route. The community-based GRM will leverage existing traditional structures to resolve issues locally, ensuring accessibility through culturally sensitive communication. Key community institutions involved will include village headmen, area chiefs, principal chiefs, ward councils and district councils. This process will emphasize negotiation, consensus-building, and potential escalation to traditional leaders or courts when necessary.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

42. **Planning.** To ensure participatory planning, the project will mobilize key public and private partners to implement the AWPB for the first 18 months. An annual planning and review workshop will be organized with FSPs, financial institutions and other development agencies. This workshop will provide a platform to present the draft AWPB, gather feedback, and ensure the harmonization of project activities with those of other institutions. The AWPB will be results-oriented, clearly linking planned activities to project outputs, and ensuring that all partners are aligned with the project’s goals and timelines.

43. **Monitoring and evaluation.** Monitoring will be a continuous process focused on activities, outputs and outreach. All implementing partners will be expected to submit data related to their specific project interventions. The precise monitoring requirements will vary and will be specified in terms of reference or memorandums of understanding. Electronic templates will be prepared to report on activities in the AWPB and used to submit data on indicators (see the monitoring and evaluation matrix in the project implementation manual).

Learning, knowledge management and communications

44. Knowledge management will focus on supporting the preparation of knowledge products and organizing forums for learning and information exchange on emerging topics and innovations in rural and agricultural finance. These could include developing an MSME financing strategy; devising credit enhancing and guarantee schemes; developing an agriculture financing strategy; revising the SAFF; and enhancing consumer awareness of complaint resolution and redress mechanisms.

45. The lessons learned will be packaged for different audiences and purposes and will be used to improve implementation and identify any need for adapting implementation approaches.

Innovation and scaling up

46. FIRIP will actively promote scalable solutions that can be replicated on a large scale, encouraging widespread adoption of innovative financial services in rural Zambia. The project will drive innovation in the delivery of client-centric financial services through its IOF. Beneficiaries will gain access to innovative microfinance products such as microinsurance, tailored savings and loan offerings, and digital financial services. It will also foster linkages between MSMEs and financial institutions through inclusive business models and value chain finance innovations, such as warehouse receipts. A significant portion of loans under the Blended Finance Facility will be dedicated to supporting these innovations to ensure greater reach and impact.

C. Implementation plans

Implementation readiness and start-up plans

47. The implementation readiness of FIRIP will be ensured through a comprehensive set of actions, which include proactive management of potential delays and adequate time allocation to critical processes such as permits, participation and procurement to facilitate a smooth transition from design to implementation in alignment with the Government and IFAD's frameworks.

48. Building on RUFEP, FIRIP will leverage existing institutional arrangements to ensure a quicker start-up process. The RFU, the unit that provided technical oversight to RUFEP and facilitated coordination of the rural finance stakeholders as per its mandate, will continue to play this role under FIRIP.

Supervision, midterm review and completion plans

49. **Supervision.** FIRIP will be jointly supervised by IFAD and the Government to assess achievements and lessons learned and, when required, provide implementation support with the objective of ensuring effective project implementation and increasing the likelihood of achieving the project objectives.

50. **Midterm review (MTR).** An MTR will be undertaken halfway through project implementation jointly by the lead agency and IFAD. The MTR will evaluate whether the project is on course to achieve its objectives. It will identify any prevailing constraints and recommend any reorientations required to support FIRIP in getting back on course.

51. **Project completion.** Undertaking the project completion report is a statutory requirement. The review should be done after project completion but before project closure. The completion review will be led by IFAD, with key contributions from the borrower, in line with IFAD’s guidelines for project completion reports.

V. Legal instruments and authority

52. A financing agreement between Republic of Zambia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.

53. The Republic of Zambia is empowered under its laws to receive financing from IFAD.

54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

55. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Zambia in an amount of eight million nine hundred thousand United States dollars (US$8,900,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

(To be made available prior to the session)

Logical framework[1]

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End	Source	Frequency	Responsibility	
Outreach	**1 Persons receiving services promoted or supported by the project**				PFIs and CBFI promoters	Quarterly	ME&KM team	*outreach assumption*: ▪ The average household size in rural areas is 5 persons per household. ▪ Each beneficiary comes from a different household (CI 1.a = CI 1). If other data on beneficiaries and households becomes available, this can be adjusted.
	Total number of persons receiving services (Number of people)	0	148 044	370 110				
	1.a Corresponding number of households reached				PFIs and CBFI promoters	Quarterly	ME&KM team	
	Households	0	148 044	370 110				
	1.b Estimated corresponding total number of households members				PFIs and CBFI promoters	Quarterly	ME&KM team	
	Household members (Number of people)	0	740 220	1 850 550				
Project Goal Improved rural livelihoods through economic growth and increased resilience	**Change in household asset ownership**				COI Survey (additional questions for PSIs)	Outcome surveys (3x)	ME&KM team	*assumptions for sustainability*: ▪ Positive experiences with financial services will lead to a 'virtuous cycle' of using financial services; economic growth; and improved rural livelihoods.
	Household asset ownership index (percentage)	49%	53%	60%				
	Rural households reporting an increase in savings							
	Proportion of rural households (Percentage)	0	28%	70%				
Development Objective Increased use of financial services by poor rural men, women and youths, for growth of rural production systems and value chains, and to strengthen resilience and safety nets.	**Persons reporting improved income from economic activities (agriculture/IGAs)**				COI Survey (additional questions for PSIs)	Outcome surveys (3x)	ME&KM team	*development objective to goal*: ▪ Economic empowerment of women and joint household decision making contributes to increased income being used to address household needs ▪ Stable political and economic environment.
	Cat 1 beneficiaries with improved income (number)	0	85 273	213 183				
	Cat 2 beneficiaries with improved income (number)	0	32 333	80 832				
	Beneficiaries using financial services in all categories reporting improved income (number)	0	118 435	296 088				
	CI 2.2.1. Beneficiaries with new jobs/employment opportunities				COI Survey	Outcome surveys (3x)	ME&KM team	
	Total number of persons with new jobs/employment opportunities (Number of people)	0	58 172	145 430				
	IE.2.1 Individuals demonstrating an improvement in empowerment				COI Survey	Outcome surveys (3x)	ME&KM team	
	Total persons (number of people)	0	28 129	140 642				
	CI 3.2.2. Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices				COI Survey	Outcome surveys (3x)	ME&KM team	
	Households (Number)	0	33 442	83 604				
	SF 2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers				COI Survey	Outcome surveys (3x)	ME&KM team	
	Households (Number)	0	7 402	37 011				
Outcome 1 Improved availability of sustainable client-centric rural financial services for specific sectors and groups	**Number of new financial products, services and delivery mechanisms deployed**				IOF recipients	Semi-annual	ME&KM team	*outcome to development objective*: ▪ Beneficiaries make good use of financial services, for productive investment, adaptation and green technologies, or to cope with shocks affecting the household. ▪ An enabling policy environment and corresponding incentives are in place, encouraging FSPs to offer financial services and products to rural communities at affordable rates. ▪ Sufficient economic/investment
	Financial products and services (Number)	0	12	24				
	Number of access points for formal financial services established				PFIs (banks, MFIs)	Annually	ME&KM team	
	Access points (Number)	0	11 250	22 500				
	CI 1.2.6 Partner financial service providers with PAR ≥ 30 days below 5%							
	Percentage	57%	59%	62%				
	CI 1.2.7 Financial service providers with operational self-sufficiency above 100%							
	Percentage	57%	59%	62%				
	Proportion of non-performing loans in the loan portfolio of banks (agriculture, small and emergent)							
	agriculture - small and emerging farmers (Percentage)	8.7%	< 6.0%	< 5.0%				

[1] Concise two-page version, by shortening some descriptions and removing indicator disaggregation - which will be retained in ORMS and the M&E system.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End	Source	Frequency	Responsibility	
	MSMEs (Percentage)	13.7%	< 12.3%	< 10.0%				opportunities and capacity of the target group to make use of those opportunities.
Output 1.1 Effective mechanism for the development of innovative rural financial products, services and delivery mechanisms	**CI 1.1.6 Financial service providers supported in delivering outreach strategies, financial products and services to rural areas**				PMU (contracts, MOUs)	Semi-annual	ME&KM team	*output to outcome*: ▪ Enough FSPs are willing to develop client-centric rural financial services. ▪ FSPs demonstrate a willingness to participate in capacity-building initiatives.
	Service providers (number)	0	29	57				
Outcome 2 Increased uptake of more suitable and affordable sources of finance by the target group	**CI 1.2.5. Households reporting using financial services**				COI Survey	Outcome surveys (3x)	ME&KM team	*outcome to development objective*: ▪ Beneficiaries make good use of financial services, for productive investment or to increase resilience. ▪ Rural communities have capacity to utilise financial services for climate smart and profitable enterprises.
	Households (Number)	0	97 561	296 088				
	Households (Percentage)	55.9%	66%	80%				
	SF 2.1 Households satisfied with project-supported services				COI Survey	Outcome surveys (3x)	ME&KM team	
	Households (Number)	0	103 631	296 088				
	Households (Percentage %)	0	70%	80%				
Output 2.1 Access to affordable loans and other financial services for agriculture and green investments enhanced	**CI 1.1.5 Persons in rural areas accessing financial services**				PFIs (banks, MFIs) and CBFI promoters	Quarterly	ME&KM team	*output to outcome*: ▪ Interest of beneficiaries to invest in climate-smart and green technologies. ▪ Effective cooperation with complementary development initiatives. ▪ A sufficient number of reliable suppliers of green technologies. ▪ Effective promotion of CSA and green technologies, and an increasing interest in these technologies.
	Total persons accessing financial services (all services)	0	126 204	315 511				
	Persons accessing financial services (savings)	0	88 260	220 650				
	Persons accessing financial services (credit)	0	81 661	204 152				
	Persons accessing financial services (insurance)	0	13 812	34 530				
	Persons accessing financial services (digital payment services)	0	67 200	168 000				
	Households accessing green technologies				IOF partners; PMU	Semi-Annual	ME&KM team	
	Households (Number)	0	41 802	104 505				
Output 2.2 Capacity of rural men, women, youths and MSMEs to obtain and effectively utilize financial services strengthened	**CI 1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services**				IOF recipients	Quarterly	ME&KM team	*output to outcome*: ▪ Interest of beneficiaries to invest in climate-smart and green technologies. ▪ Effective cooperation with complementary development initiatives. ▪ Sufficient numbers of interested people in selected rural areas to justify rollout.
	Persons in rural areas trained in FL and/or use of FProd and Services (total) (Number of people)	0	60 000	150 000				
	CI 3.1.1 Groups supported to sustainably manage natural resources and climate-related risks							
	Groups supported (number)	0	1 000	2 500				
Outcome 3 Enhanced enabling environment for inclusive rural financial service provision	**Change in volume to agriculture lending to smallholders**				Bank of Zambia's Credit Market Survey	Semi-Annual	ME&KM team	*outcome 3 to outcome 1&2*: ▪ Private sector actors (FSPs, MNOs) are willing and able to respond to opportunities offered by a more conducive policy and regulatory framework.
	Annual disbursements to agriculture (small and emergent) (million USD)	20.1	23.1	34.2				
	Formally financially included adults in rural areas				FinsScope; MOFNP	Outcome surveys (3x)	ME&KM team	
	Rural adults (Percentage %)	44%	48%	57%				
Output 3.1 Policies, laws, regulations and institutions supported to create an enabling environment for rural finance	**Strategic partnerships established to enhance policy review and coordination, and to support implementation**				PCU (MOUs)	Semi-Annual	ME&KM team	*output to outcome*: ▪ Government will prioritize creating an enabling environment for rural finance. ▪ Partners see value in the project and is being part of its implementation. ▪ There is buy-in from stakeholders to participate in multi-stakeholders dialogues
	Partnerships (Number)	0	6	6				
	Policy 1: Policy-relevant knowledge products completed				PCU	Semi-Annual	ME&KM team	
	Knowledge products (Number)	0	2	6				
	Laws, regulations and policies supported by the project				National Government	Semi-Annual	ME&KM team	
	Number	0	2	4				

Integrated project risk matrix

Risk categories and subcategories	Inherent	Residual
Country context	**Substantial**	**Substantial**
Political commitment	**Moderate**	**Moderate**
Risk(s): The political stability Zambia has enjoyed since adopting multi-party elections in 1991, along with its recent relatively smooth transitions of power to the United Party for National Development (UPND) in 2021, contributes to a favourable short-term political outlook. The World Bank's political stability index for Zambia in 2022 stands at 0.1 on a scale ranging from -2.5 (weak) to 2.5 (strong), indicating a relatively stable political environment with a very low occurrence of inter-ethnic tensions or clashes, unlike other sub-Saharan African countries. The current administration is expected to retain power until the 2026 elections, ensuring policy consistency for the successful delivery of IFAD development projects, which have seen high demand for rural financial inclusion since the first IFAD rural finance program in 2007. However, political tensions may surface around election periods, potentially leading to instability and change of political commitment shifts.		
Mitigations: Although IFAD has sustained a strong relationship with the Zambian Government and development partners for decades, to mitigate the risk of a potential reversal in political commitment, IFAD capitalizes on its robust relationship with the current administration to advocate for the institutionalization of policies supporting rural finance, thereby making them less susceptible to political shifts. Furthermore, counterparts from key ministries have been nominated and actively and closely engaged from the PCN and PDR stage of the project. This ensures governmental ownership and alignment with both IFAD's and the Zambian Government's policies.		
Governance	**Substantial**	**Substantial**
Risk(s): Zambia's Corruption Perceptions Index (CPI) score for 2023, as reported by Transparency International, was 37 out of 100. This score reflects the perceived levels of public sector corruption, positioning Zambia 98th among 180 countries. This represents a slight improvement from its 2022 ranking of 116th, with a score of 33 out of 100. Additionally, according to the World Bank's Country Policy and Institutional Assessment (CPIA), Zambia's Quality of Public Administration rating for 2022 remained at 3.0 on a scale from 1 (low) to 6 (high), unchanged from the previous year. Despite these scores, the prevalence of corruption remains a concern. Zambia continues to underperform in the sub-region compared to countries like Tanzania, South Africa, Namibia, Rwanda, and Botswana, indicating that there is substantial room for improvement in governance and anti-corruption efforts.		
Mitigations: Under the current administration, there has been a renewed emphasis on combating corruption, with a commitment to not shielding officials involved in illicit activities, including corruption. As one of the key strategic areas in the Eighth National Development Plan (8NDP), the Government places strong emphasis on transparency and accountability in the Governance system, while also strengthening the rule of law, human rights, and constitutionalism. The government has acted against senior officials engaged in corrupt practices, demonstrating a resolve to eradicate corruption at all government levels. This strategy encompasses addressing instances of corruption past, present, and future, while ensuring that law enforcement agencies are both empowered and professionalized in their anticorruption efforts. IFAD adheres to a stringent zero-tolerance policy towards any prohibited		

Risk categories and subcategories	Inherent	Residual
practices, such as fraud, corruption, collusion, coercion, and obstructive practices, in its financed activities and operations. IFAD's legal framework mandates prompt reporting of any fraud or corruption allegations related to project activities. The Office of Audit and Oversight (AUO) is responsible for conducting investigations to establish the facts and take necessary actions. Furthermore, the IFAD Zambia team will oversee procurement and fiduciary aspects during supervision missions, in addition to providing regular implementation support. Most of FIRIP's activities are carried out by private and non-governmental implementation partners which will be selected through a transparent and competitive process. The BFF will be managed by a competent and independent Fund Manager. Sub-projects co-financed under the IOF will have clear performance milestones that will be monitored closely. Adequate provisions for staffing at PCO and Fund Management level have been made. Similarly, the strategic partnerships will be identified through a transparent and demand driven process and monitored in line with mutually-agreed milestones and deliverables.		
Macroeconomic	**Substantial**	**Substantial**
Risk(s): Despite facing significant debt distress from 2018 to 2021, Zambia implemented debt restructuring reforms in 2022 through the enactment of the Public Debt Management Act. These reforms successfully restructured its debt and improved its debt absorption capacity. Zambia's economic outlook shows signs of improvement, with projections indicating a GDP growth of 4.0% in 2023 and 4.2% in 2024, driven by recoveries in the mining, services, and manufacturing sectors. However, the country confronts macroeconomic challenges, including high debt levels - exceeding 104% of GDP - and a persistent fiscal deficit, projected at 8.1% of GDP in 2023 and 7.3% in 2024. The fiscal deficit is expected to escalate from 2026 as Zambia concludes its financing arrangement under the Extended Credit Facility (ECF) with the IMF at the end of 2025. Inflation rates are anticipated to decrease but remain vulnerable to potential increases in fuel prices and electricity tariffs, along with fluctuations in global fertilizer prices. Economic instability may arise from the debt crisis and delayed resolutions. External factors such as perennial droughts, volatile copper prices, and global geopolitical events could also present challenges.		
Mitigations: Although macroeconomic challenges are specific to each country and there is limited scope for addressing them at the project level, IFAD persists in engaging in discussions about the necessity of building resilience against external shocks and fostering a diversified economy through agriculture-led growth. The project incorporates elements of climate adaptation and capacity enhancement for MSMEs and smallholders' investment capabilities. At the operational level, the AWPB will be formulated assuming a stable currency. IFAD will provide financing at highly concessional rates.		
Fragility and security	**Substantial**	**Substantial**
Risk(s): Zambia is currently grappling with considerable fragility and security concerns, precipitated by a severe drought that has been officially recognized as a national disaster and emergency. This drought, intensified by the El Niño weather phenomenon and climate change, has wrought havoc on the agricultural sector, impacting more than a million households. The scarcity of rainfall has resulted in the loss of one million hectares from a total of 2.2 million hectares of cultivated crops, significantly undermining the country's food security and energy provisions, especially considering Zambia's dependence on hydroelectric power. Furthermore, since October 2023, Zambia has experienced a severe cholera outbreak. Although cases have dramatically decreased, the potential for re-emergence remains,		

Risk categories and subcategories	Inherent	Residual
highlighting the need to address issues related to climate adaptation resilience. These risks could continue during the project implementation period. Additionally, socioeconomic factors, including youth unemployment, lackluster economic performance, and diminishing household incomes, could exacerbate the situation.		
Mitigations: The project intends to enhance the livelihoods of the most marginalized rural groups, encompassing smallholder farmers, youth, women, and households headed by women. The project will improve access to innovative and sustainable rural financial services, as well as climate adaptation financing, for smallholder farmers and micro, small, and medium-sized enterprises (MSMEs), with a special emphasis on gender and youth. Improved access to payments, savings, emergency loans and insurance enhances the capacity to cope with shocks (including climate-, macro-economic, health related ones) and enhance resilience and adaptation strategies. Support to vulnerable groups such as semi-subsistence smaller farmers is anchored in savings-based strategies harnessing CBFIs to support resilience, livelihood diversification and asset building. Responsible-lending practices will be promoted across FSPs to avoid un-sustainable debt burdens for vulnerable population groups.		
Sector strategies and policies	**Substantial**	**Substantial**
Policy alignment	**Moderate**	**Moderate**
Risk(s): The policy environment for inclusive rural finance is sufficiently well developed in Zambia following continuous support under the Rural Finance Programme (2007-2013) and the Rural Finance Expansion Programme (RUFEP, 2014-2024). The National Financial Sector Development Policy (2017-2022) seeks to evolve and transform the financial sector by offering strategic direction and coordinating development efforts to foster a well-developed, inclusive financial system conducive to efficient resource allocation and sustainable economic growth. This policy complements the Financial Sector Development Plans (FSDPs), focusing on legal reforms, payment systems, market efficiency, financial education, and finance accessibility. Additionally, the National Financial Inclusion Strategy (NFIS) 2017-2022 and NFIS II (2024 – 2028) target universal access to diverse, quality, affordable financial services, with objectives to include 80 percent of the populace and 70 percent of adults in the formal financial system by 2022, aiming to incorporate the unbanked and underserved into the formal economy through technological innovation. The NFIS II places particular emphasis on rural and agricultural financial inclusion, mainstream ESG frameworks, and enhancing the quality and reach of DSF, and inclusion of women, youth, elderly, and other vulnerable groups. There are several regulatory instruments supporting the use of alternative collateral (e.g., movable assets, warehouse receipts), the role out of digital financial services, and – more recently, of Green Finance.These initiatives align with the Ministry of Agriculture's Strategic Plan (2022-2026), developed upon the Zambia Vision 2030, which emphasizes financial access in the sector, with current government efforts reinforcing these commitments. Despite this conducive environment, competition among rural financial institutions may be limited, potentially leading to an undersupply of finance for the rural poor, exacerbated by inadequate coverage and incomplete data from credit reference bureaus, affecting agricultural financial service efficacy.		
Mitigations: Building on the success of RUFEP, FIRIP will continue to support the development of conducive policy, legislative, regulatory, and supervisory frameworks in rural finance and for the project's target demographics. FIRIP is fully aligned with the NFIS II and will support its implementation, especially in the aforementioned areas. Through its policy component and strategic partnerships, FIRIP will also be in well-positioned		

Risk categories and subcategories	Inherent	Residual
to influence the renewal of some older policies (e.g., the rural finance policy).		
Policy development & implementation	**Substantial**	**Substantial**
Risk(s): Despite the alignment of rural finance policies and strategies with the project's objectives, significant policy gaps arise from fragmented initiatives like the NFIS II outside of the RFU, the uncertainties regarding the planned update of the Rural Financial Services Strategy (2012) under the RFU's mandate, and the recently launched Sustainable Agricultural Financing Facility (SAFF) by the Ministry of Agriculture. Furthermore, important legal and regulatory instruments have been created under the 2015 Agricultural Credit Act (including warehouse receipt financing and other alternative sources of collateral) but are poorly used by FSPs. This also applies to enabling institutions such as the Electronic Moveable Assets Registry established based on the Agricultural Credit Acts These gaps, concerning implementation and integration, as well as the adequacy in addressing the diverse needs of rural populations, risk undermining the project's implementation and its development objectives.		
Mitigations: Mitigating these gaps necessitates a comprehensive effort to improve policy coherence and implementation and develop innovative financial products and services making use of the enabling legal and regulatory instruments to enhance sustainable rural outreach, and the customization of financial services to the unique contexts of rural communities. The project is committed to facilitating the harmonization and coordination of policy and regulatory frameworks with regards to rural finance and agricultural sectors and help a range of FSPs to innovate and expand their product offerings to rural target groups This commitment is aimed at ensuring the coherence and effectiveness of rural financial services at both the macro and meso levels, through strategic partnerships. In addition, a major focus will be on strengthening the implementation of existing policy and regulatory instruments, through strategic partnerships with key macro and meso level actors, along with technical assistance and capacity development.		
Environment and climate context	**Substantial**	**Substantial**
Project vulnerability to environmental conditions	**Moderate**	**Moderate**
Risk(s): Despite being richly endowed, Zambia -as many other natural resource rich countries- has not been able to translate natural resource rents into broad based development and poverty reduction. Biodiversity is continuously under threat mainly due to human activities such as population growth, agriculture expansion, deforestation, industrialization, and urbanization. As the population continues to grow, pressure is being placed on arable land, water, energy, and other biological resources to provide adequate supply of food.		
Mitigations: To support the preservation of Zambia's rich biodiversity and ensure the sustainable use of resources for the benefit of both current and future generations, the Project will be aligned to Second National Biodiversity Strategy and Action Plan (NBSAP2) (2015-2025), and the Eighth National Development Plan (8NDP) (2022-2026). The project will promote climate-smart and sustainable agricultural practices, as well as green and climate-smart technologies. This will be achieved by leveraging CBFI savings and establishing linkages to banking systems to facilitate the adoption of these practices.		
Project vulnerability to climate change impacts	**Substantial**	**Substantial**
Risk(s): Extreme weather events such as droughts and floods have increased in intensity and frequency since 1960. These have resulted in notable losses for Zambia's economy, agricultural sector, the		

Risk categories and subcategories	Inherent	Residual
manufacturing sector as well as damage to infrastructure. On 29 February 2024, Zambia declared a national emergency as a result of a prolonged drought which led to the destruction of one million hectares of farmland which has affected over one million households across the country. It is expected that the intensity and frequency of extreme weather events such as flooding and droughts, would increase in the future. It is likely that average annual temperatures could show an increasing trend and that average monthly precipitation will decrease in the future.		
Mitigations: The Project will be aligned with the National Policy on Climate Change (2016), the National Adaptation Plan for Zambia (2023), the Second National Communication to UNFCCC (SNC, 2015) and the updated National Determined Contributions (2021). The project will promote green and climate smart technologies and practices by introducing specific financing instruments facilitating the uptake.		
Project scope	**Moderate**	**Moderate**
Project relevance	**Moderate**	**Moderate**
Risk(s): The Project objectives and interventions are well aligned with National policies and priorities, including the Eighth National Development Plan (8NDP) with which it shares similar outcomes to achieve improved adaptive capacity, reduce vulnerability and enhanced resilience to climate change, for both human and biophysical systems (development outcome 1). The Project also aligns well with the Zambia National Financial Inclusion Strategy II (NFIS II) (2024 – 2028), centered on addressing emerging issues such as agricultural, MSME, and green finance, along with a specific emphasis on women, youth and the elderly, as well as rural financial inclusion. The strategy highlights key sectoral priorities for financial inclusion such as agriculture and MSMEs finance. The project outcomes are also in line with IFAD Country Strategic Opportunities Programme (COSOP). Despite these alignments, there may be a risk that smallholder farmers and their associated MSMEs would not show an interest in adopting green and climate smart technologies. Another risk may arise from volatility in demand by the smallholder farmers and enterprises, which can change rapidly depending on several factors such as profitability of their investments as well as changes in factors that affect the productivity of their businesses. This would require timely adaptation of the project support strategy.		
Mitigations: The Project will place a strong focus on ensuring that interventions are tailored towards the needs of the intended target group and focused on key areas highlighted as part of Government's medium to long term priority areas and key policies for rural development. Additionally, constant engagement with Government and relevant stakeholders to support policy implementation minimises the risk of hasty shift in focus areas. The project also recognizes the need to strike an appropriate balance in the targeting of the beneficiaries based on the categorization of smallholder farmers and enterprises at different levels.		
Technical soundness	**Moderate**	**Moderate**
Risk(s): The proposed project structure draws from the experiences of RUFEP and similar rural finance initiatives. While aiming to avoid excessive complexity and ambition, the project design has been developed with a realistic timeline and expectations. However, there is a risk that the conditions offered to Participating Financial Institutions (PFIs) might not be sufficiently appealing, potentially leading to a loss of momentum among PFIs. Additionally, there may be reluctance among smallholders and agribusiness entrepreneurs to utilize the supported borrowing channels. A further risk involves the non-repayment of loans provided to these groups. There is also the potential for elite capture of project resources.		

Risk categories and subcategories	Inherent	Residual
Mitigations: The project will collaborate with partners to develop financial products tailored to the needs of the target groups. To avoid complexity and difficulty in adjustment over the course of implementation, the project design avoids being overly prescriptive and allows for operational flexibility using demand-driven approaches. In addition, a limited number of sub-components reduces complexity while focussing on inter-linkages and complementarities among them. It will also establish an M&E framework that allows for the regular assessment of the project's impact and effectiveness. To mitigate the risk of project resources being disproportionately captured by the elite, the project will establish clear, transparent, and equitable criteria for selecting project beneficiaries and Participating Financial Institutions (PFIs). Engagement with various potential partners has been conducted during the design mission.		
Institutional capacity for implementation and sustainability	**Substantial**	**Substantial**
Implementation arrangements	**Moderate**	**Moderate**
Risk(s): The project will leverage RUFEP's experience , building on proven instruments and management frameworks. Nevertheless, there exists a risk associated with the potential inability to effectively coordinate and enhance implementation arrangements that involve various government entities, including the Ministry of Agriculture, the Ministry of Small and Medium Enterprises Development (MSME), and the Ministry of Green Economy and Environment (MGE), governance across different levels, and multiple financial institutions.		
Mitigations: To mitigate these risks, representatives from key ministries were involved from the initial conceptual phase of the project and design process. The IFAD team will continue to work closely with these government representatives during the subsequent stages of project start-up and implementation. Additionally, there will be a continuous, concerted effort to strengthen the Rural Finance Unit, pivotal in coordinating all rural finance initiatives within the country. A thorough review of the implementation arrangements was conducted during the design phase to identify further risks and develop suitable mitigation strategies in the design.		
M&E arrangements	**Substantial**	**Substantial**
Risk(s): The M&E system performance for RUFEP (the predecessor of this project), evaluated in July 2023, was "moderately satisfactory." Despite a dedicated M&E specialist’s efforts at the Project Coordination Unit (PCU), challenges included delayed and partial data submissions from partners, affecting timely updates and accurate performance analysis of key indicators. Despite Strategic Partners developing M&E systems, the systems were evaluated as not yet fully operational to comprehensively support macro-level monitorable indicators. Non-compliance with reporting deadlines by some partners created data gaps, impacting comprehensive project evaluations. High staff turnover among partners further complicated data management, particularly for those using manual collection methods. Additionally, the M&E Specialist’s reliance on inexperienced interns have impacted the efficiency and depth of M&E activities. These issues may persistently affect the project's M&E arrangements under this project.		
Mitigations: To address these risks, FIRIP will enhance the M&E arrangements at PCU by recruiting : (i) a dedicated ME&KM Officer (senior position) who will handle overarching responsibilities, including the planning process, annual reports, Logframe, lessons learned, official publications, and assisting the Coordinator, (ii) an ME&KM Assistant (junior position) focused on assisting with conducting interviews and stakeholder feedback; organizing workshops and other fora for information exchange and learning; using available information to prepare knowledge		

Risk categories and subcategories	Inherent	Residual
products (write-ups, infographics, audio-visual products); and disseminating information (including print, broadcasting and social media. They will be responsible for developing a robust and user-friendly M&E system, drawing upon the experiences from RUFEP. Once the core staff is established, the definition of M&E responsibilities will extend to incorporating specific digital data collection and reporting tasks into ToRs for implementing agencies and service providers. During a project start-up workshop or at appropriate occasions during the start-up phase, the M&E/KM Officer, with support from IFAD will facilitate a dedicated M&E session. This session will involve engaging stakeholders to review the project's ToC and Logframe, and to discuss the utilization of these management tools in conjunction with the specific requirements of IFAD and potential co-financiers.		
Procurement	**Substantial**	**Substantial**
A.1 Legal, Regulatory and Policy Framework	**Substantial**	**Substantial**
Risk(s): The Public Procurement Legal Framework is structured with high level Public Procurement Act, 2020 amended in 2023 and Public Procurement Regulations of 2022 with their precedence firmly established. However, there are no procurement manuals. ZPPA approves requests for many direct bidding methods and Deviations, which has a risk of PEs making use of this for use of less competitive methods. Article 39 of PPA puts restriction on the participation of foreign bidders in both NCBs (only citizen bidders and local bidders in partnership with citizen bidders are allowed) and ICBs (foreign bidders can participate but only in partnership with citizen bidders). These exclusions are inconsistent with IFAD procurement framework, as they have a risk of limiting competition. ZPPA reported compliance issues with inconsistent use of procurement bid documents, which has a risk of non-compliant procurement. The national SBDs are not in full compliance with IFAD procurement framework for other IFAD policies. Adherence to evaluation and award criteria provided in the SBDs is low and 10% of PEs do not follow laid down bid receipt and opening procedures. The ZPPA review noticed prolonged delays in execution of contracts in many of the cases, which may result in time and cost overruns affecting project execution. Many cases of improper contract management have also been reported by the Auditor General. Standard templates for RFQ, REOI and Pre-Qualification are not available. Evaluation methodology provides for taking into consideration the total cost of ownership. However, other sustainability related provisions are not fully reflected in the legal framework.		
Mitigations: IFAD project PIMs shall detail the procurement processes to be adopted. The use of less competitive methods beyond thresholds shall be prior reviewed by IFAD, duly reflected in the PIM. IFAD procurement framework shall be applicable for IFAD projects, in cases of inconsistencies with the National procurement framework. IFAD projects shall adhere to procurement methods of approved PP and shall make use of appropriate national SBDs, if available, suitably supplemented with other associated IFADs policies. In absence of suitable national SBDs (e.g. Consultancy Services), IFAD SPDs shall be used. IFAD project procurements shall be in adherence to the evaluation and award criteria given in the bid documents. IFAD projects shall make use of eGP system for all project procurements. IFAD projects shall describe the contract management framework, duly nominating contract managers for larger contracts, in the PIM. Also, adequate contract management capacity of project staff is developed during the initial phases of the project. IFAD projects shall ensure recommended SECAP standards are included in the bid documents, contracts etc.		
A.2 Institutional Framework and Management Capacity	**Substantial**	**Substantial**

Risk categories and subcategories	Inherent	Residual
Risk(s): Majority of the PEs do not submit their PPs to ZPPA for review and uploading. More than 50% of PEs did not have funds committed prior to award of contracts, which has a risk of delay in payments. The Zambia Public Procurement Authority (ZPPA) is a regulatory body established under the Public Procurement Act No. 8 of 2020, with clearly defined functions. The involvement of ZPPA in specific procurement requests could result in a conflict of interest in handling of complaints. Compliance issues have been flagged and the PEs do not appear to be fully accountable for their procurement decisions as per the reports of the ZPPA and AGO. e-GP is an integrated system that provides information on procurement opportunities and outcomes, but not all PEs are publishing their information on it. The ZPPA website has a provision to publish procurement data but is not working. Procurement as a profession has not evolved and standards for the qualification and experience for procurement positions are yet to be defined. There appears to be no substantive permanent training programs of suitable quality and content for the needs of the system.		
Mitigations: IFAD project procurements shall prepare yearly Procurement plans in alignment with the approved AWPB, subject to IFAD NO. IFAD projects shall adhere to AWPB and PP to ensure availability of budgets prior contract commitments. IFAD ICO may closely liaise with the GoZ to delink ZPPA from the operational issues of procurement. Project implementing PEs should be fully accountable for their procurement decisions. IFAD project shall make use of the eGP platform for all project procurements. IFAD project procurement staff are equipped with procurement consultant to provide procurement training during the project start-up and to enhance capacities during project procurement implementation. The procurement officers assigned to the project are encouraged to be enrolled in the BUILDPROC certification programs executed by the ITCILO and financed by IFAD. IFAD project procurement processes shall be clearly elaborated in the PIM. Supervision mission will be planned on a yearly basis where IFAD oversight will apply to monitor compliance and suggest improvements to procurement performance.		
A.3 Public Procurement Operations and Market Practices	**Substantial**	**Substantial**
Risk(s): ZPPA assessment noted: 1) Poor management of the procurement process, inaccurate / inconsistent quotations; 2) Award of contracts based only on price considerations which may lead to non-eligible bidders being awarded contracts and value for money not achieved; 3) non-commitment of funds prior to contract awards, which delay payments; 4) failure to follow laid down procurement procedures which may result in ineligible expenses. Only 7 out of 50 PEs assessed by the ZPPA during 2022 had appointed contract managers. There was a correlation between non-appointment of contract managers and poor quality of contract delivery. Contract related documents were not maintained by most of the PEs assessed, which may result in non-availability of documents for audit. The timelines for contract completion were significantly affected; contracts were not completed within the contractual periods and in most cases substantially delayed by more than one year. The delayed completion of most of the projects resulted in the community being deprived of access to services that appropriate completion of the contracts was intended to provide. Contract award details are not published, even though mandated vide article 186 of PPR, 2022. Article 91 of PPA provides for Preference and reservation for schemes, without expanding the same in the PPR. Also, the Revised National Micro Small and Moderate Enterprise Development Policy, 2023 doesn’t prescribe any reservation schemes for the MSMEs.		

Risk categories and subcategories	Inherent	Residual
Mitigations: IFAD projects shall publish the PP in the eGP system. IFAD project procurements shall be in accordance with the National procurement framework, for selection and contracting. IFAD projects shall describe the contract management framework, duly nominating contract managers for larger contracts, in the PIM. Also, adequate contract management capacities of project staff are developed during the initial phases of the project. Procurement records shall be retained as per the provisions of the IFAD Handbook. Project procurement requirement and contract awards shall be published in the project website as well as in ZPPA website. IFAD projects may also engage with the public and private sector players through stakeholder conferences. IFAD may make use of Domestic preference provisions for International Competitive procurement methods.		
A.4 Accountability, Integrity and Transparency of the Public Procurement System	**Moderate**	**Moderate**
Risk(s): Despite a legal framework against fraud and corruption, there seems to be no systematic detection, prevention, and enforcement of procurement-related corruption cases, which might compromise on fairness and transparency and limit competition. ZPPA engages with the public through various radio programs and Facebook announcements, but the effectiveness of the same in strengthening the public procurement system can't be ascertained. ZPPA website provides procurement information but is not fully functional/updated. There is no evidence that the ZPPA had directly engaged with the CSO for stakeholder consultations. Periodic procurement audits are undertaken by the ZPPA, but AGO doesn't conduct separate procurement audits. However, no co-ordination controls appear to exist. No system of defining the qualification of staff and providing training to them to conduct procurement audits. There is no requirement for the auditors to have knowledge of procurement and there is no formal training program, and no technical support is provided to the auditors.		
Mitigations: All bidding documents shall include reference to the 3 IFAD Policies on Fraud and Corruption, Sexual Harassment and Exploitation, and Anti-Money Laundering. IFAD ICO may engage with the GoZ to institute mechanisms for providing integrity trainings to the stakeholders and engage with the CSO more often and consult them for shaping and strengthening the public procurement framework. Procurement staff and other staff involved in IFAD project procurement shall sign the declaration of code of conduct and shall refrain from all kinds of fraud and corruption. IFAD may also encourage the GoZ to develop a specific code of conduct / code of ethics for procurement. IFAD projects may organise, in collaboration with ZPPA, procurement audit trainings to the AGO staff, to capacitate them to conduct specialised procurement audit. The PMUs shall keep track of internal and external audit findings and recommendation and their implementation. Exception reporting on non-compliance shall be brought to the attention of the Project Steering Committees. This shall be suitably incorporated in the PIM. IFAD supervision missions shall review the audit report, both internal and external, and verify whether any recommendations and the follow up actions taken relevant to procurement. Procurement audit teams shall have qualified procurement specialist.		
B.1 Assessment of Project Complexity	**Moderate**	**Moderate**
Risk(s): FIRIP envisages procurement of non-financial service providers for providing FinTech and AgriTech services, which would involve service level agreements. For providing the financial services, the program may have to enter into agreements with implementing partners (financial institutions). If these agreements do not incorporate appropriate safeguard clauses and performance evaluation framework, there is a risk that the		

Risk categories and subcategories	Inherent	Residual
program funds not being used for the intended purpose. The IPs might also be carrying out procurement activities, due to their inadequate procurement capacity, may have a risk of National/IFAD procurement framework not complied with, compromising on transparency, competition and value for money. Project involves many interdependent contracts, involving many implementing partners.		
Mitigations: The program may make use of the “Agritech and Fintech Providers in East and Southern Africa - A Landscape Assessment” report developed by the ESA in formulating the FinTech and AgriTech interventions. The agreements with the Implementing partners for providing financial services, shall incorporate suitable safeguard clauses and performance evaluation framework. The IPs shall comply with the National/IFAD procurement framework, which should be a part of the agreements. Simplified procurement guidelines may be developed by the PMU, for the use of IPs. The project properly shall sequence the activities, particularly at the startup phase and establish robust co-ordination and reporting mechanisms with the IPs.		
B.2 Assessment of Implementing Agency Capacity	**Moderate**	**Moderate**
Risk(s): Procurement strategy is not prepared and followed. Contract and grant agreement templates do not fully comply with IFAD SECAP provisions. Contract Management procedures are lacking and there is no contract management form and contract register is not updated, to ensure effective contract monitoring. Knowledge of IFAD procurement procedures needs to be improved. Substantial use of non-competitive procurement methods. e-GP system is not being effectively utilized. There is no evidence of procurement audit recommendations being implemented and monitored.		
Mitigations: Project Procurement Strategy prepared at the design stage shall be implemented. The contract and grant agreement templates shall be appended with IFAD SECAP standards applicable. The project shall nominate contract managers for large value contracts including grant agreements and a contract monitoring mechanism shall be established. CMT shall be used as an effective contract monitoring tool for risk management. The project shall maintain contract payment monitoring forms. Accounting software shall be used for effective monitoring. Sufficient procurement trainings shall be organized at the startup phase. Use of non-competitive bidding shall be identified in the PP and subject to IFAD prior process beyond PPA defined thresholds. FIRIP shall make use of e-GP system for all project procurement. FIRIP shall institute payment monitoring mechanism and exception reporting for delayed payments and implementation of audit recommendations.		
Project Procurement Overall	**Substantial**	**Substantial**
Risk(s): The ZPPA approves requests for many non-competitive bidding requests, which may lead to conflict of interest. Restrictions on the participation of foreign bidders have a risk of limiting competition. ZPPA reported compliance issues in procurement process, which has a risk of non-compliant procurement. The national SBDs are not in full compliance with IFAD procurement framework for other IFAD policies. Compliance issues have been flagged and the PEs do not appear to be fully accountable for their procurement decisions as per the reports of the ZPPA and AGO. Public availability of procurement data is limited. Procurement as a profession has not evolved and standards for procurement positions are yet to be defined and there is no training programs of suitable quality and content for the needs of the system. Procurement record retention needs to be improved. Contracts are substantially delayed. This has a potential risk for project implementation and achievement of project		

Risk categories and subcategories	Inherent	Residual
objectives. Despite a legal framework against fraud and corruption, there seems to be no systematic detection, prevention, and enforcement of procurement-related corruption cases, which might compromise on fairness and transparency and limit competition. AGO doesn't conduct separate procurement audits. No co-ordination controls appear to exist. Project involves many interdependent contracts, involving many implementing partners. Contract and grant agreement templates do not fully comply with IFAD SECAP provisions. Contract Management procedures are lacking to ensure effective contract monitoring. Knowledge of IFAD procurement procedures needs to be improved. Substantial use of non-competitive procurement methods. e-GP system is not being effectively utilized. There is no evidence of procurement audit recommendations being implemented and monitored.		
Mitigations: The use of less competitive methods shall be IFAD prior reviewed. FIRIP shall make use of appropriate national SBDs suitably supplemented with other associated IFADs policies. IFAD projects shall make use of eGP system for all project procurements. Project PIMs shall describe the contract management framework and develop adequate contract management capacity of project staff during the initial phases of the project. The procurement officers assigned to the project shall be encouraged to be enrolled in the BUILDPROC certification programs. Procurement records shall be retained as per the provisions of the IFAD Handbook. Project procurement requirement and contract awards shall be published in the project website as well as in ZPPA website. Procurement staff and other staff involved in IFAD project procurement shall sign the declaration of code of conduct and shall refrain from all kinds of fraud and corruption. The PMUs shall keep track of internal and external audit findings and recommendation and their implementation. Exception reporting on non-compliance shall be brought to the attention of the Project Steering Committees. Procurement audit teams shall have qualified procurement specialist. The project shall establish robust co-ordination and reporting mechanisms with the IPs. The contract and grant agreement templates shall be appended with IFAD SECAP standards applicable. The project shall nominate contract managers for grant agreements and a contract monitoring mechanism shall be established. Accounting software shall be used for effective monitoring of payment delays. Sufficient procurement trainings shall be organized at the startup phase. Use of non-competitive bidding shall be identified in the PP and subject to IFAD prior process beyond PPA defined thresholds. FIRIP shall make use of e-GP system for all project procurement. FIRIP shall institute exception reporting for delayed payments and implementation of audit recommendations.		
Financial management	**Substantial**	**Substantial**
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. 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.		
Mitigations: Using the terms of reference established in the PDR, the lead agency will commence the recruitment process as soon as it is notified of the project design approval. Provide training to FM staff to be recruited for the project on IFAD financial management procedures, including the new		

Risk categories and subcategories	Inherent	Residual
report-based disbursement model. Where possible, consider recruiting well performing FM staff from RUFEP to support implementation of the new project.		
Project budgeting	**Substantial**	**Substantial**
Risk(s): Budgets for the current IFAD supported project are reasonable. The process of developing the AWPBs is participatory. Approval of the budgets is done by the PSC, and there have been historical delays in prior projects in relation to approval of AWPBs. There is a risk of implementation delays due to late engagement of implementing partners. The PSC should be constituted early to ensure sufficient oversight of the budget preparation process.		
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.		
Project funds flow/disbursement arrangements	**Substantial**	**Substantial**
Risk(s): The project is likely to have multiple financing facilities. This could complicate the treasury arrangements leading to delays in accessing funding, thus adversely affecting implementation of project activities. Regardless of the outcome of the debt restructuring process, there is a risk that meeting the projected co-financing targets may be problematic.		
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.		
Project internal controls	**Substantial**	**Substantial**
Risk(s): There are sufficient controls within the government financial systems to effectively manage external funding. There haven't been incidences of government interference with project funds that would cast doubt on successful project implementation. There is a risk that with limited monitoring, the controls in place may not work optimally which could lead to inefficient and inappropriate use of project resources.		
Mitigations: FIRIP should be included in MoFNP's internal audit department's planning cycle, and adequate staff time and resources must be allocated accordingly. Scope of internal audit reviews should include entities implementing the project.		
Project accounting and financial reporting	**Substantial**	**Moderate**
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.		
Mitigations: Install 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. These audits are		

Risk categories and subcategories	Inherent	Residual
conducted in accordance with ISSAIs, globally accepted standards, with quality ranging between moderately 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.		
Mitigations: Timely preparation of audit terms of reference and submission to IFAD for No Objection. Draft financial statements to be submitted to the auditor within three months of the financial year end. FMD to provide capacity building to SAI around IFAD audit requirements. Annual audits of the project, covering the PFSPs (insofar as the project financing is concerned).		
Environment, social and climate impact	**Substantial**	**Moderate**
Biodiversity conservation	**Low**	**Low**
Risk(s): Zambia is endowed with abundant natural resources and a rich biological diversity, including wetlands and rivers, flora, and fauna, and agro biodiversity. The most serious threats to plant biodiversity and their habitats are deforestation and forest degradation. In northern Zambia, deforestation and forest degradation pose major threats to plant biodiversity. In the eastern, central, and southern regions of Zambia, the primary driver of forest cover loss and degradation is the conversion of forest land to permanent crop agriculture.		
Mitigations: The Project will support green and climate-smart investments along agricultural value chains. In addition, Community-Based Financial Institutions (CBFI) members will receive training in climate-smart and sustainable agricultural practices. In compliance with SECAP requirements, PFIs and will comply with SECAP requirements and IFAD's exclusion list.		
Resource efficiency and pollution prevention	**Moderate**	**Moderate**
Risk(s): The main sources of pollution in Zambia have been identified as primarily emanating from mining, industrial and agricultural activities, resulting in widespread damage to biodiversity, goods, and ecological services. Unsustainable utilization of forest and fish resources are also emerging as an important environmental problem in the region and needs serious attention.		
Mitigations: The Project will support the development of financial products for investments in green and climate-resilient technologies across agricultural and non-agricultural value chains. These technologies and practices may include agroforestry, precision agriculture, climate-smart and labour-saving agricultural methods, access to renewable energy, waste management and recycling, climate-resilient rural infrastructure, energy-efficient technologies for processing and value addition, and environmentally friendly packaging. Development of the ESG framework and its implementation by FSP.		
Cultural heritage	**Low**	**Low**
Risk(s): Zambia is home to one UNESCO World Heritage Site (Mosi-oa-Tunya / Victoria Falls) and five UNESCO cultural practices and expressions of intangible heritage (Kalela dance, Budima dance, Mooba dance of the Lenje ethnic group of Central Province of Zambia, Makishi masquerade, Gule Wamkulu). There are also several sites that are classified by the National Heritage Conservation Commission (NHCC) as national monuments, cultural sites and historic sites. In addition, each of the over 70 ethnic groups has unique traditions, practices and beliefs, including music, dance, and storytelling, which are important expressions of cultural identity.		

Risk categories and subcategories	Inherent	Residual
Mitigations: Given FIRIP's focus on financial services, agricultural, climate and green innovative solutions, the project interventions are not expected to alter, damage, or remove any tangible or intangible cultural heritage. An Environment and Climate Adaptation Specialist will be hired to ensure that no cultural heritage is damaged. A Grievance Redress Mechanism (GRM) will also be established to address any arising concerns and safeguard Zambia's cultural identity.		
Indigenous peoples	**Low**	**Low**
Risk(s): Zambia comprises at least 72 ethnic groups, most of which are Bantu-speaking. About 90% of the population falls into nine major ethnolinguistic groups: the Nyanja-Chewa, Bemba, Tonga, Tumbuka, Lunda, Luvale, Kaonde, Nkoya and Lozi. Although in Zambia there are peoples who identify themselves as indigenous, such as the San people, the Khoe people and the Batwa people, their exact number is not known, and the Government of Zambia does not recognize any specific group as indigenous.		
Mitigations: Considering Zambia's diverse population, FIRIP will not be implemented in areas where indigenous are present. In addition, the project will ensure that its activities have no adverse impacts on the rights of indigenous peoples or the lands, territories, and resources they claim. The project will adhere to IFAD's targeting guidelines to prevent adverse effects on Indigenous lands, resources, or cultural heritage. A Gender and Social Inclusion Officer will be appointed to ensure no significant adverse impacts on Indigenous peoples.		
Community health and safety	**Moderate**	**Moderate**
Risk(s): Gender inequality and patriarchal tendencies have a long-term impact on Zambian human and socioeconomic development. Power disparities between men and women have resulted in fewer opportunities for women to hold key decision-making positions and less access to productive resources. This has led to high rates of teen pregnancy, child marriage, and intimate partner violence (IPV), as well as low representation of women in formal employment and limited access to social services.		
Mitigations: Preventing and responding to gender-based violence is one of key priorities for the Government of Zambia. Strengthening CBFIs particularly contribute to women economic empowerment and that the development of gender and youth sensitive financial services and delivery mechanisms linked with financial literacy training will contribute to mitigate risks and redress in-equalities. A gender-transformative approach and strategy will be integrated in the project interventions, especially with smallholder farmers. Building on the RUFEP success and existing CBFIs and partners projects and curricula, FIRIP will integrate household methodologies in training to ensure male and community engagement, achieving balanced household dynamics, and challenging negative gender norms. This includes recruitment and training of Social Inclusion staff, gender audits, curricula assessments, and general training on gender and youth sensitive approaches for financial service development and delivery for FSPs.		
Labour and working conditions	**Low**	**Low**
Risk(s): Zambia has a young population and addressing youth employment challenges is critical to ensure the country benefits from a potential demographic dividend. Currently, the share of youth classified as Not in Education, Employment, or Training (NEET) in Zambia is much higher than the regional or global average, with 47 percent of people between the ages of 15 and 35 years not working or unemployed.		

Risk categories and subcategories	Inherent	Residual
Mitigations: Better access to a diverse range of products and services (through client-centric savings, loans, payments, insurance products and delivery mechanism and alternative collateral instruments) result in higher and more stable incomes, decent jobs, more resilient livelihoods, leading to inclusive and green rural economic growth and reduced poverty.		
Physical and economic resettlement	**Low**	**Low**
Risk(s): Land allocation in Zambia is governed by the Lands Act of 1995, which classifies land into customary and state categories. Customary land constitutes 94% of the country's total area, with smallholders predominantly cultivating it. FIRIP interventions are not directly linked to access to land for improving rural livelihoods. However, the lack of titling for customary land presents challenges for securing agricultural credit, as banks do not accept proof of land occupation as collateral. Smallholders face significant barriers in accessing credit to increase their income. State land, accounting for 6%, is managed by the President and overseen by various professional bodies.		
Mitigations: Drawing upon lessons learned from RUFEP, FIRIP aims to explore the utilization of movable assets as collateral. This approach may contribute to bridging the access gap and enable a more diverse range of clients to secure the financial support they need. Through client-centric product design supported under the Investment and Operations Financing (IOF), FIRIP intends to scale up warehouse receipts and collateral substitutes, such as joint liability groups (e.g., within VSLAs), personal guarantors, reputational capital (borrowers aiming to maintain creditworthiness with lenders), and track records with lenders (including past loans taken and repaid), as well as contracts and past product delivery with off-takers.		
Financial intermediaries and direct investments	**Moderate**	**Moderate**
Risk(s): The project will collaborate with a diverse range of actors within the financial sector. These actors have varying capacities in terms of developing and implementing Environmental, Social, and Governance (ESG) policies and strategies.		
Mitigations: The PCU will assess if the Partnering Financial Service Providers (PFSP) have in place environmental and social systems, procedures, and capacities for assessing, managing, and monitoring risks and impacts of direct investments and FI subprojects; and (ii) a portfolio risk-management framework that ensures a return on investment and sustainability. The new financial services supported under the IOF will need to meet basic ESG principles and standards, in line with the Regulation currently developed and supported under component 1.		
Climate change	**Substantial**	**Substantial**
Risk(s): Drought, erratic rainfall, and flooding are likely to have adverse effects on crop yield and productivity due to water scarcity, increased prevalence of pests and diseases, and intermittent waterlogging of the soil. Increased temperatures and erratic rainfall may also necessitate adapting and adjusting crop planting, sowing, and harvesting schedules.		
Mitigations: The Project will promote environmentally friendly and climate-smart investments. Moreover, members of Community-Based Financial Institutions (CBFIs) will receive training in sustainable and climate-smart agricultural practices and technologies. Moreover, improved access to a diverse range of financial services, including savings, insurance, payment products as well as emergency loans, enhance the resilience of target populations against climate change related shocks and extreme weather events.		
Stakeholders	**Substantial**	**Substantial**

Risk categories and subcategories	Inherent	Residual
Stakeholder engagement/coordination	**Moderate**	**Moderate**
Risk(s): Stakeholders from both the public and private sectors were involved in consultations during the preparation of the PCN and PDR stage. Throughout the mission, these stakeholders attended a session where the project's goal, objectives, approach, and theory of change were presented to gather their feedback. The IFAD Country Office (ICO) also plays an active role in the Agriculture Donors Working Group and maintains significant relationships with stakeholders within these groups. Furthermore, the ICO has developed a Country Partnerships Engagement Plan (CPEP) to identify and assess potential collaborations for IFAD's work in the country. However, the increasing number of partners and players in the sector raises the risk of duplicating activities and overlapping efforts. Additionally, there is a risk of policy cohesion gaps, resulting in stakeholders operating in silos and engaging in similar activities, which could minimize the impact on the ground.		
Mitigations: Throughout the full design process, a consultative approach involving relevant stakeholders has been introduced to identify and examine further potential collaboration areas, both financial and non-financial (e.g., Technical Assistance). During the project's implementation, stakeholder meetings will be organized to facilitate knowledge sharing and information dissemination, thereby enhancing the implementation of project activities. The project will also maintain constant communication with relevant stakeholders concerning the support of policy and regulatory frameworks, ensuring cohesion among stakeholders.		
Stakeholder grievances	**Substantial**	**Substantial**
Risk(s): The project will engage with a diverse array of stakeholders, including smallholder farmers, CBFI promoters, and financial institutions. This engagement, coupled with increased access to diversified financial services, may pose a risk that stakeholders' grievances might not be recorded and resolved efficiently and promptly.		
Mitigations: The Project will establish a multi-level grievance redress mechanism (GRM) to resolve disputes arising from project development, implementation, and operation. All stakeholders will be informed about the GRM and educated on how to submit complaints and follow up on the resolution of any grievances. The project will improve the existing grievance mechanisms for digital financial services by further digitization to make filing of complaints easier for low-income rural customers and automatically lodge complaints falling onto the respective responsibilities of ZICTA and BOZ. These actions will make the mechanism more agile and client responsive and largely reduce processing and response times.		