Distribution: Restricted
Original: English

EB 99/68/R.22/Rev.1
Agenda Item 8(b)(iv)

9 December 1999
English

IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Sixty-Eighth Session

Rome, 8-9 December 1999

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF ZAMBIA

FOR THE

SMALLHOLDER ENTERPRISE AND MARKETING PROGRAMME

Document #: 65476
Library:DMS

TABLE OF CONTENTS

APPENDIXES

CURRENCY EQUIVALENTS

Currency Unit	=	Zambian Kwacha (ZMK)
USD 1.00	=	ZMK 2 500
ZMK 1.00	=	USD 0.00044

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

ASIP	Agricultural Sector Investment Programme
FARGs	Focal Area Resource Groups
FMU	Financial Management Unit
M&E	Monitoring and Evaluation
MAFF	Ministry of Agriculture, Food and Fisheries
MFED	Ministry of Finance and Economic Development
MLGH	Ministry of Local Government and Housing
NGOs	Non-Governmental Organizations
NRB	National Roads Board
PCC	Programme Consultative Committee
PCO	Programme Coordination Office

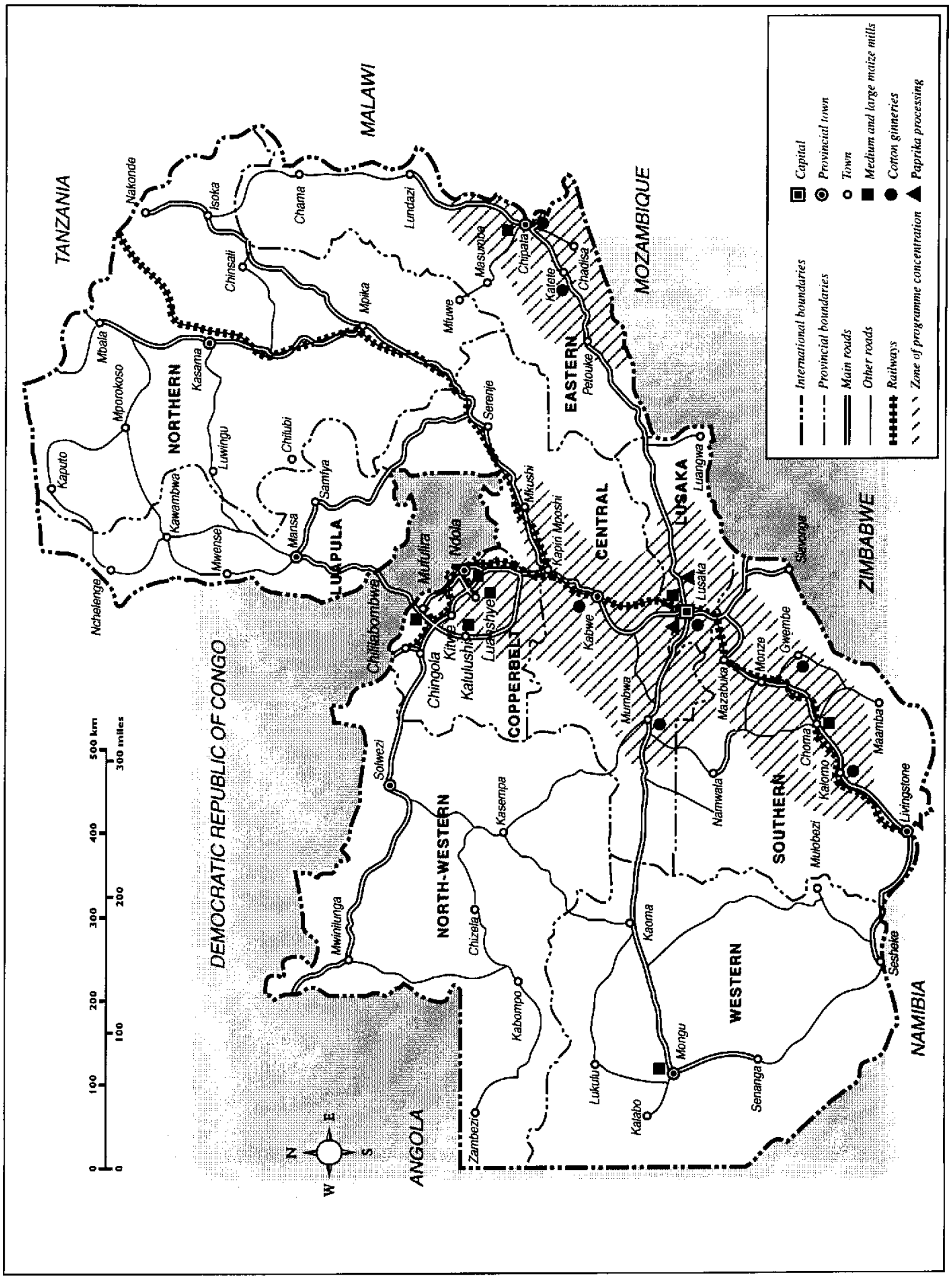
GOVERNMENT OF THE REPUBLIC OF ZAMBIA

Fiscal Year

1 January - 31 December

MAP OF THE PROGRAMME AREA

REPUBLIC OF ZAMBIA
SMALLHOLDER ENTERPRISE AND MARKETING PROGRAMME
Map 1. Areas of programme concentration



Source: IFAD Appraisal Report

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.

REPUBLIC OF ZAMBIA

SMALLHOLDER ENTERPRISE AND MARKETING PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Zambia
EXECUTING AGENCY:	Ministry of Agriculture, Food and Fisheries (MAFF)
TOTAL PROGRAMME COST:	USD 18.3 million
AMOUNT OF IFAD LOAN:	SDR 11.55 million (equivalent to approximately USD 15.9 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	None
CONTRIBUTION OF BORROWER:	USD 1.6 million
IN-KIND CONTRIBUTIONS:	USD 0.8 million from NGOs and market intermediaries
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	IFAD-supervised

PROGRAMME BRIEF

Who are the beneficiaries?

The direct and indirect beneficiaries of all programme activities will be the smallholder farmers living in seven focal areas and ten smaller nodes that comprise the programme area. Within the total estimated population of some 300 000 households, the programme's target population will number about 85 000 households. About one third of them are expected to participate actively in the programme, including some 20 000 to 25 000 households that will benefit directly from enterprise-group formation and strengthening activities. A larger number of households, estimated at 50 000-60 000 will benefit indirectly, mainly through improved year-round physical accessibility.

Why are they poor?

In 1998, eighty-two per cent of the rural population in Zambia was classified as poor, i.e. as having an income below the level required to meet basic household needs. In Zambia, this is established at the equivalent of USD 0.63 per day. Lack of access to inputs and services and to transport, market and social infrastructure and inappropriate economic policies were found to be the major factors in poverty. Economic reforms to reverse unsustainable interventionist policies of the past have yet to make a positive impact on the livelihoods of the rural poor, and in the short term increased the burden on household budgets through higher transport costs, input prices and interest rates.

What will the proposed programme do for them?

Despite their relative isolation, the poor are linked to input supply and product markets, and are responsive to developments in these markets. However, their lack of knowledge and inability to effectively interact with the market constrains their integration into the market economy, as does a narrow range of production possibilities, distance and poor accessibility. Smallholders will benefit from a combination of market linkage mechanisms, which the programme will support to facilitate the formation and strengthening of smallholder enterprise groups, with the skills and "critical mass" necessary to interact profitably with market intermediaries; improve physical access to input and output markets through road improvements; promote diversification in the production and marketing of smallholder crop and other enterprises; and help create a more efficient and competitive network of traders and service providers serving smallholder farmers.

How will the beneficiaries participate in the programme?

The beneficiaries will participate in the planning and implementation processes to ensure responsiveness of interventions to smallholders' interests and priorities. The programme will establish focal area resource groups (FARGs), comprised of representatives of smallholder groups, market intermediaries and other key stakeholders (both male and female representation), to do the following: (a) work with programme implementing agencies to select the areas of intervention; (b) identify the constraints, opportunities and priorities of smallholders and other key stakeholders in the area; (c) discuss the potential for successful implementation of programme initiatives; and (d) prepare the focal area strategy and programme of activities. Throughout implementation, each FARG will play a key role in monitoring the performance and impact of programme activities in its area.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE REPUBLIC OF ZAMBIA FOR THE SMALLHOLDER ENTERPRISE AND MARKETING PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the Republic of Zambia for SDR 11.55 million (equivalent to approximately USD 15.9 million) on highly concessional terms to help finance the Smallholder Enterprise and Marketing Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It is proposed that this IFAD-initiated programme be directly supervised by the Fund in view of its focus on development of market linkages upon which IFAD has a regional strategic focus, and of its innovative elements with respect to outsourcing large elements of programme implementation to contracted non-governmental and service organizations.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Sector

1. Zambia is a landlocked country of about 750 000 km^2, sharing borders with Angola, Botswana, D.R. Congo, Mozambique, Namibia, Tanzania and Zimbabwe. With a total population of about 9.5 million, its overall population density at 12.7 persons per km^2 is low. Population is concentrated along what is called the "line of rail" (Southern, Central, Lusaka and Copperbelt Provinces) and the adjoining Eastern Province. Zambia is highly urbanized, with about 43% of its people living in cities and towns.

2. Until the 1970s, the economy depended heavily on copper mining. During this period an interventionist regime pursued agricultural policy aims through price subsidies, centralized delivery of inputs and services, and parastatal dominance of agricultural processing, marketing and distribution. Growth of local commercial networks and rural enterprises was inhibited. Redirection of government policy towards a market system began in 1992, when the Government withdrew from most agricultural production and input supply, and removed marketing and price controls. However, the Government's sporadic interventions in fertilizer and maize markets constrained the effectiveness of the private sector and the overall performance of the economy has not improved. Between 1992 and 1996, total GDP declined by 3.9% and per person GDP by 13.5%. Nonetheless, the World Bank projects that Zambia has the potential to achieve an annual GDP growth of 4% to 5% over the next decade with agriculture as the main engine of future growth. It provides livelihoods for about 50% of the population.

3. Zambian agriculture is predominantly rainfed and is dominated by smallholders who constitute about three quarters of the 900 000 farm households, some 650 000 households in total[2]. They contribute 65% of the maize, 75% of groundnut, 85% of sorghum, 95% of millet, 55% of sunflower and 95% of cotton output. The experience in Zambia demonstrated that when production know-how and market access are made available, small-scale farmers respond quickly. The most dramatic

[1] See Appendix I for additional information.

[2] "Smallholder" refers to a farmer with usage rights (but no title) to 5 ha of land on which he/she cultivates up to 3 ha, typically using only family labour and no oxen or mechanized implements. The other categories "emergent farmers", who normally have title to 5-30 ha and number some 120 000; and about 26 000 "commercial farmers", who typically have over 30 ha of land.

change since market liberalization has been the emergence of outgrowing arrangements whereby farmers grow a crop for an organization that supplies and finances services and inputs and buys the produce. There are now 150 000 smallholder cotton outgrowers. Parallel with this development is the emergence of an expanding body of market intermediaries, ranging in size from small rural village traders to large companies operating nation-wide. It is anticipated that the increase in the number of market intermediaries and competition will progressively lead to lower input prices, better selling prices and improved service for smallholders. However, much still needs to be done to achieve an efficiently operating market.

4. Planning and administration of all public and most donor expenditure in the agriculture sector are guided by the Agricultural Sector Investment Programme (ASIP), comprising: (a) the Agricultural Sector Public Investment Programme, managed by the Ministry of Agriculture, Food and Fisheries (MAFF); and (b) other mechanisms/facilities predominantly aimed at or provided by the private sector, managed outside of MAFF, with the ASIP Consultative Forum. These involve representatives from the Government, donors, the private sector, non-governmental organizations (NGOs) and farmer associations, which play the lead coordinating role in addressing cross-cutting issues. An associated body, set up in conjunction with these initiatives is the Agribusiness Forum, which brings together leading agribusiness concerns, and acts both as a lobby group and a common point for the Government and donors to interact with the private sector.

B. Lessons Learned from Previous IFAD Experience

5. IFAD has funded six projects in Zambia since 1982, with a total loan commitment of SDR 59.0 million. The initial projects sought to cushion the effects of a centralized planned economy on the rural poor; these projects are now closed. The three projects approved since 1991 are fully integrated in the ASIP framework. The Northwestern Province Area Development Project - Phase II focuses on the needs of subsistence level farmers and vulnerable groups. The Southern Province Household Food Security Programme is directed towards increasing the resilience of food insecure households to drought. They are area-based, multicomponent programmes. The third intervention, the Smallholder Irrigation and Water Use Programme, intends to improve food security and nutrition through the rehabilitation of small water storage structures and the dissemination of simple irrigation technologies. These projects, aimed at the more vulnerable and food-insecure households, are having an impact, and have been responsive to unforeseen emergencies, e.g. crop disease, drought and shortage of seed.

6. The following lessons have emerged from IFAD's ongoing experience in Zambia: (a) conventional research and extension approaches through public delivery of services have proved ineffective, and there is need to develop farmer-led approaches and to better integrate research and extension functions; (b) interventions in area-based projects have not been well coordinated to ensure complementarity between support activities; (c) project implementation has generally been marred by high government staff turnover, delayed procurement and inadequate domestic funding; (d) project supervision has not always provided the guidance needed; and (e) insufficient understanding of group formation objectives and processes resulted in a lack of focus and cohesion of groups. Adequate time and resources are required to ensure that group mobilization is based on cohesion and self-reliance.

C. IFAD's Strategy for Collaboration with Zambia

Poverty Eradication

7. In 1998, sixty-one per cent of the country's population was classified as poor, i.e. having insufficient income to meet basic household needs, equivalent to an annual income of ZMK 540 000 (USD 230). Poverty in rural areas is markedly greater than in urban areas: 82% of the rural population lived below the poverty line in 1998; 41% in urban areas. An earlier study from 1996 found only a 6% difference between the province with the highest level of poverty and that with the lowest. The Government's immediate policy objectives include reducing the incidence of poverty from the present

61 to 50% by the year 2004. It is drawing up a national poverty reduction strategy framework to define the actions to reach this objective. There is a realization that actions are needed to accelerate the rate at which benefits from overall growth accrue to the poor. Actions are required that promote the economic empowerment of the rural poor by enhancing the productivity of smallholders, principally by facilitating linkages to private-sector investments and operations through effective market organization and development. It is also recognized that the rapid and broad-based growth essential for reducing poverty needs to be complemented in low potential marginal areas with direct poverty alleviation initiatives, by the public sector, including the types of smallholder support operations assisted by IFAD under the ASIP.

IFAD's Policy for Poverty Eradication

8. The present IFAD strategy in Zambia derives from the view that, in the current economic environment that resulted from the market liberalization process begun in 1992, the continued exclusive emphasis on subsistence-oriented production (beyond existing commitments under the Zambia ASIP) will neither allow the agriculture sector to achieve growth levels that might have an impact on poverty, nor generate the resources needed to sustain the development of economic and social services for smallholders. Future agricultural growth will be market-led, with the private sector as the key force. Opportunities for smallholders to contribute to and benefit from agricultural growth exist now and will expand as liberalization allows the release of market forces. Smallholders' responses to the market and their taking advantage of the opportunities emerging as liberalization proceeds will lead to their growing a broader range of commodities and diversifying farm systems.

9. IFAD's major strategic niche will lie in devising mechanisms that will enable the poor to benefit from the opportunities offered by the commercialization of smallholder agriculture, by promoting the linkage of smallholders to markets for crops in which they have a comparative advantage and optimizing the terms of engagement of smallholders with the private sector. IFAD's role is to bring together the various actors – the private sector, smallholders and the public sector - in a partnership that ensures equitable returns to the smallholders. Interventions should always target smallholders and comprise a package of activities to enable both the higher potential (but still poor) smallholders and the less advantaged, assetless farmers to participate and benefit. A poverty-sensitive commercialization strategy will simultaneously support promotion of market opportunities for smallholders and the rehabilitation of feeder roads to facilitate wider outreach, using labour-intensive methods in order to inject cash into the local economy, at the same time as facilitating the process of capitalization of assetless farmers. The development of savings and credit facilities will further support this process of rural capitalization.

Programme Rationale

10. Smallholders are primarily concerned with their own food security, the improved production of subsistence grains perhaps being their most important objective. However, increased subsistence alone cannot solve the poverty problem. First, increased subsistence production depends upon the application of purchased inputs, only feasible if the farmer has access to cash. Second, the upper limit of possible income from subsistence production alone falls far short of the poverty line. In the absence of functioning markets, smallholders have little choice but to produce subsistence crops at a low input level: they are locked in a vicious circle of low income and food insecurity. The challenge, therefore, is to create new opportunities for the successful production and marketing of higher value crops, to help smallholders afford the inputs needed for improved food production, and so break the cycle of poverty. The goal for smallholder agriculture is a framework in which smallholders act as entrepreneurs who access credit for investment and working capital purposes, purchase appropriate inputs from competing suppliers, use effective extension services to produce their chosen crops and sell output to competing purchasers. However, the interaction of a complex set of policy, institutional and economic factors renders the optimum policy and economic framework for most of Zambia's small farmers only attainable in the distant future. The programme will support this process by creating new opportunities for smallholders to participate in the cash economy, and helping existing

linkages work more smoothly, by emphasizing interventions that contribute to reducing the high transaction costs that depress the returns to both smallholders and market intermediaries.

PART II - THE PROGRAMME

A. Programme Area and Target Group

11. **Programme area.** The programme will be national in scope, but will support interventions in certain locations or "focal areas" that have a comparative advantage for agricultural production and allow for effective application of market-linkage mechanisms. These areas will not be specified in terms of administrative boundaries, but rather by the application, through an interactive process, of the following criteria: (a) concentration of trading/processing and economic activity; (b) concentration of smallholders producing or with potential to produce marketable surpluses; and (c) accessibility. It is anticipated that the programme focal areas will be located predominantly in the provinces along the 'line of rail' (Southern, Central, Lusaka), but also including parts of Eastern Province and small parts of adjoining provinces such as Copperbelt, where there is concentration of people and agricultural and trading activity. Each focal area contains about 30 000 to 50 000 rural households and encompassing parts of two to three districts, depending on size and population density The programme will also intervene in support of market linkages in smaller 'nodes' of agricultural marketing/production activity in the more remote parts of the country generally referred to as the 'outlying areas'. The size of these nodes will vary, but are expected to be considerably smaller than the focal areas. They could contain from 2 000 to 5 000 rural households.

12. **Target group.** The prime target group for the programme is smallholder farmers. They will be the direct and indirect beneficiaries of all programme activities. As the incidence of poverty is ubiquitous in rural Zambia, the entire programme target group will be classified as poor[3]; most would be considered extremely poor by international standards. While the per cent of poor persons and the incidence of extreme poverty is highest in the less populated outlying areas, in terms of absolute numbers, the more populated provinces have by far the largest numbers of poor. The programme's targeted areas of concentration contain over half of those households that are classified nationally as poor.

13. Targeting will be an integral part of the planning process in the focal areas. Broad interactive strategy sessions will be followed by more intensive working sessions in representative communities to determine the priorities of the different interest groups, including women, youth and other segments that often do not have an adequate voice. The techniques used will include participatory rural appraisal (PRA), rapid rural appraisal (RRA) and other qualitative instruments that aim at facilitating active target group involvement in the definition of relevant opportunities and needs. Its object will be to ensure that the 'menu' developed for a particular focal area fully responds to target group needs; that the participation of the poorer members of the communities is encouraged; and that there are no barriers to participation in the groups. Participation and impact of activities on vulnerable groups will be monitored and the two programme reviews will include an assessment of beneficiary participation and of how the different segments of the rural population are affected by programme activities.

B. Objectives and Scope

14. **Programme objectives.** The primary objective of the programme is to improve smallholder farmers' access to input and output markets, with the overall goal of realizing increased smallholder incomes and food security. This will be achieved through five intermediate objectives: (a) facilitate the formation and strengthening of smallholder-enterprise groups and the development of capacity in local institutions to implement such activities; (b) improve physical access to input and output markets in concert with market linkage initiatives; (c) facilitate a cost-effective, competitive and efficient network of agribusiness/trading enterprises that serve smallholder farmers; (d) promote

[3] Having an annual income of not more than ZMK 540 000, equivalent to USD 0.63 per day.

diversification in production and marketing of smallholder crops/enterprises; and (e) strengthen the policy, legislative and institutional framework for improving smallholder-market linkages.

C. Components

15. The programme is split into three investment components: (a) support for smallholder enterprise group development; (b) market linkage development; and (c) policy, legislative and institutional support.

Support for Smallholder Enterprise Group Development

16. The programme will provide USD 4.2 million to strengthen smallholder capacity to participate in input and output markets. Support will be provided to form and train smallholder enterprise groups and to develop the capacity of local NGOs to carry out group development activities. The phasing and allocation of programme resources to group formation and strengthening will be closely coordinated with the Norwegian Agency for International Development (NORAD)-funded initiative "Support to Capacity Building in Farmer Associations in Zambia". The number of enterprise groups and associations will depend on the planning and prioritization process, and the particular circumstances in each focal area and node. But it is expected that about 1 200 groups, with a total membership of 20 000 – 30 000 households, will be formed or strengthened over the seven-year programme period.

Market Linkage Development

17. This component will finance activities that improve the relationship between the smallholder and the market intermediary. All component interventions will be financed by a flexible fund of USD 8.8 million, falling into three groups: (a) access road improvement; (b) support for smallholder-market intermediaries; and (c) support for market diversification. The emphasis given to any activity will depend on the needs and priorities as expressed in the focal areas, and how successfully it has been implemented to-date.

18. Access road improvement has been costed to provide for the full rehabilitation of about 185 km primary access roads, spot improvement to another 475 km, routine maintenance of 510 km, all using labour-intensive methods; and for the training of about ten small-scale local road contractors.

19. Support for smallholder market intermediaries includes:

- Rural inventory credit scheme: to enable small traders and smallholder associations to access credit from a commercial bank against receipts for deposits of agricultural produce in accredited, privately managed warehouses.

- Support for rural input supply agents: to support a network of rural-based traders to stock and sell a selected range of agricultural inputs required by smallholders, by providing inventory guarantees that enable the traders to purchase larger quantities of key goods, thus being able to secure volume discounts.

- Female-focused market linkages facility: to develop pilot initiatives to link market intermediaries to women's associations and groups to help integrate investments to which women attach a high priority and are responsive to their constraints.

- Training of market intermediaries: to train small traders and other small-scale market intermediaries on, for example, the correct storage of agro-chemicals and crops, small business management and accounting, interaction with smallholders and larger trading enterprises.

- Smallholder/market intermediary fora: to bring together smallholder groups and market intermediaries to discuss common problems that constrain the effective marketing of agricultural inputs and produce.

- Technical support for agribusiness and trading enterprises: to support agribusiness and trading enterprises in recognizing market opportunities, improving post-harvest handling, broadening the range of services offered to smallholders and expanding their outreach into previously under-serviced areas.

- Code of conduct/best practices: to support the preparation of a code of conduct for the main market intermediaries that work with smallholders.

- Facilitating the privatization of the Government's agricultural assets: to assist the privatization of the Government's assets, assessed as having potential for transferring benefits to smallholders.

20. Support for market diversification will comprise three inter-linked activities:

- National market diversification initiative: to prepare marketing system studies into new and promising crops and other enterprises for appraisal of market opportunities; and constraints analysis, preparation of training/extension materials and manuals and linkage between buyers and producers. Implementation will be coordinated with the United States Agency for International Development (USAID)-funded Zambian Agribusiness Training Centre (ZATAC) project, which is likely to support complementary initiatives.

- Focal area market diversification support: to organize workshops and other fora, including both smallholders and potential buyers/market intermediaries; to identify crops and other enterprises that have promise in each focal area; and to discuss opportunities that have arisen in the national market linkage diversification initiative.

- Contract research: to finance contracts between enterprise groups/associations and research institutions; and to undertake research on crop and other enterprise opportunities arising out of the above two activities and others, agreed as having high potential for smallholders.

Policy, Legislative and Institutional Support

21. The programme will provide USD 4.6 million to promote a more positive policy environment for smallholder linkages with markets, to prepare and disseminate market information, and establish capacity to manage the programme.

- Policy/legislative support to facilitate studies, analyses and debate on major policy, with the active involvement and participation of policy recipients (the smallholders, traders, agribusiness companies), and to develop appropriate legislation;

- Technical/management assistance for programme implementation to support: (a) districts that fall within each focal area to assist in the planning, supervision and certification of completion of road works; (b) production of market reports, bulletins, newsletters and radio broadcasts; (c) training of smallholder group leaders and trainers involved in marketing extension programmes; and (d) recruitment of specialist, short-term assistance necessary to manage and operate the programme; and

- Programme management to establish a programme coordination office (PCO) to run the programme professionally, incorporating sound financial, contract and procurement management, and a strong planning and monitoring capacity, with the ability to effectively coordinate different stakeholders.

D. Costs and Financing

22. **Programme cost.** The total programme costs are estimated at USD 18.3 million, with a base cost of USD 17.6 million. Foreign exchange content is low, at USD 4.6 million or 26% of the total base costs, mainly due to the limited use of international experts and limited need for international procurement.

23. The costs of the support for smallholder enterprise group development component will be drawn down from a single flexible fund, the smallholder enterprise group development fund, to allow programme management to adjust allocation between the two sub-components based on the actual demands coming out of the focal/node areas. Similarly, another fund, the market linkages fund, will facilitate allocation of finance among the three investment sub-components of the market linkage development component. The entire 74% of programme investment that will be disbursed through these two funds will directly or indirectly benefit smallholders. Another 12% will be for policy/legislative development and technical/institutional support; and 14% for programme management.

TABLE 1: SUMMARY OF PROGRAMME COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Support for smallholder enterprise group development					
1. Formation/strengthening of smallholder enterprise groups	3 510	394	3 904	10	22
2. Strengthening of local NGO capacity	176	131	307	43	2
Subtotal	**3 686**	**525**	**4 211**	**12**	**24**
B. Market linkage development					
1. Access road improvement	3 507	1 400	4 907	29	28
2. Support for smallholder market intermediaries	1 848	906	2 754	33	16
3. Support for market diversification	914	256	1 170	22	7
Subtotal	**6 269**	**2 561**	**8 831**	**29**	**50**
C. Policy, legislative and institutional support					
1. Policy/legislative support	305	99	405	25	2
2. Technical/management support for programme implementation	1 209	467	1 676	28	10
3. Programme management	1 625	889	2 514	35	14
Subtotal	**3 139**	**1 455**	**4 594**	**32**	**26**
Total base costs	**13 094**	**4 541**	**17 636**	**26**	**100**
Physical contingencies	115	88	203	43	1
Price contingencies	59	454	513	89	3
Total programme costs	**13 268**	**5 083**	**18 352**	**28**	**104**

[a] Discrepancies in totals are due to rounding.

24. **Financing plan.** Of the total USD 18.3 million, IFAD's contribution amounts to USD 15.9 million. The Government's contribution, exclusively for taxes and duties, amounts to USD 1.6 million, or 8.6%. Taxes will either be payable in cash, or where exemptions are effective, will be represented as taxes forgone and recorded as such. Duties are equivalent to public revenue foregone. In-kind contributions from international NGOs and market intermediaries will be USD 0.8 million, or 4.6%. The financing plan is shown in Table 2.

TABLE 2: FINANCING PLAN[a]
(USD ‘000)

	IFAD Amount	%	NGOs and Market Intermediaries Amount	%	Government Amount	%	Total Amount	%	For. Exch.	Local (Excl. Taxes)	Duties & Taxes
A. Support for smallholder enterprise group development											
1. Formation/strengthening of smallholder enterprise groups	3 465	87.7	485	12.3	-0	-0.0	3 950	21.5	440	3 510	-
2. Strengthening of local NGO capacity	277	85.1	-	-	48	14.9	325	1.8	147	130	48
Subtotal	3 742	87.5	485	11.3	48	1.1	4 275	23.3	586	3 640	48
B. Market linkage development											
1. Access road improvement	4 353	85.5	-	-	741	14.5	5 094	27.8	1 559	2 794	741
2. Support for smallholder market intermediaries	2 223	76.5	315	10.8	369	12.7	2 907	15.8	1 009	1 528	369
3. Support for market diversification	1 030	85.7	36	3.0	135	11.3	1 202	6.5	283	783	135
Subtotal	7 606	82.7	351	3.8	1 245	13.5	9 202	50.1	2 852	5 105	1 245
C. Policy, legislative and institutional support											
1. Policy/legislative support	395	96.1	-	-	16	3.9	411	2.2	105	290	16
2. Technical/management support for programme implementation	1 657	93.5	-	-	115	6.5	1 772	9.7	530	1 127	115
3. Programme management	2 538	94.3	-	-	154	5.7	2 692	14.7	1 010	1 528	154
Subtotal	4 590	94.2	-	-	285	5.8	4 875	26.6	1 645	2 944	285
Total disbursement	15 937	86.8	836	4.6	1 579	8.6	18 352	100.0	5 083	11 689	1 579

[a] Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

25. **Procurement.** Overall responsibility for procurement and the signing of contracts will rest with MAFF. The PCO contracts/financial manager will be responsible for organizing all procurement. Procurement will be carried out in accordance with IFAD's guidelines and government procedures to the extent that these are acceptable to IFAD. The following procedures will be used for goods and services under the policy, legislative and institutional support component: contracts costing USD 200 000 or more will be procured using international competitive bidding; contracts costing less than USD 200 000 and more than USD 10 000 will be procured by local competitive bidding; contracts costing USD 10 000 or less will be procured locally, after obtaining at least three bids from reputable suppliers. International shopping procedures will be used for the procurement of all services relating to the support for smallholder enterprise group development component, the market linkage development component and for technical assistance costing more than USD 20 000; and local shopping will be used for technical assistance contracts costing USD 20 000 or less.

26. **Disbursement**. The IFAD loan will be implemented over seven years. The Government will open a special account in United States dollars at a commercial bank acceptable to IFAD. Upon the Government's request, IFAD will deposit USD 750 000 into the special account, which will be replenished quarterly upon presentation of appropriate documentation to IFAD. Government funds will flow into the existing MAFF financial management unit (FMU) account, which receives all government contributions to MAFF-managed projects.

27. **Accounts and audits.** A programme account in Zambian Kwacha will be opened to receive funds from the special account and the Government's contribution. The programme account will be used for expenditure and managed by the PCO, including day-to-day operational expenditure and contracts up to the equivalent of USD 250 000. Annual reconciliation of the programme and special accounts will be carried out by the PCO and FMU during the third month of the following year as a precondition for replenishment.

28. The consolidated financial statements will be subject to an independent annual audit. Within six months of the end of the fiscal year, the MAFF will submit the auditor's report to IFAD.

F. Organization and Management

29. **Stakeholder participation.** In addition to the Government, which has ultimate responsibility for the programme, programme stakeholders will include smallholders, farmer groups and associations, input and output traders, trading and transport enterprises, agricultural processors, outgrower companies, contractors, consultants and service providers, research organizations, national and international NGOs, donors and other projects and programmes. Beneficiary participation in planning and implementation will be crucial for ensuring the responsiveness of interventions to smallholders' interests. The programme will establish focal area resource groups (FARGs), comprised of representatives of smallholder groups and other key stakeholders (with both male and female representatives) to do the following: (a) work with the PCO to select the focal areas of intervention; (b) identify constraints, opportunities and priorities of smallholders and other key stakeholders in the area; (c) discuss the potential for successful implementation of programme initiatives; and (d) prepare the focal area strategy and programme of activities. Subsequently, the FARG will play a key role in monitoring the performance and impact of programme activities in its area.

30. **Management and coordination.** The MAFF will have overall responsibility for the programme and for ensuring complementarity between the programme and other projects managed by the Ministry. It will approve annual work plans and budgets and ensure their inclusion in the Government's global budget. It will oversee the procurement process and be accountable for all expenditure and progress against the programme's plans, budgets and objectives. The Ministry of

Local Government and Housing (MLGH) will ensure that road works follow government policy, and will coordinate with the National Roads Board (NRB) the allocation of resources to road maintenance once programme liability ends. District councils will assist with the supervision of road works and registration of improved roads with the road fund for maintenance purposes. The Ministry of Finance and Economic Development (MFED) will be responsible for financial oversight and for facilitating the Government's financial contribution to the programme.

31. **Programme oversight.** A Programme Consultative Committee (PCC) will be established under the auspices of MAFF. It will comprise representatives of the MAFF, the Ministry of Finance and Economic Development (MFED), the Ministry of Local Government and Housing (MLGH), the Ministry of Environment and Natural Resources (MENR), the National Roads Board (NRB), farmer associations, agribusiness companies, commercial banks, NGOs, donors and the implementing agency for the NORAD-funded project. The PCC will facilitate consensus building on policy and legislative issues; ensure high level coordination with the concerned ministries and stakeholders; review plans, budgets, progress reports and impact studies; and make recommendations on actions required to ensure achievement of programme objectives.

32. **Programme facilitation**. Day-to-day management will be the responsibility of the PCO. Its staff will be comprised of a programme coordinator, who will be assisted by a contracts/financial manager, a planning and monitoring and evaluation (M&E) officer, two senior facilitators, an administrator, and a regionally recruited agribusiness specialist for the first two years of the programme.

33. **Reporting, supervision and monitoring and evaluation.** The planning/M&E officer in the PCO will be responsible for the definition and management of the programme M&E system. The basis for the monitoring system will be a quarterly reporting structure set against the logframe[4], and the annual workplans and budgets organized by programme component. The main weight of monitoring will fall on service providers executing contracts in the focal areas. Contracted service providers and relevant PCO staff will report quarterly to the M&E officer. The PCO will report to MAFF, the PCC, and IFAD no later than two months following each quarter.

34. The M&E officer, supported by the facilitators, will organize a benchmark survey of programme impact indicators as an integral part of each focal area needs assessment. In addition, the M&E officer will be responsible for organizing activity-specific impact case studies, assessing the impact of policy changes on smallholders and other stakeholders in the private sector, and ensuring that the programme continues to be oriented to the benefit of smallholders. Two tri-term reviews will be carried out during the seven-year implementation period, to assess programme progress against the established objectives and the performance of service providers. They will identify key implementation issues and recommend solutions, including modifications to programme design, and scope and implementation arrangements required to ensure the achievement of programme objectives.

G. Economic Justification

35. **Production, marketing and prices.** In financial and economic terms, the two major impacts of the programme will be: (a) a reduction in transaction costs for market operations, and (b) an increase in volumes traded, for both agricultural commodities and inputs, and consumer goods. The reduction in transaction costs will translate into higher prices for smallholder producers and lower prices for rural consumers, thereby generating higher financial returns for the target group. An increase in traded volumes, as much of agricultural commodities as of consumer goods and inputs, will lead to economic gains for the economy as a whole. The increase in volume of agricultural commodities will originate from: (a) trading of commodities formerly absorbed into household consumption because of low

[4] See Appendix III.

market prices or absence of buyers, and/or (b) increased production of commodities due to market opportunities and greater availability of inputs.

36. **Benefits and beneficiaries.** Within the total estimated population of some 300 000 households, the programme's target population will number about 85 000 households living in the seven focal areas, and the ten smaller nodes in outlying areas. About one third of the target population are expected to participate actively in and benefit directly from the programme, including some 20 000 to 25 000 households benefiting from the enterprise group activities. It is more difficult to quantify the households that will benefit indirectly, mainly through a reduction of transaction costs, better market relations and improved year-round physical accessibility. Nevertheless, it is assumed that 60 to 80% of households will either experience increases in sale prices or reductions in consumer goods/agricultural input prices. The likely impact of the different investment components on the target population is as follows:

- The formation of groups and provision of business/management skills will translate into: (a) bulk marketing by groups that will reduce transaction costs for both inputs and outputs, and allow the development of new strategies to deal with inter-annual price fluctuations; and (b) higher skill levels will lead to better management of production and marketing, translating into increased incomes, but also into better risk management and improved food security, as well as improved negotiation capability for groups.

- The rehabilitation of rural roads will improve accessibility and help make the other programme interventions more effective. This will result in numerous other benefits: (a) reduced transport costs resulting in higher prices for producers and lower prices for rural consumers, (b) increased competition among traders contributing to more competitive price structure for inputs and outputs, (c) greater access to social and economic services, and (d) labour-intensive construction techniques that will generate additional household income and inject cash into the local economy.

- The interventions in support of both smallholders and market intermediaries will: (a) increase overall efficiency in the agricultural marketing system; (b) open up new market opportunities, thus stimulating increased and diversified production; and (c) facilitate marketing of larger volumes, thus leading to cheaper and more timely access to inputs, a further important factor for production increase and diversification.

H. Risks

37. Five potential risks have been identified:

- Government interference in input/output markets could discourage the private sector from investing in smallholder agriculture and input markets. **Mitigating measures**: the programme will support policy and legislative development to help create a more positive market environment.

- As more donors become involved in the market-linkages sector, and given the limited capacity in the NGOs and other service organizations in Zambia, donor overlap could result in programme underperformance. **Mitigating measures**: considerable effort was made during programme preparation to develop links and working agreements with the main donors interested in new market linkage and group development programmes. In fact, programme design was tailored to allow for effective coordination with the NORAD-funded programme, Support to Capacity- Building in Farmers Associations in Zambia. As many programme initiatives are not included in either the NORAD programme or the USAID-funded ZATAC (Zambia Agribusiness Technical Assistance Centre) programme, considerable complementarity and synergies are possible.

- There are not many new, proven alternatives to the existing smallholder crops identified to date; if none are found, it could limit the effectiveness of programme initiatives. **Mitigating measures**: there is potential for improving existing crops and other enterprises. Crops such as sweet potatoes that are already grown by smallholders could be developed into substantial export earners, and the introduction of new crops, such as guar have recently showed promise. Programme support to crop diversification should help to identify new opportunities and facilitate their uptake.

- Lack of rural credit from banks and other financial institutions constrains smallholders who wish to invest in a new venture or need to buy inputs. **Mitigating measures**: there are already initiatives to help circumvent this problem, such as barter arrangements and credit-in-kind. The programme will work with market intermediaries to develop additional ways to help ensure that smallholders have access to inputs; in parallel fashion, it will support policy dialogue on rural financial services to help promote an improved environment within which commercial finance institutions could operate.

- Any road construction programme has the potential risk that once the roads have been rehabilitated, they might not be maintained for lack of adequate funding. **Mitigating measures**: first, the current policy of giving priority to fund maintenance of primary rural roads before allocating funds for rehabilitation will help ensure that there will be funds from the National Road Fund for maintenance of roads approved to be financed by the programme. Second, the programme provides for funds for maintenance of the roads rehabilitated during the life of the programme. Third, local contractors will be trained and equipped to carry out labour-intensive maintenance, thus increasing national road maintenance capacity.

I. Environmental Impact

38. The programme will have minimal, negative environmental implications, and has been classified as “low B”. Particular attention will be given to offset the potential negative impact of road rehabilitation, and to mitigate the risks associated with increased use of agro-chemicals. Environmental mitigation requirements will be institutionalized in the annual planning, budgeting and contracting. Responsibility for ensuring that mitigation measures are integrated into the planning and contracting processes will rest with the PCO. Its M&E officer will ensure regular monitoring to this effect.

J. Innovative Features

39. The programme is innovative in four respects. First, the focus on the development of linkages between smallholder producers and markets is largely a new area of involvement for both IFAD and the Government. It reflects IFAD and the Government’s recognition that it represents the most important area for intervention, if smallholder incomes and food security are to be improved. Second, while bringing farmers together in groups and associations is certainly not new, developing smallholder group enterprises along sound business lines is. If successful, this could be a major factor in transforming Zambian agriculture, facilitating many other market initiatives. Third, outsourcing of large elements of programme implementation to contracted organizations will be a new approach for the Government, while it is relatively new for IFAD. However, it will build upon experiences gained and lessons already learned under ongoing projects, permitting the Government to concentrate on its core functions and avoid direct involvement in activities better undertaken by the private sector. Fourthly, the application of programme investment to two flexible funds is an innovative, flexible and robust way of managing a diverse range of activities in a rapidly changing environment, where there

is a need to be able to respond to initiatives by other donor-funded programmes and changes in market signals.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

40. A loan agreement between the Republic of Zambia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

41. The Republic of Zambia is empowered under its laws to borrow from IFAD.

42. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

43. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Republic of Zambia in various currencies in an amount equivalent to eleven million five hundred and fifty thousand Special Drawing Rights (SDR 11 550 000) to mature on and prior to 1 December 2039. and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 12 November 1999)

1. The Ministry of Agriculture, Food and Fisheries (MAFF or the lead programme agency) will open, and thereafter maintain in a commercial bank acceptable to IFAD, or another bank agreed by the Government of the Republic of Zambia (the "Government") and IFAD, a programme account held in Kwacha (the "Programme Account"). The PCO will be fully authorized to operate the Programme Account, and the programme coordinator (PC), the contracts/finance manager and the administrator of the PCO will be designated as authorized signatories of the Programme Account. At least two of the aforementioned authorized signatories will be required for any transactions relating to the Programme Account.

2. The Government will make budgetary allocations for each fiscal year equal to the counterpart funds called for in the annual work plan and budget (AWPB) for the relevant programme year, and make such allocations available to the lead programme agency as required.

3. Each contracted party (i.e. those entities contracted by the lead programme agency for the implementation of certain activities under the programme) and the PCO will be recruited by the lead programme agency. The lead programme agency will enter into separate contracts with each such contracted party (the "Service Provider Agreement") and the PCO, which will be submitted to IFAD for its prior review and approval.

4. Within 180 days after the date of effectiveness of the loan agreement, the Government will submit the draft programme implementation manual to IFAD for its comments and approval.

5. (a) Within 90 days after the date of effectiveness of the loan agreement, the Government will appoint independent auditors selected by the Government in accordance with the procedures and criteria agreed by the Government and IFAD, to audit the accounts relating to the programme.

(b) The Government will ensure that the audit report for the programme will be a long-form audit report, based on financial statements that have been prepared in accordance with generally accepted accounting principles, and which accurately reflect the progress and operations of the programme. The audit report will, among other things, refer to the statements of expenditure maintained under the programme, and the special account and Programme Account.

6. (a) The PCO will establish, as soon as possible but in no event later than 180 days after the date of effectiveness of the loan agreement, and thereafter maintain an appropriate management system to enable it to continuously monitor the programme, based on indicators to be agreed by the Government and IFAD.

(b) The planning/M&E officer of the PCO will be responsible for the definition and management of the programme's monitoring system, which will be organized by programme component and a list of indicators. The contracted parties and relevant PCO staff will report quarterly to the M&E officer on: (i) programme activities undertaken in the preceding quarter (for regular quarterly reports) and cumulatively over the preceding fiscal year (for annual reports); (ii) all movements (deposits and withdrawals) on the special and Programme Accounts made during the relevant reporting period; (iii) physical acquisitions made; and (iv) monitoring and evaluation results. The contracted parties will submit their quarterly reports to the PCO no later than the end of the month following the relevant quarter.

7. The Government will ensure that the PCO recruited and contracted under the programme will insure key programme personnel against health and accident risks to the extent consistent with sound commercial practices.

8. The following is specified as an additional event of suspension of disbursements from the loan account:

> the programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have a material adverse effect on the programme.

9. The following are specified as additional conditions precedent to the disbursement of funds under the group development fund (for activities under the support for smallholder enterprise group development component) and the market linkages fund (for activities under the market linkage development component) in any focal area of programme implementation (the “Focal Area”) in the programme area:

(a) the focal area resource group (FARG) for the Focal Area, with adequate female representation, satisfactory to IFAD, has been formed and become operational; and

(b) the contracted party for the Focal Area, satisfactory to IFAD, has duly entered into a Service Provider Agreement, satisfactory to IFAD, with the lead programme agency.

10. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the programme consultative committee (PCC) will have been duly established;

(b) the PCO and all of its staff, satisfactory to the Fund, will have been duly recruited and established, and contracted by the lead programme agency;

(c) the AWPB for programme year 1 will have been prepared, submitted to and approved by IFAD;

(d) the Government will have duly opened the Programme Account and the special account;

(e) the loan agreement will have been duly signed, and the signature and performance thereof by the Government will have been duly authorized and ratified by all necessary administrative and governmental action; and

(f) a favourable legal opinion, issued by the Attorney General or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

COUNTRY DATA

ZAMBIA

Land area (km^2 thousand) 1996 1/	**743**	**GNP per capita (USD) 1997 2/**	**370**
Total population (million) 1997 1/	**9.4**	**Average annual real rate of growth of GNP per capita, 1990-97 2/**	**-0.9**
Population density (people per km^2) 1996 1/	**12**	**Average annual rate of inflation, 1990-97 2/**	**72.4**
Local currency	**Kwacha (ZMK)**	**Exchange rate: USD 1 =**	**ZMK 2 500**

Social Indicators		**Economic Indicators**	
Population (average annual population growth rate) 1980-97 1/	2.9	GDP (USD million) 1997 1/	3 865
Crude birth rate (per thousand people) 1997 1/	42	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1997 1/	19	1980-90	1.0
Infant mortality rate (per thousand live births) 1997 1/	113	1990-97	1.0
Life expectancy at birth (years) 1997 1/	43		
		Sectoral distribution of GDP, 1997 1/	
Number of rural poor (million) (approximate) 1/	4.7	% agriculture	16
Poor as % of total rural population 1/	88.0	% industry	31
Total labour force (million) 1997 1/	4.0	% manufacturing	12
Female labour force as % of total, 1997 1/	45	% services	52
Education		Consumption, 1997 1/	
Primary school gross enrolment (% of relevant age group) 1996 1/	*89*	General government consumption (as % of GDP)	12
Adult literacy rate (% of total population) 1995 3/	78	Private consumption (as % of GDP)	78
		Gross domestic savings (as % of GDP)	10
Nutrition			
Daily calorie supply per capita, 1995 3/	1 915	**Balance of Payments (USD million)**	
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	61	Merchandise exports, 1997 1/	1 178
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	42	Merchandise imports, 1997 1/	1 070
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	24	Balance of merchandise trade	108
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-97 1/	3.3	before official transfers, 1997 1/	- 402
Physicians (per thousand people) 1990-97 1/	0.07	after official transfers, 1997 1/	n.a.
Percentage population without access to safe water 1990-96 3/	73	Foreign direct investment, 1997 1/	70
Percentage population without access to health services 1990-95 3/	25		
Percentage population without access to sanitation 1990-96 3/	36	**Government Finance**	
		Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	0.7
Agriculture and Food		Total expenditure (% of GDP) 1996 1/	21.4
Food imports as percentage of total merchandise imports 1997 1/	n.a.	Total external debt (USD million) 1997 1/	6 758
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	96	Present value of debt (as % of GNP) 1997 1/	138
Food production index (1989-91=100) 1995-97 1/	95.6	Total debt service (% of exports of goods and services) 1997 1/	19.9
Land Use		Nominal lending rate of banks, 1997 1/	46.7
Arable land as % of land area, 1996 1/	7.1	Nominal deposit rate of banks, 1997 1/	34.5
Forest area (km^2 thousand) 1995 1/	314		
Forest area as % of total land area, 1995 1/	42.2		
Irrigated land as % of cropland, 1994-96 1/	0.9		

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999.
2/ World Bank, *Atlas*, 1999.
3/ UNDP, *Human Development Report*, 1998.

PREVIOUS IFAD LOANS IN ZAMBIA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Eastern Province Agricultural Development Project	World Bank: IBRD	World Bank: IBRD	I	22 Apr 81	11 Mar 82	30 Jun 88	L - I - 66 - ZA	SDR	9 000 000	47.8%
North Western Province Area Development Project	IFAD	World Bank: IDA	HC	14 Sep 82	03 Mar 83	31 Jul 92	L - I - 104 - ZA	SDR	11 950 000	99.0%
Smallholder Services Rehabilitation Project	IFAD	World Bank: IDA	HC	09 Sep 87	15 Apr 88	31 Dec 95	G - S - 7 - ZA	USD	71 000	80.3%
Smallholder Services Rehabilitation Project	IFAD	World Bank: IDA	HC	09 Sep 87	15 Apr 88	31 Dec 95	L - I - 206 - ZA	SDR	9 100 000	99.2%
Smallholder Services Rehabilitation Project	IFAD	World Bank: IDA	HC	09 Sep 87	15 Apr 88	31 Dec 95	L - S - 7 - ZA	SDR	7 100 000	96.6%
Northwestern Province Area Development Project – Phase II	IFAD	UNOPS	HC	11 Dec 91	26 Jun 92	31 Dec 00	G - S - 27 - ZA	USD	100 000	98.8%
Northwestern Province Area Development Project – Phase II	IFAD	UNOPS	HC	11 Dec 91	26 Jun 92	31 Dec 00	L - I - 293 - ZA	SDR	9 250 000	97.3%
Northwestern Province Area Development Project – Phase II	IFAD	UNOPS	HC	11 Dec 91	26 Jun 92	31 Dec 00	L - S - 28 - ZA	SDR	2 750 000	36.5%
Southern Province Household Food Security Programme	IFAD	UNOPS	HC	05 Dec 94	28 Mar 95	31 Dec 01	L - I - 368 - ZM	SDR	10 400 000	49.6%
Smallholder Irrigation and Water Use Programme	World Bank: IDA	UNOPS	HC	12 Apr 95	09 Apr 96	31 Dec 00	L - I - 377 - ZM	SDR	4 300 000	34.4%

Note: HC = highly concessional
I = intermediate

DYNAMIC LOGICAL FRAMEWORK

Intervention Logic	Key Performance Indicators	M&E Sources	
Development Objective: 1. To increase smallholder incomes and food security.	1.1 Reduced number of smallholder households below the poverty line in focal areas 1.2 Reduced food purchases by smallholders in focal areas 1.3 Increases in number of tin roofs, bikes, radios, etc. in focal areas	National household income and poverty studies. Programme impact assessment studies.	
Intervention Logic	**Key Performance Indicators**	**M&E Sources**	**Critical Assumptions/Risks (To Realize Development Objective)**
Overall Programme Objective: 1. To improve smallholder access to input and output markets.	1.1 Agricultural production increases. 1.2 Increase in number of smallholders marketing food and cash crops. 1.3 Increase in crops marketed. 1.4 Average farm gate prices increase. 1.5 Annual fluctuation in farm gate prices reduced.	Participatory diagnostic /benchline surveys and impact assessment studies. Government statistical bul-letins and publications.	Political stability and minimum government interference in input and output markets. Attractive price/cost ratios exist between agricultural inputs and outputs. Conducive political environment which facilitates participation of private sector, local and international NGOs in development process.
Intervention Logic	**Key Performance Indicators**	**M&E Sources**	**Critical Assumptions/Risks (To Realize Overall Programme Objective)**
Outputs/Results: 1. Smallholder enterprise groups and associations formed/stren-gthened and operational, and the capacity in local NGOs to implement activities developed.	1.1 Some 26 000 smallholders in focal areas and nodes members of enterprise groups. 1.2 Over 1 000 enterprise groups operating efficiently at the end of the programme period. 1.3 Local NGOs strengthened by the programme become commercially viable and sustainable institutions for provision of enterprise group training to smallholders. 1.4 Most support for forming/strengthening enter-prise groups provided by local NGOs (70%), with international NGOs mainly fulfilling training-of-trainers and advisory roles.	Reports from contracted NGOs providing regular monitoring of enterprise groups and associations formed during the programme. Surveys of market interme-diaries on volumes of smallholder production from enterprise groups and inputs supplied to these groups. Beneficiary assessment surveys	Local NGOs strengthened, improved management capacity developed and financially sustainable. Lower cost approaches to forming/strengthening enterprise groups tested, developed and mainstreamed.
2. Physical access to input and output markets improved in concert	2.1 Increased production and volumes of smallholder produce marketed.	Surveys of smallholders in areas served by roads	Road Fund adequately replenished to ensure financing of the maintenance of primary roads improved by the programme, once the programme ends.

with market linkage initiatives.	2.2 Reduced average cost to smallholders of getting produce to market. 2.3 Increased numbers of traders reaching smallholder communities. 2.4 Increased number of smallholders which have year-round access. 2.5 About 185 km of roads rehabilitated and routinely maintained. 2.6 About 475 km of spot repairs enabling vehicles to pass previously impassable road sections.	rehabilitated by the programme. Surveys of transporters serving the areas opened up by the programme. Reports of engineering consulting company responsible for implementing the road programme.	Districts able to raise funds to contribute to maintenance of secondary and tertiary roads. Local contractors trained by the programme able to pay off the cost of the equipment and become viable road construction enterprises.

Intervention Logic	**Key Performance Indicators**	**M&E Sources**	**Critical Assumptions/Risks (To Realize Overall Programme Objective)**
3. More cost-effective, competitive and efficient network of agri-business/trading enterprises serving smallholder farmers in place.	3.1 Trading margins reduced 3.2 Volume of smallholder produce marketed through rural trader network increased. 3.3 Quality of produce reaching buyers increases 3.4 Volume of agricultural inputs used by smallholder increases.	Contracted service providers regular progress/monitoring reports. Spot surveys of trader operations. Periodic surveys of trade margins. Regular programme organized workshops and fora.	Increased efficiency in rural trade system sees increases in the price received by smallholders and better returns to traders. Commercial financial institutions expand their operations in rural areas and their rural lending operations targeted to the agricultural/trading sector and credit becomes more readily available to traders and smallholders. Government does not interfere in agricultural markets and normal market dynamics are allowed to prevail. Cotton companies continue to operate outgrower schemes for smallholders.
4. New smallholder crop/enterprise opportunities identified and their application supported.	4.1 Increased numbers of crop/enterprise options available to smallholders. 4.2 Increased number of smallholders growing profitably a greater mix of marketable crops. 4.3 Increased smallholder food security measured in terms of reduced sale of maize and other food crops.	Contracted service providers regular progress/monitoring reports. Regular programme organized workshops and fora.	Attractive outlets for agricultural commodities in neighbouring countries and in export markets are developed.
5.Policy/legislative/institutional framework for improving smallholder market linkages strengthened.	5.1 New laws and legislation passed, disseminated and adhered to/enforced. 5.2 Increased use of market information by smallholders and traders in marketing resulting in improved production/ marketing decisions. 5.3 New rural credit initiatives successfully introduced.		ASIP Consultative Form (ACF) continues to operate and provide a forum for the Government, private sector and NGOs to work within. Government maintains a supportive policy stance regarding the participation of NGOs and the private sector in the agricultural sector.

Programme Components	Budget (USD million)
1**. Support for smallholder enterprise group development**	4.2
a. Formation/strengthening of groups and associations	3.9
b. Strengthening local NGO capacity	0.3
2**. Market linkage development**	8.8
a. Access road improvement	4.9
b. Support for smallholder market intermediaries	2.7
c. Support for market diversification	1.2
3**. Policy, legislative and institutional support**	4.6
a. Policy/legislative support	0.4
b. Technical/management support for programme implementation	1.7
c. Programme management	2.5
Total Base Costs	**17.6**
Total Costs including contingencies	**18.4**

COSTS AND FINANCING
Expenditure Accounts by Components – Base Costs
(USD '000)

	Support for Smallholder Enterprise		Market Linkage Development			Policy/Legislative and Institutional Support			
	Formation/Strengthening of Smallholder Enterprise Groups	Strengthening of Local NGO Capacity	Access Road Improvement	Support for Smallholder Market Intermediaries	Support for Market Diversification	Policy/Legislative Support	Technical/Management Support for Programme Implementation	Programme Management	Total
I. Investment costs									
A. Roads civil works	-	-	3 999	-	-	-	-	-	3 999
B. Equipment and materials	-	-	-	-	-	-	184	112	295
C. Vehicles	-	-	-	-	-	-	104	255	359
D. Technical Assistance (TA)	-	-	-	-	-	212	529	1 586	2 328
E. Consultancies and studies	-	-	-	808	909	108	231	-	2 057
F. Training and workshops	3 950	-	121	428	292	91	323	-	5 204
G. Management contract	-	325	974	1 671	-	-	196	-	3 166
Total Investment Costs	3 950	325	5 094	2 907	1 202	411	1 567	1 953	17 408
II. Recurrent Costs									
A. Allowances	-	-	-	-	-	-	147	72	219
B. Operation and maintenance	-	-	-	-	-	-	57	667	724
Total Recurrent Costs	-	-	-	-	-	-	205	739	943
Total PROGRAMME COSTS	3 950	325	5 094	2 907	1 202	411	1 772	2 692	18 352
Taxes	-	48	741	369	135	16	115	154	1 579
Foreign Exchange	440	147	1 559	1 009	283	105	530	1 010	5 083

Disbursement Accounts by Financiers

(USD '000)

	IFAD		International NGOs and Market Intermediaries		Government		Total		For.	Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Exch.	Taxes)	Taxes
1. Equipment, materials and vehicles	557	85.1	-	-	97	14.9	654	3.6	410	147	97
2. TA, studies, training and workshops	3 197	97.6	-	-	80	2.4	3 277	17.9	972	2 226	80
3. Group development fund	3 742	87.5	485	11.3	48	1.1	4 275	23.3	586	3 640	48
4. Market linkages fund	7 606	82.7	351	3.8	1 245	13.5	9 202	50.1	2 852	5 105	1 245
5. O&M, salaries and allowances	835	88.6	-	-	108	11.4	943	5.1	263	572	108
	15 937	86.8	836	4.6	1 579	8.6	18 352	100.0	5 083	11 689	1 579

ORGANIZATION AND MANAGEMENT

A. Institutional Responsibilities

Within the Government

1. The MAFF will have overall responsibility for the programme, as well as to the Government and to IFAD, with the Permanent Secretary or his nominee as the chief accounting officer. The MAFF will be responsible for: (a) approving annual work plans and budgets (AWP/Bs); (b) ensuring that these are inscribed in the Government's global budget and that the Government's counterpart contribution is obtained; (c) managing the flow of funds from the Government and IFAD to the local expenditure account; (d) overseeing the procurement process, including approval of tender documents and all contracts; and (e) accounting to the Government and to IFAD for all expenditure and progress against programme objectives. To reduce the administrative burden on MAFF, and to ensure efficient and effective contracting and supervision of service providers, the Ministry will delegate day-to-day management of local expenditure, implementation and reporting to a PCO. In addition, the MAFF will be responsible for the linkage between the programme and other programmes managed by the Ministry, ensuring that they complement each other to the maximum extent possible.

2. The MLGH and Department of Infrastructure Support Services (DISS) will be responsible for ensuring that programme-financed road works are implemented in line with the Government's feeder road policy, for backstopping concerned public works staff in the districts, and coordinating with the National Roads Board (NRB) the allocation of resources from the road fund to maintenance of rehabilitated roads once programme liability ends. The NRB and the DISS will be represented on the PCC and on the tender board charged with approving the overall road management contract. Participating district councils will be responsible for assisting with the supervision of all contracted road works and for registering rehabilitated roads through MLGH with the NRB/road fund for maintenance.

3. The Ministry of Finance and Economic Development (MFED) will oversee the budget process and have responsibility for financial oversight. It will be responsible for facilitating the Government's financial contribution to the programme.

Outside Government

4. Local agribusiness companies and trading enterprises, small traders, road contractors, consulting companies and not-for-profit NGOs, and of course smallholders will participate in THE PROGRAMME either directly or indirectly. NGOs, and to some extent agribusiness enterprises, are expected to dominate the bidding for implementation of focal area programme contracts.

B. Management and Facilitation

Programme Oversight and Coordination

5. Programme Consultative Committee (PCC)**.** The PCC will guide implementation and facilitate harmonization with government policies, complementary programmes and projects. Key stakeholders that will be represented on the PCC include: MAFF (chair[1]), MFED, MLGH, NRB, agribusiness and commercial banks, the Road Contractors' Association, NGOs, donors, and apex level farmer associations. PCC meetings will be held four times a year and on an *ad hoc* basis when necessary. The PCC will have no executive responsibility. Specifically the PCC will:

[1] Director of the Department of Economics and Market Development. Alternatively MAFF may delegate the chair to a private sector/NGO representative.

- facilitate dialogue and consensus building on relevant policy and legislative initiatives;
- ensure high level coordination with the concerned ministries and the private/NGO sector;
- review focal area plans, AWP/Bs, progress reports and impact studies; and
- make recommendations to MAFF and, through the ACF, to the Government on changes required to better ensure achievement of programme objectives.

Programme Coordination Office (PCO)

6. Day-to-day programme management will be the responsibility of the PCO. PCO staff will comprise a programme coordinator, contracts/financial manager, planning/M&E officer, two senior facilitators, and an administrator for the duration of the programme. These staff will be nationally or regionally recruited professionals. A regionally recruited agribusiness specialist will support the programme coordinator for the first two years of the programme. Over the programme period, additional short-term expertise will be recruited from within the country, regionally and internationally, including assistant facilitators, agribusiness experts, road contract specification and supervision engineers, procurement specialists, and a M&E design consultant.

7. Most programme activities, particularly the focal area activities, will be contracted to private/NGO service providers. The PCO's responsibilities will include:

- facilitating the planning, budgeting, implementation, and monitoring of the focal areas programmes;
- day-to-day coordination and harmonization of work programmes with other projects and programmes that are involved in implementing similar activities;
- organizing support to the Public Works Department in each participating district;
- supporting mechanisms that will enable consensus building among stakeholders on policy and legislative initiatives aimed at promoting broad-based market-linkage development;
- submitting recommendations for funding of priority interventions to MAFF and the PCC;
- preparing AWP/Bs;
- soliciting proposals from service providers and evaluating the proposals against pre-set criteria;
- drafting and negotiating contracts, and supervising and monitoring the performance of service providers;
- managing the local currency account, procurement and payment of service providers; and
- progress and financial reporting to MAFF, the PCC and IFAD.

C. Annual Work Plans and Budgets (AWP/Bs)

8. The PCO will be responsible for finalizing and presenting each AWP/B for review by the PCC and approval by MAFF. While the format of the AWP/B has not been defined, MAFF's experience with ASIP should be taken into account, and the same software used to facilitate incorporation into the Ministry's overall budget. As a minimum, the AWP/Bs will include for each activity a description and justification relative to past experience, verifiable indicators for the expected result, institutional and individual responsibilities, time frame and deadlines, cost elements and the source(s) of funds. The Government will submit to IFAD for approval, no later than the first of October each year, AWP/Bs, including procurement plans, consistent with the focal area plans and national programme initiatives. Once approved by MAFF, the AWP/B will be submitted to MFED for inclusion in the Government's global budget.

D. Monitoring and Evaluation

Monitoring

9. The planning/M&E officer in the PCO will have overall responsibility for the definition and management of the programme monitoring system. The basis for the monitoring system will be a quarterly reporting structure set against the logframe and the AWP/Bs, and organized by programme component. The main weight of monitoring will fall on the service providers who are executing contracts in the focal areas. Contracted service providers and relevant PCO staff will report quarterly to the M&E officer on: (a) programme activities undertaken in the last quarter and cumulatively over the fiscal year; (b) all movements on the accounts in the period (statement of accounts); (c) physical acquisitions made with the expenditures; and (d) M&E results. Contractors will send their quarterly reports so that they are received by the PCO no later than the end of the month following the respective quarter.

10. The PCO will report to MAFF, the PCC, and IFAD no later than two months following each quarter. Each report will include a cumulative list of items procured (vehicles, equipment, materials) indicating their condition, a summary of physical and financial progress by contractor and component, a review of the PCO's operations, statements of movements on the programme and special accounts, an assessment of constraints and achievements relative to the AWP/B, and proposals to overcome constraints.

Evaluation

11. The M&E officer, in conjunction with the facilitators, will organize a benchmark survey of programme impact indicators, as an integral part of each focal area needs assessment. In addition, the M&E officer will be responsible for organizing activity-specific impact case studies, assessing the impact of policy changes on smallholders and other stakeholders in the private sector, and ensuring that the programme continues to be oriented to the benefit of smallholders. Some of the impact studies will be carried out by the facilitators, others by suitably qualified service providers. Initially and periodically thereafter, an internationally recruited M&E design specialist will backstop the M&E officer.

Tri-Term Reviews and Programme Completion Report

12. Two reviews will be carried out during the seven-year implementation period. They will assess programme progress against the established objectives and the performance of service providers; identify key implementation issues; and recommend solutions, including modifications to programme design, scope and the implementation arrangements required to ensure achievement of programme objectives. Key issues to be assessed will include:

- disbursement rate and implementation progress against appraisal estimates and AWP/Bs;
- coordination mechanisms with other donor-supported market linkage-related projects;
- PCO performance and contract and financial management;
- performance and financial management of contracted service providers;
- level of participation, and impact of of programme-supported activities on different socio-economic groups of the smallholder population in focal areas;
- review of ongoing focal areas and justification for additional areas;
- review of programme "tool box" and justification for additional tools; and
- TA requirements.

FINANCIAL AND ECONOMIC ANALYSIS

Financial and Economic Implications

1. In financial and economic terms, the two major impacts of the programme will be: (a) a reduction in transaction costs for market operations; and (b) an increase in volumes traded, for both agricultural commodities and inputs, and consumer goods.

Transaction Costs

2. The reduction in transaction costs expected from group formation, support and provision of information to participants in market transactions and feeder road improvement, will be translated into higher prices for smallholder producers and lower prices for rural consumers, thereby generating higher financial returns for the target group.

3. Assuming constant production, programme activities in support of group formation/strengthening will lead to more bulk marketing by producer groups. This should reduce buyers' transaction costs by 5 to 10%. Better informed producers are expected to benefit entirely from this reduction, not least because the financial incentive to buyers lies more with an increase in volumes than an increase in margins.

4. The improvement of access roads will also considerably reduce transport costs that presently amount to 12 to 15% of traders' margins. In most cases, rehabilitation and maintenance of access roads will lead to a reduction of 10% to 30% of transport costs, by reducing journey times and vehicle maintenance/repairs requirements. In some cases, rehabilitation will open new areas for traders where transport costs previously made buying unprofitable because of prohibitive transport costs.

Volumes Traded

5. An increase in traded volumes, as much of agricultural commodities as of consumer goods and inputs, will lead to economic gains for the economy as a whole. The increase in volume of agricultural commodities will originate from: (a) trading of commmodities formerly absorbed into household consumption because of low market prices or absence of buyers; and/or (b) increased production of commodities due to market opportunities and availability of inputs.

6. The reduction of transaction costs and the identification of new market opportunities will foster an absolute increase in the production of marketable commodities. Assuming that production of grains for household consumption and food security is guaranteed and even improved, a range of crops that could be sold to the market could potentially generate attractive financial returns. This could include medium/high-value crops such as cotton and burley tobacco, but also a number of food crops such as groundnuts and mixed beans. Although the latter generally have lower financial returns, they have the advantage of not requiring expensive purchased inputs.

7. Commodity-based economic analysis shows that Zambia is an efficient producer of most agricultural commodities. The potential for gains from trade is excellent for commercial crops and, in most cases, good for white sorghum and maize. Import substitutes also generate good results, due to the 'natural protection' of the domestic market attributable to high overland transport costs. Economic benefits of increased production are also likely to be substantially reinforced by better crop management and higher productivity.

Benefits and Beneficiaries

8. Within the total estimated population of some 300 000 households, the programme's target population will number around 85 000 households living in the seven focal areas, and the ten smaller nodes of intense economic/marketing activity in the outlying areas. About one third of the target population are expected to actively participate in and benefit directly from the programme, including some 20 000 to 25 000 households that will benefit from the enterprise group formation/strengthening activities. It is more difficult to quantify the households that will benefit indirectly, chiefly through a reduction of transaction costs, better market relations and improved year-round physical accessibility. Nevertheless, it is assumed that 60 to 80% of households will experience either increases in sale prices or reductions in consumer goods/agricultural input prices. The likely impact of the different investment components on the target population follows below.

Support for Smallholder Enterprise Group Development

9. The formation of groups and provision of business/management skills will translate into: (a) bulk marketing by groups, which will reduce transaction costs for both inputs and outputs, and will allow the development of new strategies to deal with inter-annual price fluctuations; and (b) higher skill levels will lead to better management of production and marketing, translating into increased incomes, but also into better risk management and improved food security, as well as improved negotiation capability for groups.

10. Strengthening local NGO capacity will increase the pool of qualified human resources and allow the expansion of cost-effective service provision, sustainable in the long run inasmuch as it is affordable to enterprise groups/associations.

Market Linkage Development

11. These interventions should not be analysed in isolation, as their principal strength lies with their mutually reinforcing impact when applied simultaneously to address market-linkage constraints. In addition, it is important to stress that these are instruments, or tools, be used on a demand-driven basis for specific issues/constraints rather than as blanket recipes.

13. **Access road improvement.** The rehabilitation of rural roads in direct response to market linkage and group formation initiatives, both by the programme and associated programmes, will improve accessibility and help make other programme interventions more effective. This will result in numerous other benefits: (a) reduced transport costs will be translated into higher prices for producers and lower prices for rural consumers; (b) increased competition among traders will contribute to more competitive price structure for inputs and outputs; (c) greater access to social and economic services; and (d) labour-intensive construction techniques to be employed by the programme will generate additional household income and inject cash in the local economy.

14. **Support for smallholder market intermediaries and market diversification.** The promotion of a number, or 'tool box', of activities to benefit both smallholders and market intermediaries will: (a) increase the efficiency of the agricultural marketing system; (b) open up new market opportunities, thus stimulating increased and diversified production; and (c) facilitate marketing of larger volumes, thus leading to cheaper and more timely access to inputs, an important factor for increase in production and diversification.