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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eighty-First Session**  
Rome, 21-22 April 2004

**REPUBLIC OF ZAMBIA**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**



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**CURRENCY EQUIVALENTS**

Currency Unit	=	Kwacha (ZMK)
USD 1.00	=	4700 ZMK
ZMK 1000	=	USD 0.2127

**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 <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

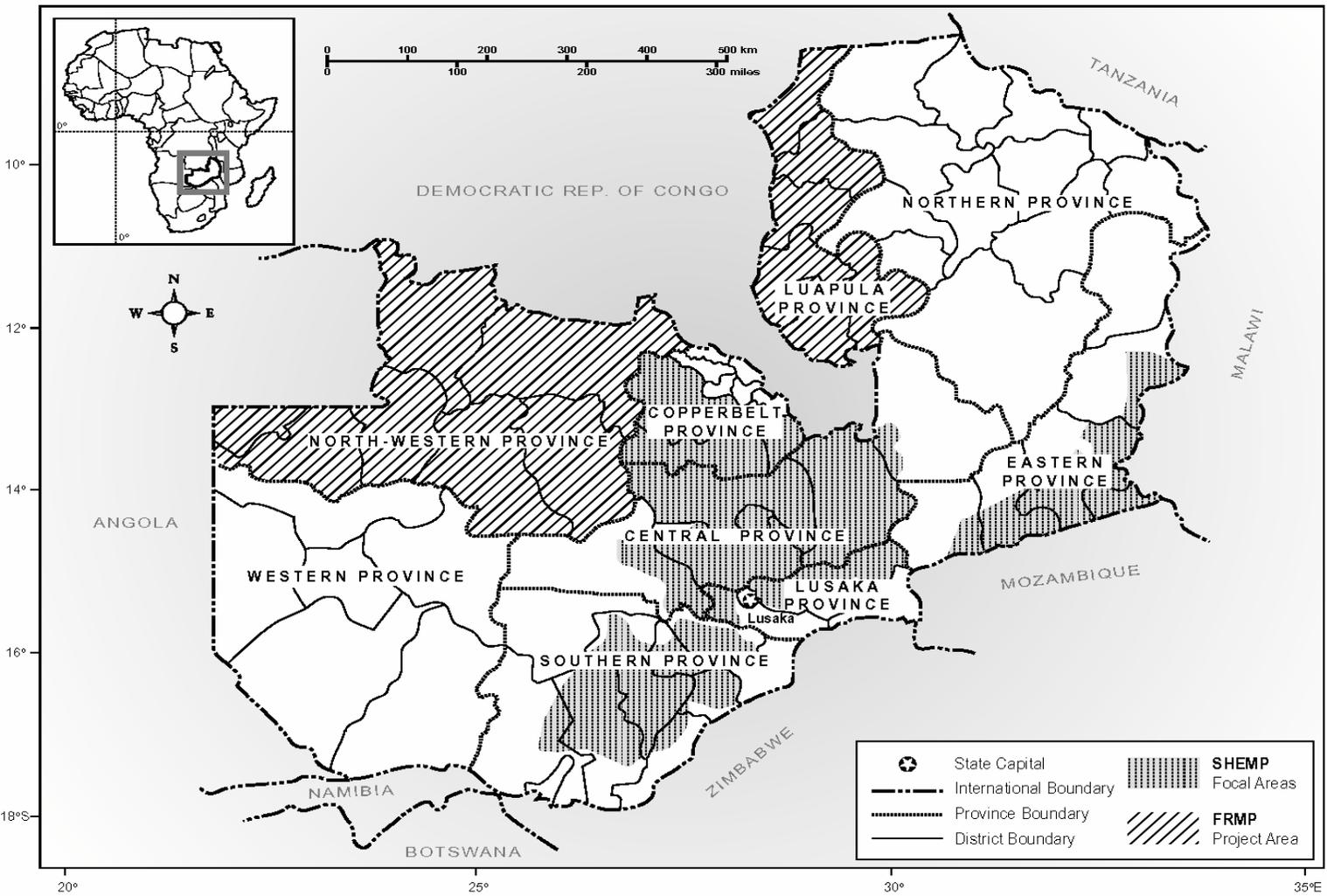
**ABBREVIATIONS AND ACRONYMS**

ACF	Agricultural Consultative Forum
ACP	Agricultural Commercialization Programme
ASIP	Agricultural Sector Investment Programme
CFU	Conservation Farming Unit
FRMP	Forest Resource Management Programme
HIPC	Heavily Indebted Poor Country
MACO	Ministry of Agriculture and Cooperatives
NAP	National Agricultural Policy
NGO	Non-Governmental Organization
NRM	Natural Resources Management
PRSP	Poverty Reduction Strategy Paper
SHEMP	Smallholder Enterprise and Marketing Programme
ZNFU	Zambian National Farmers' Union

**GOVERNMENT OF THE REPUBLIC OF ZAMBIA****Fiscal Year**

1 January – 31 December

COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS



*Source: 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.*

## IFAD PORTFOLIO OVERVIEW

Project Name	Initiating Institution	Cooperating Institution	Grant / Lending Terms	Approval	Effectiveness	Current Closing Date	Acronym	Amount Approved	Percent disbursed as at 31 Dec 03
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	100.00
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	100.00
Smallholder Services Rehabilitation Project	IFAD	World Bank: IDA	Grant	03 Dec 87	24 Sep 87	31 Dec 88	G-S-7-ZA	USD 71 000	100.00
			HC	09 Sep 87	15 Apr 88	31 Dec 95	L-I-206-ZA	SDR 9 100 000	100.00
			HC	09 Sep 87	27 Apr 88	31 May 96	L-S-7-ZA	SDR 7 100 000	100.00
Northwestern Province Area Development Project – Phase II	IFAD	UNOPS	Grant	12 Dec 91	14 Jan 92	01 Apr 92	G-S-27-ZA	USD 100 000	100.00
			HC	11 Dec 91	26 Jun 92	31 Dec 00	L-I-293-ZA	SDR 9 250 000	100.00
			HC	09 Sep 87	26 Jun 92	31 Dec 00	L-S-28-ZA	SDR 2 750 000	100.00
Southern Province Household Food Security Programme	IFAD	UNOPS	HC	05 Dec 94	28 Mar 95	30 Jun 03	L-I-368-ZM	SDR 10 400 000	94.53
Smallholder Irrigation and Water Use Programme	World Bank: IDA	UNOPS	HC	12 Apr 95	09 Apr 96	31 Dec 02	L-I-377-ZM	SDR 4 300 000	85.92
Forest Resource Management Project	IFAD	UNOPS	Grant	23 Dec 99	16 Feb 00	30 Jun 02	G-I-88-ZM	USD 85 000	100.00
			HC	09 Dec 99	26 Jun 02	31 Dec 08	L-I-520-ZM	SDR 9 150 000	19.62
Smallholder Enterprise and Marketing Programme	IFAD	IFAD	Grant	22 Dec 99	16 Feb 00	30 Jun 08	G-I-89-ZM	USD 80 000	100.00
			HC	09 Dec 99	07 Nov 00	30 Jun 08	L-I-521-ZM	SDR 11 550 000	32.53

Note: IBRD = International Bank for Reconstruction and Development  
IDA = International Development Association  
UNOPS = United Nations Office for Project Services  
I = Intermediate  
HC = Highly Concessional

**EXECUTIVE SUMMARY**

1. Once an affluent nation by regional standards, Zambia has been losing ground for more than two and a half decades. Per capita income has fallen to USD 320, 75% of Zambians live below the poverty line and the country is classified as a least developed country. The prevalence and depth of poverty is highest in the rural areas, where 83% of the people are poor. The trends in indicators of non-income aspects of poverty are disturbing. Life expectancy at birth was 43 years at independence (1964), improved to 51 years in 1980, but has now declined to 33 years – the lowest in the world. Under-five mortality was 213 per 1 000 live births at independence; this fell to 150 in 1980 but has now increased to 202. Primary school enrolment, which registered 73% at independence, improved to 76% in 1980 but has fallen back to 73%. About half the country's children are stunted and the numbers of such children have been rising during the past decade, evidencing severe and growing malnutrition problems. There is a real risk that all progress made in health and education since independence might soon be lost.

2. Inadequate productivity in smallholder agriculture is the main cause of rural poverty and can be explained by the weak technical and commercial skills of smallholders; limited access to draught power; poor knowledge of improved low-input farming techniques; labour constraints; poorly functioning input and output markets; high costs of transport; and lack of support services. An important additional cause of rural poverty is the increasingly restricted access to social services such as health and education, particularly for the poorest.

3. The country has always been highly dependent on sales of copper and related mineral products for foreign exchange and public revenue. In the first decade after independence, a central planning model was adopted, parastatal companies were established and social services were expanded, all of which was financed from copper revenue. Delayed adjustment to worsened terms of trade, including a substantial decline in international copper prices in 1975, was associated with unsustainable international borrowing. Although restructuring took place during the 1980s, comprehensive reforms were initiated only in the early 1990s. Substantial deregulation has been achieved since that time and some economic diversification has taken place, although much remains to be done – particularly at the institutional level. Within this overall context, government withdrew gradually and partially from agricultural markets during the 1990s and privatized a number of state-owned companies in the sector. Agricultural producers in areas with good market access, including a number of smallholders, responded with changed cropping patterns, and agro-processors and marketing companies established themselves in surplus-producing areas. New commercial linkages between smallholders and agribusiness have emerged, mainly under outgrower arrangements in cotton, sugar, paprika and other high-value crops for exports. The agricultural sector as a whole showed an average annual growth of 4.5% in the 1990s compared with average gross domestic product growth of about 1%, and there has been a threefold increase in the sector's contribution to non-traditional exports. However, in the country's outlying areas, where smallholders had access to subsidized agricultural inputs and credit prior to liberalization, little diversification has taken place except, perhaps, into non-commercialized crops (e.g. from maize to cassava), and the net effects of liberalization so far appear to have been negative. It is a government priority, but a challenge, to facilitate improved market integration of outlying areas.

4. The country has prepared a Poverty Reduction Strategy Paper (PRSP) aimed at promoting broad-based economic growth and poverty reduction, and at addressing important cross-cutting issues including HIV/AIDS and gender issues. The PRSP identifies the agricultural sector as the most important potential contributor to economic growth and poverty reduction. The country has abundant land and large areas have relatively supportive agro-ecological zones, which implies that good preconditions exist for economic growth in many areas. The majority of the poor live in rural areas. If the agricultural sector grows and measures can be put in place to ensure that the poor are included in this growth, rural poverty will be certainly reduced. Two general areas are prioritized by government for the sector. The first is to expand large-scale agriculture and outgrower operations to contribute to general economic growth and provide rural employment opportunities. The second is to improve equity and food security in rural areas with relatively few possibilities for market-based growth, mainly by

providing smallholders with improved, eventually self-sustained, access to affordable technologies, input and output markets and financial services. Government considers public-private partnerships to be the best means to achieve such improved access. The details of such partnerships have, however, still to be fully worked out.

5. The institutional situation in the agricultural and rural sectors is characterized by increasingly limited public development services, particularly after the closure of the large Agricultural Sector Investment Programme (ASIP) that the Ministry of Agriculture and Cooperatives (MACO) sought to implement in 1995-2001. Public development services are very limited, partly due to capacity constraints but also because of a lack of prioritization of the sector in budget allocations and lack of prioritization of development services within the resource envelope available to MACO. Most (of the few) agricultural services available to smallholders are currently being provided by the private sector, mainly in outgrower arrangements. Several private institutions emerged during the 1990s, including the Zambia National Farmers Union, the Agribusiness Forum, the Agricultural Consultative Forum, and growers' associations for tobacco, coffee and other export crops. In addition, several recently-established quasi-public-sector trusts engage in commercial production, research and rural development. Numerous local and international non-governmental organizations (NGOs) are also active in rural development. Institutions providing rural financial services, which are important to expand rural production and business activities requiring purchased inputs, have been few following the collapse in the 1990s of the major institutions participating in government-led rural finance schemes.

6. The past IFAD-supported interventions were designed to contribute as much as possible to sustainable rural poverty reduction within the prevailing policy and institutional environment. The first interventions sought to cushion the effects of central planning on the rural poor and to support the structural adjustment process. The two interventions that closed recently sought to reinforce household food security and to reduce the vulnerability of poor rural households by increasing and diversifying their incomes through support services and improved access to productive assets and technical knowledge. The interventions formed part of the ASIP and were implemented by existing government structures. Progress in meeting objectives was severely hampered by lack of capacity to manage and deliver the services and investments. Although some smallholders' poverty was reduced during project/programme implementation, the results have been disappointing and benefits have generally not been sustainable.

7. As these overall lessons were being learned in the 1990s, and as progress was made in agricultural liberalization, the strategic focus of IFAD's support was redirected towards smallholder commercialization. Alongside this main thrust, a second thrust was adopted to improve rural women's access to means of production and help them reduce the severe constraints on their time. The implementation requirements of the new strategy, under which the two ongoing interventions (both approved in 2000) fall, were largely outside government ministries' experience and capacity. Therefore, implementation responsibility has been contracted to various agencies, mainly NGOs, that have some capacity to deliver such investments and services. While government has retained overall responsibility for project/programme implementation, responsibility for day-to-day execution has been entrusted to quasi-autonomous management units. These arrangements have largely relieved government of the burden of project/programme administration. They have also led to significant improvements in the planning and monitoring of activities and some progress has been achieved in making them an integral part of management. Although cumbersome government procurement procedures and limited contract management skills continue to constrain project/programme implementation, the new arrangements are gradually leading to better results.

8. Looking to the future, the first strategic thrust of promoting smallholder commercialization, including the establishment of equitable links between smallholders and agribusiness, will be reinforced. A second thrust will re-engage to assist the more isolated rural populations to raise their productivity, food production and income levels. This re-engagement will seek to expand the outreach

and relevance of services and investments to the poorest productive rural households, including woman-headed and HIV/AIDS-affected households. The strategic direction for IFAD's future engagement recognizes the limited, in some cases declining, capacity for implementing development programmes and the need to focus on a few areas of importance to the rural poor, and where some experience and capacity exist. It also reflects the lessons learned from portfolio implementation experience, including the structuring of implementation arrangements and the need to adopt a focus on organizational empowerment of the poor. The thrusts provide a basis for IFAD to continue its dialogue with government about the institutional, policy and legislative measures required for project/programme design and implementation. The main current area of policy dialogue concerns smallholder commercialization, where the design and implementation of IFAD-supported projects/programmes has been an important source of inspiration for government in developing a larger subsector investment programme. Key areas for policy dialogue in the future will include regulation and institutional issues related to oversight of the rural financial services sector and the development of policy, regulatory and institutional arrangements for the control of livestock diseases. In addition, IFAD, in consultation with other stakeholders, will engage more broadly in an evidence-based dialogue with government about general policy issues affecting the agricultural and rural sectors.

9. During 2004-2007, IFAD will consider providing support in the following areas: (i) improving access to rural financial services. The planned intervention will adopt a cautious approach, initially seeking to further strengthen the regulatory framework developed with support of other donors, and build up capacity in government ministries and institutions, and rural finance institutions, and at the community level for self-reliant savings and credit schemes. As and when improved macroeconomic preconditions for financial services emerge, engagement will be deepened to include cofinancing support to viable financial institutions providing rural financial services. IFAD is expected to become a lead donor in this area; (ii) reinvigorating the smallholder livestock sector, which has been severely affected by repeated outbreaks of livestock disease following the withdrawal of public veterinary services in the 1990s. This will involve developing sustainable, mainly community and private sector-based, livestock disease control systems and providing investments to improve smallholder livestock production systems; (iii) increasing smallholder adoption of natural resource management (NRM) practices to help increase their food production and incomes through extensive forms of smallholder agricultural expansion using NRM techniques, including conservation farming techniques. Special emphasis will be placed on extending and adapting services to make them accessible to the poorest labour-constrained households, including woman-headed and HIV/AIDS-affected households; and (iv) further strengthening smallholder commercialization and agribusiness development, if warranted by portfolio performance and developments in government policy.

10. Project/programme development within these four areas will depend on portfolio performance and satisfactory resolution of the main policy and institutional issues bearing upon performance. In the base lending scenario, a rural finance intervention will be developed in 2004. This will be followed by an intervention to reinvigorate the smallholder livestock sector for presentation to the Executive Board in 2005, and by another aimed at strengthening smallholder NRM practices for presentation to the Board in 2006. In the low lending scenario, which would be triggered either by unsatisfactory portfolio performance or difficulties in meeting the policy and institutional requirements of supporting the smallholder livestock sector, only the rural finance and NRM interventions will be brought forward, as scheduled above. In the high lending scenario – which assumes generally acceptable portfolio performance, satisfactory clarification of government's intended role in agricultural input and output markets, and, specifically, a satisfactory performance rating based on demonstrated impact of the Smallholder Enterprise and Marketing Programme following the second tri-term review in 2005 – the intervention to support smallholder commercialization and agribusiness development will be added relative to the base lending scenario. The total new commitment over the four-year period will amount to USD 20-50 million for two-to-four interventions. After a three-year period without new lending, this conditional lending framework will offer the possibility of a major expansion of IFAD support to reduce rural poverty in Zambia.

**REPUBLIC OF ZAMBIA**  
**COUNTRY STRATEGIC OPPORTUNITIES PAPER**

**I. INTRODUCTION**

1. IFAD support to Zambia commenced with the Eastern Province Agricultural Development Project approved in 1981. During its 22 years of engagement in the country, IFAD has provided ten loans to help government implement eight interventions aimed at reducing rural poverty. The first Country Strategic Opportunities Paper (COSOP) prepared in 1997 set out the strategic framework under which the two ongoing IFAD-supported interventions were conceived. In arriving at its conclusions and strategies, the present COSOP builds on the earlier paper and on experience acquired under the ongoing interventions. The paper has been prepared in consultation with stakeholders, starting in January 2003 with a discussion of priorities with government, donors and other stakeholders. The strategy was discussed with stakeholders in Lusaka in July 2003 and the draft paper was reviewed by government in October of the same year.

**II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT**

2. Zambia is a large, landlocked country occupying 752 610 km<sup>2</sup> on the South-Central African plateaux. It borders eight countries, namely, Angola, Botswana, the Democratic Republic of The Congo, Malawi, Mozambique, Namibia, the United Republic of Tanzania and Zimbabwe. The population of 10.3 million grew at the rate of 2.3% per annum during the five years up to 2001. Forty-five per cent of the population is under the age of 15. Due to the historic concentration of mining and related industry, 60% of the population is concentrated along what is known as the 'line of rail' built before independence to connect Southern Rhodesia with Livingstone and Lusaka to the Copperbelt. For the same reason, the country is one of Africa's most urbanized countries, with only 60% of the population rated as rural.

3. When the country gained independence in 1964 and inherited a mining-based economy, it was a prosperous country by regional standards. This placed it in a relatively good position to make progress in improving social equity, the highest priority after independence. A central planning model was adopted during the 1960s. In Zambia, copper revenue contributed by far the largest part of public revenue, which was used to finance parastatal companies, social services, agricultural subsidies, public infrastructure and industrial development at provincial centres. Substantial progress was achieved. By 1975, many people had made gains in income and life expectancy, but almost two thirds of the population continued to live in poverty and high levels of malnutrition prevailed. Per capita income has been falling since 1975. During the 1980s, mounting economic problems forced government to implement a number of restructuring measures. Wider structural reforms were implemented as of 1991, although institutional restructuring has been difficult to achieve and inconsistencies have remained between announced policies and public-sector action.

**A. Country Economic Background**

4. Copper and associated mineral production dominated the economy at independence and contributed about half of gross domestic product (GDP), two thirds of public revenue and 90% of exports. At the present time, agriculture, forestry and fisheries together contribute about 22% of GDP (2001), manufacturing 11%, mining 4%, services 52% and other sectors 11%. Total exports, which amounted to about USD 870 million in 2001, have fallen from USD 1.1 billion in 1997 mainly due to declining copper and cobalt exports. The trend, however, masks a threefold increase in non-traditional exports, which now amount to USD 300 million. The main exports markets are the European Union (53% of total exports), the Common Market for Eastern and Southern Africa (COMESA) (22%) and South Africa (12%). Merchandise imports, which total about USD 1.25 billion, mainly comprise

capital goods, fuel and metals and have increased from USD 1.0 billion in 1997. Most imported goods originate in South Africa (46% of total imports), the European Union (23%) and COMESA (15%). Annual net official development assistance inflows have ranged from USD 350 million to USD 800 million in recent years. Over time, external assistance has increasingly been provided by the Bretton Woods Institutions although a number of bilateral donors, including Germany, Japan, The Netherlands, Norway, Sweden and the United Kingdom are still important contributors.

5. Per capita GDP dropped by 13% between independence and 1980 and fell by another 20% in the decade to 1990, in parallel with the accumulation of a large external debt. Since 1991, there have been improvements in economic management and performance and some economic diversification has taken place. Poor performance of the mining sector has, however, had a negative influence on economic growth. Following an initial contraction associated with the reforms, GDP grew at about 2% per annum in 1996-2000. The reasons for this include delays in privatization that contributed to large public deficits, and high and volatile real interest rates that impeded investments. GDP growth was 2.8% in 2002 and is forecast at 3-4% per annum in the near future.

6. A Poverty Reduction Strategy Paper (PRSP) has been prepared, and in 2000 the decision point was reached under the enhanced Debt Initiative for Heavily Indebted Poor Countries (HIPC). The country has been pursuing a macroeconomic stabilization programme supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). The programme's principal features relate to public expenditure management, which involved prioritization of pro-poor expenditure, privatization of large state-owned enterprises, deceleration of inflation to single digit levels and adoption of measures agreed in the PRSP, including measures related to HIV/AIDS control. Creditors will write off two thirds of the external debt of USD 5.7 billion at the completion point, which was originally planned for late 2003 subject to progress under IMF- and World Bank-supported programmes. However, large unplanned public expenditure increases in salaries and allowances during 2003 led the IMF to suspend its support to the stabilization programme, and the target date for the completion point has been postponed to 2004.

7. Once an affluent nation by regional standards, Zambia has lost much ground and is now categorized as a least developed country. With a per capita income of USD 320, it ranks 163<sup>rd</sup> among 175 countries included on the 2003 Human Development Index (HDI). Life expectancy at birth has fallen to 33 years, the lowest in the world, mainly because of HIV/AIDS. The prevalence of HIV/AIDS among the adult population is 21.5%, the fourth highest in the world. Zambia is the only country whose HDI ranking is lower than in 1975, and it is judged to be lagging behind relative to the rate of progress required to reach the Millennium Development Goal targets. There are enormous challenges to achieving rapid economic diversification at a time when difficulties continue to be experienced in the main export sector and in mobilizing the necessary political will to improve public-sector management. This includes achieving transparency in expenditure and building up the capacities required for effective service delivery.

## **B. Agricultural Sector**

8. The country lies on a plateau mostly consisting of grassland, becoming semi-arid in the west and swampy in the north-east, interrupted by the fertile valleys of the three main rivers, the Zambezi, the Kafue and the Luangwa. There are three main agro-ecological zones: Zone I, which is found in parts of the Eastern, Western and Southern Provinces, receives 600-800 mm of rainfall annually and has a short growing season with high temperatures and a high risk of drought. The most suitable agricultural activities are extensive livestock production and low-input cultivation of drought-tolerant crops. Forty-eight per cent of all rural people live in this zone. Zone II is mainly located in the Central and Lusaka Provinces and parts of the Eastern, Southern and Western Provinces, where annual rainfall is 800-1000 mm and more stable, and soils are moderately fertile. This zone accounts for most marketed agricultural production and half of all smallholder cash incomes, and it has the potential to support a wide range of crop and livestock enterprises. Forty-three per cent of all rural people live in this zone, which covers 58% of the

land area. Zone III is in the Northern, Luapula, Copperbelt and Northwestern Provinces. Annual rainfall in this zone is above 1 200 mm, the growing season is long, but soil fertility is low. The zone contains 9% of the rural population, who however account for one third of all smallholder cash income.

9. Government classifies agricultural producers as follows: (i) about 800 000 smallholders cultivating 1-5 ha of land, many using hand-hoe technology, relying on household labour and retaining most production for their own consumption. These smallholders contribute 65% of all maize production, 75% of groundnut, 85% of sorghum, 95% of millet, 55% of sunflower and 95% of the cotton produced in the country; (ii) about 50 000 emergent farmers cultivating 5-20 ha using draught power and purchased inputs in areas along the line of rail; (iii) 600-750 large-scale, mostly family-owned, farms cultivating 50-150 ha using mechanized farming techniques in areas along the line of rail; and (iv) a dozen large corporate operations, most of which are integrated with agro-processing. Not included in these numbers are the commercial farmers formerly based in Zimbabwe who are now setting up operations in Zambia to engage in growing tobacco, floriculture, horticulture, and the production of coffee and other crops.

10. After independence, government began supporting agriculture with the overall goal of achieving food self-sufficiency, seeking to ensure access to inexpensive food for mine workers and other urban dwellers, and, at the same time, supporting food production as a means of distributing wealth to rural areas. Public support to agricultural research, extension and marketing focused almost exclusively on maize and was delivered through a system characterized by official price controls as of the 1970s, set on a pan-territorial, pan-seasonal basis; centralized delivery of fertilizer and seed on credit, other inputs, extension and marketing; and parastatal companies that dominated related sectors. A substantial increase in maize production was achieved, also in areas that were poorly suited to maize cultivation. By the late 1980s, the system had become inefficient and fiscally unsustainable. In 1991, the new government embarked on agricultural reforms to reduce the burden of subsidies and stimulate predominantly private-sector-led agricultural growth. The initial reforms included decontrol of prices, removal of subsidies and privatization of parastatal companies in 1992-1995, followed by a second reform phase in 1995-2001 when the Ministry of Agriculture and Cooperatives (MACO) undertook to restructure the ministry under the large Agricultural Sector Investment Programme (ASIP). This also included assistance to help the ministry to better manage and coordinate support to the sector, improve service delivery through decentralized operational structures and manage investments in local infrastructure. The design of ASIP was, however, not fully adequate and implementation proved unsuccessful, partly due to institutional resistance. The decontrol of subsidized pan-seasonal, pan-territorial agricultural prices caused agricultural input prices to rise throughout the country. In response to this, there were marked changes in the production patterns of smallholders and other farmers. At the national level, the area planted to maize was reduced by 20% as farmers engaged in diversification or switched to crops that required less purchased inputs and/or were better suited to the area (e.g. cassava). In response to rising input prices, commercial farmers in agro-ecological Zones I and II adopted sustainable, yield-enhancing techniques and conservation farming methods that are less intensive in purchased inputs. In areas with good market access, many agricultural producers, including some smallholders, responded to changing market conditions by diversifying into cash crops, and small-scale milling, oil-expressing operations, local trading and farmer-based marketing companies emerged. Various other commercial links between agribusiness and smallholders also emerged, including through outgrower operations, the most important of which were in cotton, with others in sugar, paprika and fresh vegetables for export. In the outlying areas, which comprise most of the territory, smallholders formerly had access to subsidized agricultural inputs and credit. In these areas, little diversification and private trading has emerged, and many smallholders have reverted to more diversified subsistence-oriented production patterns.

11. At the present time, the primary agricultural sector contributes about 22% of GDP, representing a substantial increase compared with the situation obtaining two decades ago when agriculture contributed around 15%. The combined agro-food complex now contributes more than 40% of GDP. The agricultural sector performed relatively well during the 1990s, with annual growth rates

averaging 4.5%. Agriculture provides employment for 67% of the labour force and produces raw materials for other industries. The sector has increased its share of non-traditional exports from 22% to 39% within a decade, the main exported commodities being cotton lint, flowers, sugar, tobacco and vegetables. Crops and livestock contribute 65% and 35%, respectively, to agricultural value-added.

12. According to the Food and Agriculture Organization of the United Nations (FAO), Zambia's annual production of maize, the main staple, has averaged about 1.0 million tons over the past ten years. However, production of this crop fluctuates widely with rainfall. In the past, commercial imports normally took place in deficit years. As mentioned above, there has been a decline in the area planted to maize and an increase in areas devoted to low-input, drought-resistant crops such as cassava. There has also been a marked decline in the livestock herd. Smallholders have been the foremost victims of cattle losses, mainly due to outbreaks of infectious diseases, particularly Corridor Disease. These outbreaks occurred with MACO's rapid withdrawal from disease control and prevention under ASIP, when it abandoned vaccination campaigns and ceased supplying drugs and tick control chemicals for dip tanks. The reduction in the smallholders' cattle herd has limited access to animal draught power and led to a reduction in cultivated areas in many parts of the country. The effect of this has been particularly severe in dry areas, where extensive livestock raising is one of the most important agricultural enterprises for smallholders.

13. A draft National Agricultural Policy (NAP) prepared for 2002-2010 stresses the importance of investments in both large-scale and smallholder agricultural commercialization, including investments to improve access to rural financial services by smallholders and rural enterprises. It also emphasizes the need to improve equity and smallholder food security in rural areas, mainly by providing outlying area smallholders with improved, eventually self-sustained, access to appropriate and affordable yield-enhancing technologies, input and output markets and financial services. Government considers the market integration of outlying areas as important to enhancing the productivity of the poor and is planning to promote public-private partnerships in the input supply sectors. The details of such partnerships have not, however, been fully worked out. In support of the draft NAP, MACO has formulated an Agricultural Commercialization Programme (ACP) aimed at facilitating sustainable and broad-based agricultural sector growth over the period 2002-2005 by increasing income generation from farming through improved access to marketing, trade, agro-processing opportunities, better agricultural finance services, improved agricultural infrastructure, appropriate technology and information. Important opportunities identified for smallholders in the ACP include participation in outgrower operations and improved access to off-own-farm employment in commercial farming operations. The ACP involves only limited prioritization between intervention areas, and arrangements for implementation are not fully developed. However, substantial support for smallholder commercialization is already being provided within the framework of the ACP and under the IFAD-supported Smallholder Enterprise and Marketing Programme (SHEMP), which is one of the lead activities in this area.

14. Despite the policy reforms adopted in the 1990s, government has continued to intervene in agricultural markets, particularly those for fertilizer and maize. These interventions have mainly involved the provision of fertilizer and seed to part of the smallholder sector on credit. However, efforts to ensure credit discipline have been inadequate and this has led to very poor recovery rates. From 2002, a 50% subsidy has been applied instead. During 2003, government intensified its interventions in the maize market, announcing a floor price not directly related to market conditions. Following government's announcement of plans to establish a crop marketing agency, there is some concern about intentions with respect to its future role in agricultural output markets.

15. The institutional situation in the sector is characterized by the provision of very limited public development services, particularly after the closure of ASIP. This is partly due to capacity constraints, but other main reasons are the lack of prioritization in budget allocations or of prioritization of development services within the resource envelope available to MACO. The latter is constrained by an acute lack of operational resources, which has brought service provision to a complete halt in many areas, and staff turnover is high, increasingly due to HIV/AIDS-related illness. Reflecting the

changing roles in agriculture, many private and other institutions emerged during the 1990s, including the Zambia National Farmers Union (ZNFU) that now represents farmers of all sizes. ZNFU hosts the Conservation Farming Unit (CFU), a technical advisory and coordination body established in 1995 to assist smallholders with no access to mechanization to improve their crop yields using a minimum of purchased inputs. CFU works with outgrower companies, non-governmental organizations (NGOs) providing advisory services to farmers, and local MACO staff. Other institutions include the Agribusiness Forum, the Agricultural Consultative Forum (ACF) and growers' associations for tobacco, coffee and other export crops. In addition, several recently established quasi-public-sector trusts, including the Golden Valley Agricultural Research Trust and the Livestock Development Trust, engage in commercial production, research and rural development funded by external grants and internally generated funds. Finally, numerous local and international NGOs are active in rural and agricultural development. The private sector provides most of the support services that are available to smallholders.

16. Rural economic activities requiring purchased inputs are severely constrained by limited access to, and the high real costs of, capital. In the past, government programmes provided subsidized credit to smallholders through various rural finance institutions, all of which collapsed during the 1990s, and agricultural inputs and outputs were marketed through parastatal companies. Large-scale commercial producers and rural enterprises have some access to financial services. Smallholders and small rural trading and other enterprises, many of which have emerged since the mid-1990s, lack access to financial services. Government accords high priority to developing a rural finance sector that also serves smallholders and small-scale rural enterprises, and has recently prepared a regulatory framework for the emerging microfinance sector and other non-bank financial institutions.

### **C. Rural Poverty**

17. Countrywide, 75% of the country's population now live below the poverty line and 58% live in extreme poverty. The prevalence and depth of poverty is highest in the rural areas, where 83% of all people are poor and 71% are extremely poor. There are more than 4.5 million poor rural people in Zambia, and more than 4 million are extremely poor. While urban poverty has increased over the past decade, the incidence of rural poverty has fallen slightly, reflecting the relatively good performance of the agricultural sector and the decline in mining and related sectors. The evolution in non-income aspects of poverty since independence is, however, disturbing. Life expectancy at birth, 43 years in 1964, improved to 51 years in 1980 but has now fallen to 33 years. Under-five mortality, 213 per 1 000 live births at independence, fell to 150 in 1980 but has since increased to 202. Primary school enrolment, which was 73% at independence, improved to 76% in 1980 but has fallen back to 73%. The percentage of stunted children has risen from 40% to 47% over the 1990s, which indicates increasingly severe malnutrition problems.

18. Rural poverty is caused by a combination of geographic isolation, which limits access to services and markets, and lack of access to factors of production including inputs, labour, technical knowledge and productive assets such as oxen and farm implements. The incidence of rural poverty is highest in provinces that are far from the line of rail, specifically in the Eastern, Luapula, Northern, Northwest and Western Provinces. The highest numbers of rural poor people are in the Eastern, Northern and Southern Provinces that together account for more than half of the rural poor. While many smallholders in areas with market access have benefited from market opportunities brought about by liberalization, few such opportunities have become available to smallholders in outlying areas. In these areas, many smallholders have so far experienced a net loss from the abolition of subsidized, pan-seasonal, pan-territorial pricing of agricultural inputs and outputs. One of government's priorities is to improve the access of these people to income and food, also through adoption of improved techniques for food production.

19. Evidence is emerging of growing chronic vulnerability among people with severely constrained opportunities, including households with seriously ill family members and woman-headed

households. Woman-headed households are particularly vulnerable to poverty for several reasons, including their lower level of education and smaller share of relatively well-remunerated formal employment. In rural areas, women contribute 75% of farm labour as well as collecting water and fuelwood and handling numerous other household duties. Woman-headed households generally have poorer access than others to animal draught power, which limits the area they can crop. For these reasons, woman-headed rural households are severely constrained in terms of labour. They often purchase 40-50% of household food requirements, which demonstrates the importance of improving access to income-generating activities outside agriculture. Access to such income is very limited and difficult to expand. The consequence is that woman-headed households often have access to less food and experience longer periods of food shortage.

20. Although the prevalence of HIV/AIDS in rural areas is lower than in the towns and cities, the consequences in villages are such that the severity of poverty can only be understood with reference to it. Recent surveys show that 30% of households care for a chronically ill adult. Among the better off, the figure is 40%. One in four households cares for at least one orphan and 8% of poor households have recently lost an adult family member. Rural households with a chronically ill adult member succeed in planting only half of the area planted by others and obtain a 30-50% lower yield. Available labour, not land, is the binding constraint. These households encounter severe difficulties in obtaining sufficient food and resources to care for and eventually bury a sick family member. They are usually forced to sell their household assets, including any livestock they may own, for these purposes. This often drains household assets to the point that full recovery is impossible. Support is required to improve knowledge and prevention and provide low-risk income-generating opportunities, particularly for women. As the main constraint to food production is limited labour, improved access to labour-saving technologies for food production should be a priority area for assistance.

#### **D. Constraints On and Opportunities for Rural Poverty Reduction**

21. **Constraints.** Four general sets of factors constrain possibilities for agricultural development and rural poverty reduction in Zambia in the context of a very limited achieved and prospective public-sector service. First, limited purchasing power makes urban markets for agricultural products easily satiated. Secondly, the country's location leads to substantial transport costs being added to imported inputs. A similar constraint applies to exports of many commodities because the paucity of international flights leaves relatively few opportunities for back-loading produce to European markets. Thirdly, the country's transport and public infrastructure is under-developed and existing structures are increasingly poorly maintained. There are also high costs of fuel and electricity and a poor distribution network for the latter, especially in rural areas. Fourthly, past direct management by government of rural transactions has left the country with a fragmented agribusiness sector; rural people generally have limited commercial skills and experience; and smallholders continue to depend on government.

22. Constraints at the community level vary according to local circumstances. Commonly mentioned constraints include geographical isolation, acute seasonal labour shortages, limited access to input and output markets, and vulnerability to drought. The poorest households, including woman-headed and HIV/AIDS-affected households, suffer chronic food shortages, face severe labour constraints and have very few assets. Although the most vulnerable of such households have only limited prospects for sustaining household food self-sufficiency without external support, their food production could be increased substantially through adoption of labour-saving, yield-enhancing techniques such as conservation farming. Slightly better off households that formerly owned livestock and thus had access to draught power increasingly face seasonal food shortages. A key contributing factor has been the withdrawal of public animal-disease control, which has caused a reduction in smallholders' livestock herds, thereby removing a main mechanism for putting away savings and earning income during periods of drought. As mentioned earlier, smallholders who live in areas with good market access and produce for the market are often prevented from realizing their potential due to lack of access to financial services.

23. **Opportunities.** Despite these constraints, opportunities do exist for smallholder development and rural poverty reduction. Substantial amounts of imported staples and high-value crops consumed by the urban population can be substituted with local produce, and there are opportunities to increase exports to regional markets, some of which have large and relatively affluent urban populations and are importing a variety of livestock and crop products from overseas. Finally, opportunities exist for expanding exports of cotton, tobacco, coffee, paprika and other high-value products such as essential oils, flowers and horticultural crops. Some of these opportunities arise from the market access offered by the United States through the African Growth and Opportunities Act. Experience with cotton and horticulture production shows that when technology, capital and markets are available, and organization is adequate, smallholders with the required resources respond quickly.

24. Smallholders who live in areas with good market access and have access to draught power are generally in the best position to exploit the emerging opportunities for diversification into crops for local marketing and exports. These crops are often produced under outgrower operations where prefinanced inputs and extension services are provided. To take advantage of local or export market opportunities, smallholders usually seek to organize themselves into groups to facilitate bulking of inputs and outputs and enhance their bargaining position. Investments by several NGOs in organizational and business skill development in such groups provide a high return. Areas with good market access also offer high returns on investments to improve livestock and veterinary services, and there are possibilities to alleviate constraints faced by emergent farmers to enable them to expand production, thereby improving smallholders' access to off-own-farm sources of income.

25. In outlying areas, the most immediate opportunities exist in the area of enhanced food production and self-sufficiency. Smallholders in these areas could increase their food security and income substantially and reduce their vulnerability to drought through improved management of their existing low-input crop production and livestock systems. In many areas, land is sufficiently abundant to permit an expansion of such extensive cultivation methods, provided the labour constraint issue can be successfully addressed. Improvement would entail adoption of conservation farming techniques, establishment of local seed multiplication and community-based livestock services. Many could also re-engage in livestock activities or improve crop production if animal draught power were available. In areas with very restricted crop potential, the highest impact on food security and incomes would be through livestock and veterinary services. Although the development of the cash economy is most advanced in areas along the line of rail, some penetration into outlying areas has taken place, not least due to exigencies caused by the introduction of fees for public-sector services, including schooling and health care. Participation in markets by people in outlying areas is often undertaken at a relative disadvantage. A number of NGO-supported initiatives have shown that it is possible to assist communities to enter the cash economy on better terms through optimization of local resources and enablement of the communities to generate and manage, through self-reliant savings and credit institutions, the cash income required for essential goods and services.

### **E. National Strategy for Rural Poverty Reduction**

26. Zambia completed a PRSP in March 2002. The overall goal of the strategy is broad-based economic growth to reduce poverty. Main objectives are to promote economic growth and diversification in production and exports; improve delivery of social services; and address important cross-cutting issues, including HIV/AIDS and gender. The overall approach is to achieve poverty reduction through a combination of growth-promoting investments in key economic sectors, with primary focus on agriculture and other rural activities, and, across the main sectors, supporting infrastructure, improved access and quality in the provision of social services, governance, and the integration of policies on HIV/AIDS, gender and the environment.

27. Within the rural sector, the poverty reduction strategy is based on: (i) reducing production costs through improvements in rural infrastructure such as roads; (ii) creating rural employment opportunities through encouragement of large-scale agricultural, agro-processing and tourist ventures;

(iii) strengthening the linkage of smallholders to larger-scale producers and agribusiness enterprises, mainly through outgrower operations; (iv) stimulating small-scale rural enterprises; (v) providing support services to help the poorest rural people, who have limited possibilities to engage in market-based activities, to improve their access to food; and (vi) strengthening social services in education, health and sanitation. Implementation of the PRSP will require numerous strategies involving different approaches for rural people in different circumstances. For interventions involving investments in the agricultural sector and the provision of services to smallholders, direct management and delivery of investments by government and sole reliance upon government staff as service providers would be unlikely since this would be inconsistent with existing capacities and experience.

28. Successful implementation of the PRSP will also require that a detailed evidence-based policy be formulated and implemented. This will require a strengthening of analytical capability in the public sector. Experience in these two areas during the 1990s was mixed. Policy declarations have often lacked detailed action plans, guidelines and supporting details of changes to existing procedures or legislation, and announced policy and action have been described as characterized by dualism. These problems could constrain implementation of the agricultural and rural aspects of the poverty reduction strategy.

29. Past coordination among donors in the agricultural and rural sectors has been generally weak. On the donor side, the World Bank led the design and had a key role in guiding implementation of the ASIP and in donor coordination. Although the World Bank is preparing a programme under the ACP, it is unlikely to adopt a similar role in the future. Reflecting the changing roles, not least the increasingly pivotal role of the private sector, donor coordination and policy dialogue with government is increasingly done through a combination of bilateral initiatives related to programme design and implementation and of initiatives consolidated and communicated through the ACF, which consists of representatives of government, the private sector and donors.

### III. LESSONS FROM IFAD'S EXPERIENCE IN THE COUNTRY

30. Previous IFAD-supported interventions sought to contribute as much as possible to sustainable rural poverty reduction within the prevailing policy and institutional environment. The first interventions aimed to cushion the effects of central planning on the rural poor and support the structural adjustment process. These were followed by interventions to reinforce household food security and reduce vulnerability through support services, improved access to productive assets and technical knowledge and assistance to diversify incomes. These projects, all of which are now closed, were implemented through existing government structures. Progress in meeting objectives was generally hampered by inadequate local capacity to manage and deliver services and investments. Results have also been limited by adverse macroeconomic and structural conditions prevailing in the country. Implementation faced severe delays and administrative difficulties in procurement and disbursement, and government counterpart funding; staffing often constrained implementation, effecting transfers of resources to field-level implementers was often difficult, and auditing of accounts was often delayed. The supervision of project implementation at times failed to provide the required guidance. IFAD also recognizes that instances of inadequate project design have contributed to implementation difficulties, particularly with regard to the two recently closed interventions that were designed and implemented as part of the ASIP. Although the poverty of some smallholders has been reduced, results have been inadequate and the benefits accruing to the rural poor have not as a general rule been sustainable.

31. In addition to these general observations, IFAD has recorded the following specific lessons from its experience in the country:

- programme design should be based on a solid understanding of socio-economic conditions and strong emphasis placed on capacity-building at the local level;

- conventional extension approaches having failed, future approaches need to be farmer-led and locally managed and to acknowledge indigenous knowledge;
- technologies new to a community must undergo location-specific financial and technical appraisal before being introduced;
- limited institutional capacities restrict possibilities for successful implementation of multi-component interventions designed to provide complementarities between activities;
- IFAD's cooperating institutions lack sufficient time and expertise to influence and redesign fundamental processes that are developed without sufficient regard to local constraints;
- the current practice of donors of coordinating activities under the overall guidance of MACO and seeking close coordination whenever possible is more appropriate than the approach planned under ASIP; and
- programme planning, monitoring and evaluation (M&E) should form an integral part of management and be based on beneficiary perceptions.

32. The design of the two ongoing IFAD-supported interventions was based on the above-mentioned lessons. Implementation responsibilities have been contracted to agencies with capacity to deliver investments and services required by poor rural people under the overall coordination of a unit reporting to a government ministry. This has helped planning and M&E to become an integral part of management. However, both interventions follow government procurement procedures and this has continued to cause delays in implementation. The Forest Resource Management Project (FRMP) has only been effective for 18 months and has provided little pertinent experience. On the other hand, SHEMP, directly supervised by IFAD, has been under implementation for three years and was reviewed in August 2003. The review confirmed the suitability of design and made a number of recommendations to improve implementation, including the tightening up of contracts with the main service providers, adopting a more pro-active approach to contract management, and sharpening the focus on institution-building related to smallholder enterprise and agribusiness development.

#### **IV. STRATEGIC FRAMEWORK FOR IFAD**

##### **A. IFAD's Strategic Niche and Proposed Thrusts**

33. The new challenges and opportunities for smallholder development brought about by liberalization and the very limited capacity of the public sector to ensure adequate access to development services has led IFAD to increasingly focus support on strengthening the linkage of smallholders to suppliers and produce markets. Alongside this main thrust, the previous country strategy included a second strategic thrust to improve rural women's access to means of production and help them ameliorate their labour constraints. The two ongoing interventions are based on these strategic thrusts, but with most emphasis placed on the former. Implementation experience with the ongoing portfolio generally confirms the suitability of both the main thrust and the implementation architectures. Government has been assigning increased priority to adopting a market-led approach to growth in the smallholder sector as a means to sustainable rural poverty reduction and as a key source of economic growth. As noted above, there remain a number of inconsistencies between announced government policies and action. It is proposed that the main strategic thrust for future IFAD support to Zambia should be to support smallholder commercialization, including assistance in the establishment of equitable links between smallholders and market intermediaries and in improving access by smallholders and market intermediaries to rural financial services. Under this thrust, emphasis will be placed on broadening outreach and improving the terms for smallholders involved in outgrower operations, and on developing innovative financing and organizational arrangements in agricultural value chains involving outgrower operations.

34. The positive experience of other agencies, including NGOs, in engaging with the poorest sections of the rural community, which is also the explicit objective of the FRMP, provides a basis for the proposed second strategic thrust, which will be to assist poor smallholders in more remote areas to

better capitalize on local and natural resources to improve food production and food security. Investments under this thrust will at the same time contribute to smallholder commercialization, consistent with the natural resource endowment and comparative advantage of the areas concerned.

35. Addressing issues specifically related to gender and HIV/AIDS – the two main cross-cutting issues prioritized in the PRSP – is of utmost importance to the success of agricultural and rural programmes. Past IFAD-supported interventions have consistently sought to promote women's access to relevant technologies, assets and market opportunities, and specific measures have been included to alleviate constraints that are particularly severe for women. Future interventions will deepen this policy, including measures to alleviate the major constraints faced by women and provide opportunities in areas of priority to them. Gender aspects will be particularly important in the areas of natural resources management (NRM), where immediate improvements to food production through labour-saving technologies will be prioritized, and in livestock development, where income-generating opportunities for women could be provided through increased availability of small stock. Although the past projects/programmes did not generally include assistance specifically targeted at HIV/AIDS-affected households, the two ongoing interventions include measures related to awareness-raising. Similar measures will be included in all future interventions. In addition, a major effort will be made to increase severely labour-constrained households' food production in the proposed NRM intervention. This will draw on joint work by IFAD and FAO to identify labour constraints in HIV/AIDS-affected households and develop feasible options.

36. The experience with past and ongoing projects/programmes provides important guiding principles for the design of future interventions. As far as possible, implementation arrangements will be structured as performance-based contract partnerships with service providers. The entry point for service delivery and investments will be organizational empowerment to enable the communities to manage their own affairs and to elicit initiative. This has always been the intention of IFAD support but delivery has often been ineffective in this regard, reflecting constraints in government and among NGOs. The proposed thrusts are related to the *Strategic Framework for IFAD 2002-2006* and the Regional Strategy Paper for Eastern and Southern Africa as described in Appendix IV.

### **B. Main Opportunities for Innovations and Project Interventions**

37. Four opportunities have been identified for future interventions and innovations. These opportunities – rural financial services; reinvigoration of the smallholder livestock sector; NRM, including conservation farming; and further support for smallholder commercialization – all represent broad areas of intervention prioritized in the PRSP and involve a different constellation of emphasis on the two main strategic thrusts outlined above. In particular, the engagement in rural finance and livestock services will require resolution of difficult policy and institutional issues that have so far constrained progress in these areas.

38. **Rural financial services.** The long-lasting government interventions in agricultural input and output markets, the high and volatile real interest rates caused by inadequate public expenditure control, and the banking system's consequent limited interest in the rural sector has left the country with a poorly developed rural finance sector. Lack of access to rural financial services constrains smallholder entry into market-based production and inhibits development and expansion into outlying areas of the agribusiness sector. Government is well aware that the development of the rural and agricultural sector requires that financial services become available in rural areas. It also recognizes that rural financial services have an important role to play at the community level, where organizational empowerment could enable communities to establish and operate self-reliant savings and credit initiatives for use as one among several means to work themselves out of poverty. The development of a comprehensive, diversified and sustainable rural finance sector will, however, require that conditions of relative macroeconomic stability and predictability be established.

39. Assisted by the United States Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (SIDA), government has taken an important initial step to strengthen the rural finance sector by developing a regulatory framework for the small emerging microfinance industry, which will also cover non-bank financial institutions providing rural financial services. Improving access to rural financial services constitutes an essential element in IFAD's long-term support for smallholder commercialization and agribusiness development, as initiated under SHEMA and FRMP. Assistance will be based on experience acquired under several recent interventions in this area in the region, and IFAD anticipates that it will become a leading donor in this area. The intervention will adopt a phased approach, with assistance initially focused on strengthening the regulatory framework, building capacity in the Ministry of Finance and National Planning, the Bank of Zambia and other public institutions, rural finance institutions, and at the community level, the latter for self-reliant savings and credit initiatives. As and when stable macroeconomic conditions are established, support will be deepened to include cofinancing to viable financial institutions providing credit to agricultural smallholders and rural enterprises.

40. **Reinvigoration of the smallholder livestock sector.** As noted above, Zambia has experienced a drastic reduction in its cattle herd due to frequent outbreaks of infectious diseases well known to the area during the second half of the 1990s. The losses were mainly experienced by smallholders. The outbreaks coincided with the withdrawal of public veterinary services under ASIP. The loss of livestock has had severe consequences for smallholders, who lost important assets and faced reduced possibilities to cultivate land for food and other agricultural production.

41. IFAD will assist government to reinvigorate the smallholder livestock sector, including the development of suitable livestock disease-control systems. This will involve assisting government, the private sector and the communities to develop the policy and institutional framework for livestock disease control and establishing a suitable balance between government, community-based and private services. The investment in livestock disease-control systems will be accompanied by investments to improve livestock husbandry and smallholder production systems, and, possibly, limited restocking and distribution of small stock to woman-headed households. For the most part, the initiatives for disease control will be developed within the private sector or as self-help activities carried out by the livestock owners themselves. The intervention will encourage the development of other livestock services consistent with commercial needs and adapted to the capability of the private sector and the communities, and to individual end-users of such services. The intervention will likely include the main types of livestock. If judged feasible and sustainable, limited restocking could be provided to households with experience and management skills.

42. **Natural resource management, including conservation farming.** The combined effects of limited local markets and high transport costs place Zambia in a position of relative disadvantage in terms of large-scale agricultural intensification. Following the removal of general subsidies on agricultural inputs during the 1990s, commercial farmers made a substantial effort to reduce production costs by adopting techniques and methods with less need of purchased inputs. From 1996, yield-enhancing, input-saving techniques accessible by smallholders have been developed and implemented under the overall technical guidance and coordination of the CFU established under ZNFU.

43. The most commonly pursued conservation farming practice adopted by smallholders involves reduced tillage in land preparation, leaving crop and weed residues on the soil surface to form a mulch. 'Micro catchments' are prepared in a permanent spacing pattern during the dry season. The micro catchments are a means of collecting early season rainfall, establishing an enhanced micro environment for plant growth. Manure and limited amounts of fertilizer are placed in the micro catchment to increase nutrient availability while maximizing the efficiency of application of high-cost inputs. The cropping system involves rotating cereals, legumes and other crops. When applied in an integrated manner, the techniques produce higher yields with lower costs of purchased inputs and lower demand on labour at peak periods. This renders the techniques appropriate for poor

smallholders who face severe labour constraints. A recent assessment estimates that 75 000 smallholders in agro-ecological Zones I and II use conservation farming on all or part of their land and derive very substantial benefits in terms of improved yields and reduced vulnerability to drought. There are possibilities for raising crop production and associated livestock output through further adoption of conservation farming, which may be combined with support to improve the linkage of smallholders to markets. The techniques also offer opportunities for smallholders in outlying areas to increase food production and income and for smallholders in drought-prone areas to reduce their vulnerability to drought.

44. **Additional support to smallholder commercialization.** Implementation experience over the next two years under SHEMA is expected to establish a sufficient basis for expanding support to smallholder commercialization and agribusiness development in a follow-up intervention. The intervention will be coordinated with that proposed to improve access to rural financial services. It will also seek to develop innovative approaches to increase smallholder returns in outgrower schemes. This will include developing market-led mechanisms to induce retailers in developed countries to purchase produce from outgrowers allowing the retailers to apply their corporate value systems to the outgrowers and to meet consumer demand.

### C. Outreach and Partnership Possibilities with NGOs and the Private Sector

45. Many international and local NGOs are providing development support to help reduce rural poverty and several are participating in the ongoing IFAD-supported interventions. Most prominent among the international NGOs are the Cooperative League of the United States of America, which is undertaking smallholder enterprise group development under SHEMA; the African Reinsurance Corporation, which is engaged in similar activities under both SHEMA and the FRMP; and the Cooperative for Assistance and Relief Everywhere International, which has provided support for rural business agents under IFAD support in the past and is planning related support under SHEMA. In addition, there are numerous local NGOs, most of which have a narrower focus and more restricted capacity than the international NGOs. The capacity of several local NGOs is being developed under SHEMA.

46. Private-sector agents and the organizations representing them have become prominent participants in smallholder development and will constitute a main area of focus for future partnership development. Main participants will include: the ZNFU, which participates in development activities such as conservation farming through its CFU and through interaction with the various agricultural trusts; Zambia Agricultural Commodity Agency, which acts as a broker for trade in agricultural commodities and is introducing a warehouse receipts system partly financed by SHEMA; and outgrower companies such as Dunavant, Agriflora and others involved in smallholder production of commodities like cotton, paprika, tobacco and horticultural products.

47. Linkages could also be established with various quasi-government agricultural development trusts, the most important of which are the Golden Valley Agricultural Research Trust and the Livestock Development Trust. These trusts control and use public assets for both commercial and developmental purposes. The Golden Valley Agricultural Research Trust has been instrumental in expanding smallholders' adoption of conservation farming techniques.

### D. Opportunities for Linkages with Other Donors and Institutions

48. As noted above, the key forum for coordinating agricultural and rural development initiatives is the ACF, which is a stakeholder institution comprising government, the private sector, donors and NGOs. The ACF is supported by grants from bilateral donors, including The Netherlands, Norway and the United States, and provides a basis for the development of common interests within the group of development partners engaged in providing support for rural development and poverty reduction. It constitutes the main forum for engagement in dialogue with government about the development and

application of agricultural policy and provides an opportunity for IFAD to consult and coordinate with other donors its communications with government on the NAP.

49. Several bilateral donors are providing support to agricultural and rural development. Chief among these are Finland, Germany, Japan, Sweden and the United States. Cooperation and coordination with donors is taking place within the framework of the two ongoing interventions, and there are opportunities to achieve strong coordination and technical exchange with other donor-supported interventions. The rural finance intervention will be developed and implemented in partnership with Sweden. The Netherlands and Norway are potential partners in the proposed intervention to reinvigorate the livestock sector. The United Kingdom is not actively supporting agricultural and rural development in the country at the present time, but is considering the modalities for re-engaging in the sector to help increase employment and raise incomes by strengthening the conditions for private-sector-led growth, including support for agricultural commercialization.

50. Multilateral donors providing support relevant to agricultural and rural development include the World Bank, the United Nations Development Programme (UNDP) and the Joint United Nations Programme on HIV/AIDS (UNAIDS). Support from the World Bank has greatly diminished since the conclusion of ASIP. A new intervention is being planned under the ACP, and is expected to be finalized in 2004. The United Nations Development Assistance Framework for Zambia was completed in 2002 and covers the period 2002-2006. The main strategic areas of intervention for the United Nations agencies are employment, social services and governance, and the main cross-cutting issues are HIV/AIDS care and prevention, gender equality and deepening regional integration and cooperation. UNDP provides capacity-building assistance to government agencies in many of these areas. Cooperation with UNDP and UNAIDS will be sought for measures to improve access to income and food by the poorest in the proposed NRM intervention.

### **E. Areas for Policy Dialogue**

51. As part of the development of its interventions, IFAD has in the past been engaged in dialogue with government on the institutional, policy and legislative measures required for implementation. The most important and comprehensive engagement of this nature has been under SHEMP, the design of which preceded and indeed anticipated many of the key principles of the ACP. The proposed country strategy will involve continued dialogue on policy and institutional issues related to the linkage of smallholders to input and output markets. IFAD's engagement in rural finance and livestock services will be based on an initial understanding with government regarding policy issues that have so far constrained development in these areas, on which basis organizational and institutional solutions could be developed as part of the design and implementation of interventions.

52. A main policy issue relates to the allocation of public revenue to concrete efforts to reduce poverty. The fraction of locally sourced revenue allocated to such efforts remains low despite the priorities established in the PRSP. Furthermore, budgetary mechanisms often imply that when funding is not forthcoming as planned, a high proportion of available resources tends to be spent at the central level. This causes essential functions either not to be carried out at all, or to be done only on an intermittent basis. Another main policy issue is that of government's role in input and output markets. The draft NAP and the ACP emphasize that the private sector will be the main driver of agricultural and rural growth, with the role of the public sector eventually becoming one of facilitation and development of public infrastructure. As noted above, government action often differs markedly from these principles. For example, government has announced its intention to create a crop marketing agency to acquire the marketed part of the maize harvest. Donors see these actions and intentions as being at variance with the draft policy and as constraining private-sector development, distorting agricultural production patterns and reinforcing the dependency of smallholders on government. However, government is of the view that it needs to intervene as a bridging measure to secure access to inputs and markets until the private sector is able to take over these functions. The resolution of these issues is central to the success of agricultural and rural development efforts. In addition to

dialogue with government regarding the inception, design and implementation of investment operations, which will continue as described above, IFAD will engage in a dialogue with government on these issues as a regular member and contributor to the ACF, including participation in ACF meetings during country visits.

#### **F. Action Areas for Improving Portfolio Management**

53. Many of the past IFAD-supported interventions operated in a very difficult economic and institutional environment that constrained efficiency and effectiveness. The design and implementation of the two recently closed interventions within the framework of ASIP strongly affected performance and offered relatively limited scope for IFAD to influence implementation performance. The two ongoing interventions were designed to overcome the overall implementation constraints affecting earlier interventions, the exception being that procurement is still undertaken according to government procedures, which have continued to cause delays in implementation. The overall responsibility for implementation remains with government, for whom the task of overseeing implementation is very difficult because the mode of engagement with smallholders and private-sector operators and service providers under the ongoing interventions differs markedly from that of conventional development programmes.

54. Current implementation arrangements make contract specification and management a key determinant of implementation performance. In the difficult implementation environment in the country, the conventional 'public-sector' input-based approach to contracting has proved to perform poorly, and the 'seemingly ideal' strictly output-based approach to contracting cannot be pursued because interventions are innovative and the most important outputs relate to institution building, and are often difficult to capture. The most important area for improving portfolio performance is contract design and management. Performance-based contracts require that deliverables in terms of outputs and progress towards achievement of development objectives be brought to the forefront in routine reporting and that contractors be provided with incentives to achieve them. IFAD and its cooperating institution are supporting government in this task during supervision missions. There are regular country visits and, for the time being, IFAD is not considering the establishment of a field presence.

#### **G. Tentative Lending Framework and Rolling Programme of Work**

55. During 2004-2007, IFAD will consider providing support to interventions in the areas of rural financial services, smallholder livestock services, NRM and smallholder commercialization. Programme development within these four areas will depend on portfolio performance and satisfactory resolution of the main policy and institutional issues bearing upon performance. In the base lending scenario, a rural finance intervention will be developed in 2004. This will be followed by the intervention to reinvigorate the smallholder livestock sector, which will be presented to the Executive Board in 2005, and by the intervention to strengthen smallholder NRM practices to be presented to the Executive Board in 2006. In the low lending scenario, which will be triggered off either by unsatisfactory portfolio performance or difficulties in meeting the policy and institutional requirements of supporting the smallholder livestock sector, only the interventions in rural finance and NRM will be brought forward, as scheduled above. In the high lending scenario, which assumes generally acceptable portfolio performance, satisfactory clarification of government's intended role in agricultural input and output markets, and, specifically, a satisfactory performance rating based on demonstrated impact of SHEMA following the second tri-term review in 2005, the intervention to support smallholder commercialization and agribusiness development will be added. The total new commitment over the four-year period will amount to USD 20-50 million for two-to-four interventions. After a three-year period without new lending, this conditional lending framework will offer the possibility of a major expansion of IFAD's support to reducing rural poverty in Zambia.

COUNTRY DATA

ZAMBIA

<b>Land area (km<sup>2</sup> thousand), 2001 1/</b>	743	<b>GNI per capita (USD), 2001 1/</b>	320
<b>Total population (million), 2001 1/</b>	10.28	<b>GDP per capita growth (annual %), 2001 1/</b>	-2.9
<b>Population density (people per km<sup>2</sup>), 2001 1/</b>	14	<b>Inflation, consumer prices (annual %), 2001 1/</b>	n/a
<b>Local currency</b>	Kwacha (ZMK)	<b>Exchange rate: USD 1.00 =</b>	ZMK 4 700
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate), 1995-2001 1/	2.3	GDP (USD million), 2001 1/	3 639
Crude birth rate (per thousand people), 2001 1/	39	Average annual rate of growth of GDP, 1981-1991	1.0
Crude death rate (per thousand people), 2001 1/	22	1991-2001	1.0
Infant mortality rate (per thousand live births), 2001 1/	112	Sectoral distribution of GDP, 2001 1/	
Life expectancy at birth (years), 2001 1/	38	% agriculture	22
Number of rural poor (million) (approximate) 1/	9.0	% industry	26
Poor as % of total rural population 2/	88.0	% manufacturing	11
Total labour force (million), 2001 1/	4.39	% services	52
Female labour force as % of total, 2001 1/	45	Consumption, 2001 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	13
School enrolment, primary (% gross), 2001 1/	78 a/	Household final consumption expenditure, etc. (as % of GDP)	77
Adult illiteracy rate (% age 15 and above), 2001 1/	21	Gross domestic savings (as % of GDP)	10
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1997 2/	2 145	Merchandise exports, 2001 1/	870
Malnutrition prevalence, height for age (% of children under 5), 2001 1/	42 a/	Merchandise imports, 2001 1/	960
Malnutrition prevalence, weight for age (% of children under 5), 2001 1/	24 a/	Balance of merchandise trade	-70
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 2001 1/	6 a/	before official transfers, 2001 1/	-584 a/
Physicians (per thousand people), 1999 1/	n/a	after official transfers, 2001 1/	-553 a/
Population using improved water sources (%), 2000 3/	64	Foreign direct investment, net 2001 1/	122 a/
Population with access to essential drugs (%), 1999 3/	50-79	<b>Government Finance</b>	
Population using adequate sanitation facilities (%), 2000 3/	78	Overall budget deficit (including grants) (as % of GDP), 2001 1/	n/a
<b>Agriculture and Food</b>		Total expenditure (% of GDP), 2001 1/	n/a
Food imports (% of merchandise imports), 2001 1/	8	Total external debt (USD million), 2001 1/	5 671
Fertilizer consumption (hundreds of grams per ha of arable land), 2000 1/	58	Present value of debt (as % of GNI), 2001 1/	115
Food production index (1989-91=100), 2001 1/	108	Total debt service (% of exports of goods and services), 2001 1/	12
Cereal yield (kg per ha), 2001 1/	1 459	Lending interest rate (%), 2001 1/	46
<b>Land Use</b>		Deposit interest rate (%), 2001 1/	23
Arable land as % of land area, 1999 1/	7		
Forest area as % of total land area, 2001 1/	42		
Irrigated land as % of cropland, 1999 1/	1		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators*, CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2002

## LOGICAL FRAMEWORK

Narrative Development Goal	Verifiable Indicators	Means of Verification	Assumptions
<p><b>Goal</b></p> <p>To increase incomes, improve food security and reduce vulnerability in rural areas</p>	<ul style="list-style-type: none"> <li>- Increased smallholder incomes and assets</li> <li>- Reduced incidence of stunting in rural areas</li> <li>- Increased food production by the poorest</li> </ul>	<ul style="list-style-type: none"> <li>- National poverty monitoring statistics</li> <li>- National human development reports</li> <li>- Agricultural sector statistics and sector data</li> </ul>	<ul style="list-style-type: none"> <li>- Improved macroeconomic framework conditions</li> </ul>
<p><b>Objectives</b></p> <p>To improve smallholder access to input and output markets</p> <p>To increase smallholder income from non- timber forest products</p> <p>To improve access to rural financial services</p> <p>To reinvigorate the smallholder livestock sector</p> <p>To increase use of NRM and conservation farming techniques, mainly in outlying areas, including by woman-headed and HIV/AIDS-affected households, to increase food production</p>	<ul style="list-style-type: none"> <li>- Agricultural production increased</li> <li>- Increased number of smallholders marketing produce</li> <li>- Increased number of crops marketed</li> <li>- Average farm-gate prices for outputs increased</li> </ul> <p>As per the Forest Resource Management Project</p> <ul style="list-style-type: none"> <li>- Regulatory framework and oversight established</li> <li>- Sustainable rural finance institutions established</li> <li>- Increased saving among rural communities</li> <li>- Increased access to credit by rural communities</li> </ul> <ul style="list-style-type: none"> <li>- Public control of national/territorial livestock diseases</li> <li>- Private veterinary services strengthened</li> <li>- Community-based animal health care systems developed</li> <li>- Improved delivery of animal husbandry advice/extension</li> <li>- Increased livestock herd and livestock marketing by smallholders</li> </ul> <ul style="list-style-type: none"> <li>- Improved farmer knowledge of low input technologies</li> <li>- Increased smallholder use of labour-saving techniques</li> <li>- Extensive crop and livestock production expanded</li> <li>- Woman-headed and HIV/AIDS-affected households improve access to food</li> </ul>	<ul style="list-style-type: none"> <li>- Agricultural statistics and sector data</li> <li>- Programme M&amp;E reports</li> <li>- Programme impact assessments</li> </ul> <p>- Programme M&amp;E reports</p> <ul style="list-style-type: none"> <li>- Bank of Zambia reports</li> <li>- Financial sector surveys</li> <li>- Programme M&amp;E reports</li> <li>- Programme impact assessments</li> </ul> <ul style="list-style-type: none"> <li>- Livestock and animal health statistics</li> <li>- Programme M&amp;E reports</li> <li>- Programme impact assessments</li> </ul> <ul style="list-style-type: none"> <li>- Agricultural statistics and sector data</li> <li>- Programme M&amp;E reports</li> <li>- Programme impact assessments</li> </ul>	<ul style="list-style-type: none"> <li>- Attractive price/cost ratios between inputs and outputs</li> <li>- Satisfactory performance of SHEMP</li> <li>- Conducive policy and institutional environment to facilitate private-sector participation (*)</li> </ul> <p>- Adequate management of implementing NGOs</p> <ul style="list-style-type: none"> <li>- Reduced inflation and real interest rates</li> <li>- Adequate rural demand for financial services</li> </ul> <ul style="list-style-type: none"> <li>- Markets exist for livestock products</li> <li>- Government committed to a policy/institutional framework involving satisfactory balance between public, community-based and private services (*)</li> </ul> <ul style="list-style-type: none"> <li>- Smallholders have access to land for cropping and grazing, and to increased use of water resources</li> </ul>

Note (\*) To be established during programme inception.

## STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

Institution	Strengths	Weaknesses	Opportunities/threats	Remarks
General institutional issues	<ul style="list-style-type: none"> <li>- General governance improving</li> <li>- Reduction in official corruption</li> <li>- Improved investment climate</li> <li>- Focus on poverty reduction</li> <li>- Focus on HIV/AIDS reduction</li> <li>- Ensured adequate food resources in drought year</li> </ul>	<ul style="list-style-type: none"> <li>- Governance issues remain</li> <li>- Legal threats remain against Government</li> <li>- Inability to complete HIPC process</li> <li>- Incomplete public-sector reforms</li> <li>- Poorly targeted food relief effort may have increased market distortions</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- HIPC completion</li> <li>- Attract foreign direct investment</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Failure to complete HIPC process</li> <li>- Corruption and poor governance</li> </ul>	Relatively new government
Ministry of Finance and National Planning	<ul style="list-style-type: none"> <li>- Mandate to influence macroeconomic policy</li> <li>- Mandate for sound policy development</li> <li>- Improving relationships with donors</li> </ul>	<ul style="list-style-type: none"> <li>- Severe capacity and staff constraints</li> <li>- Inability to control inflation and ensure moderate interest rates</li> <li>- Punitive taxation rates on critical inputs, especially fuel</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Provide conducive macroeconomic conditions and streamline taxes</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Failure to provide conducive macroeconomic conditions</li> </ul>	
Bank of Zambia	Can influence commercial banks' interest in rural finance through monetary instruments	Preoccupied with achieving performance benchmarks set by multilateral institutions at the expense of appropriate monetary policies that would encourage commercial banks to provide rural financial services	<p><b>Opportunities</b></p> <p>The newly established non-bank supervision department could participate in strengthening the rural finance subsector</p>	Bank has a major role to play in the establishment of a sound and dynamic rural finance industry through friendly monetary policies and selective prudential regulations
Ministry of Agriculture and Cooperatives	<ul style="list-style-type: none"> <li>- Influence and expertise in all facets of agricultural production</li> <li>- Sound draft policy framework</li> <li>- Sound commercialization programme</li> <li>- Focus on poverty reduction and household food security</li> <li>- Improved recognition of role of private sector</li> </ul>	<ul style="list-style-type: none"> <li>- Capacities, including management capacities, very limited</li> <li>- Inability to finalize and adopt policy</li> <li>- Lack of coherent and systematic relationships with major donors</li> <li>- Action often incompatible with policies</li> <li>- Inability to provide required services</li> <li>- Inappropriate focus on maize production</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Adopt and promote sound policies</li> <li>- Market opportunities for diversified exports</li> <li>- Appropriate private-sector role in inputs and produce markets</li> <li>- Broad-based export-led productivity and income generation</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Market intervention constrains private-sector development</li> <li>- Inability to provide services for livestock disease control</li> <li>- Continued focus on maize constrains diversification</li> </ul>	The Ministry has a history of intervention in markets. Changing this practice requires strong leadership
International NGOs	<ul style="list-style-type: none"> <li>- Good track record</li> <li>- Ability to employ skilled staff</li> </ul>	- Limited knowledge of local environment	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Community mobilization</li> <li>- Rural finance initiatives</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Limited local capacity</li> </ul>	
National NGOs	- Good understanding of the local environment	- Weak management	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Capacity-building programme</li> <li>- Build capacity through work with international NGOs</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Inadequate capacity for impact</li> </ul>	Could be engaged in partnerships with international NGOs

Private sector (general)	<ul style="list-style-type: none"> <li>- Generally relatively efficient</li> <li>- Growing interest in providing various services to smallholders</li> </ul>	<ul style="list-style-type: none"> <li>- Limited access to credit</li> <li>- Limited outreach of services</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Extension and marketing services</li> <li>- Research and technical services</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Often limited interest in outreach</li> </ul>	
Banking system	<ul style="list-style-type: none"> <li>- Ability to mobilize rural savings</li> <li>- Ability to leverage donor funds</li> </ul>	<ul style="list-style-type: none"> <li>- Inadequate rural branch network</li> <li>- Limited liquidity due to the crowding-out effects of Government's borrowing from the banking system and tight monetary policy (i.e. high statutory reserves)</li> <li>- Minimum deposit for savings account high</li> <li>- Cumbersome procedures and requirements for opening a savings account</li> <li>- Commercial banks consider lending to smallholder farmers to be very risky</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Group lending can be used to lend to smallholder farmers</li> <li>- Tax incentives could encourage banks to open rural branches</li> <li>- Commercial banks could manage special rural funds</li> </ul> <p>Risk-sharing arrangements could be developed</p> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Continued large fiscal deficits continue to constrain the banking system's interest in rural lending</li> </ul>	Commercial banks should not be left out of the rural financial services programme. The programme should include incentives such as lower statutory reserves and special provisioning for agricultural loans to encourage commercial banks to participate in rural finance
Traditional authority	<ul style="list-style-type: none"> <li>- Very good understanding of and strong influence on community life</li> </ul>	<ul style="list-style-type: none"> <li>- Limited technical capacity</li> <li>- Inexperience in market-based development</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- Partner in community development</li> </ul> <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Sometimes pursues own interests that are not representative of those of community members</li> </ul>	

**IFAD'S CORPORATE THRUSTS AS RELATED  
TO THE PROPOSED COUNTRY PROGRAMME**

1. IFAD's corporate thrusts emphasize the need to engage constructively with the rural poor themselves in order to empower them to work their way out of poverty. This requires focus on developing and strengthening the rural poor's organizations to better enable them to confront issues of critical importance; increasing their access to knowledge to enable them to identify and realize opportunities; expanding their influence on the shaping of policy and support provided by public institutions; and strengthening their position in market relationships. There is a dynamic synergy between the development of human and social assets, productive assets and technology, and financial assets and markets in the process of enabling the rural poor to overcome their poverty. This synergy may be strengthened by catalysing efforts towards rural poverty alleviation. These relations are captioned in the strategic framework objectives of enhancing the capacity of the rural poor and their organizations, improving their access to productive natural resources and technology, and improving their access to financial services and markets.

2. Within the strategic framework, and in response to opportunities and constraints applying broadly throughout the region, the regional strategy for Eastern and Southern Africa focuses on promoting efficient and equitable market linkages, developing rural financial systems, improving access to and management of land and water, and creating a better knowledge, information and technology system. The regional strategy also recognizes the importance of gender issues and the need to counter threats to livelihoods, including HIV/AIDS and conflict and post-conflict situations.

3. The country strategy for Zambia is based on the strategic framework and the regional strategy for Eastern and Southern Africa, recognizing the specific opportunities and constraints available in the country, the lessons learned from previous interventions, and the ongoing and planned activities of other donors and agencies. The conditions for reducing rural poverty in Zambia represent a unique constellation of opportunities and constraints. The country has relatively abundant natural resources for agricultural growth, of which only a fraction are being utilized. Although possibilities for general agricultural intensification are constrained by location and high costs of transport, opportunities for expansion of extensive forms of production are relatively good. The country has experienced a combination of limited past prioritization of agricultural and rural development (which is shared by many other countries in the region), a relative paucity of larger private agricultural production initiatives, and a relatively long delay in reorientating public institutions following a period of central planning.

4. The institutional capacity of the Ministry of Agriculture and Cooperatives, the main implementer of agricultural and rural development programmes in the 1990s, to manage investments and deliver services is limited, and government intervention has continued agricultural input and output markets after liberalization took place in the early 1990s. The ministry has limited ability to formulate evidence-based policy and see it through to implementation. These facts all contribute to making it a very difficult challenge for the public sector to effectively contribute to economic growth and poverty reduction in the agricultural and rural sector. In this environment, future IFAD-supported interventions need to be structured as performance-based contract partnerships with service providers, selected on the basis of having some demonstrated capacity to deliver the services and investments required by the rural poor.

5. The main strategic thrust to support smallholder commercialization, including improving the linkage of smallholders to markets and improving access to rural financial services, is a response to the very high incidence of poverty among smallholders, the low state of development of rural markets and the virtual absence of rural financial services in the country. High priority is also assigned to the linkages of smallholders to markets and to the development of rural financial services in the poverty

reduction strategy. A systematic long-term engagement in these areas offers important opportunities for IFAD to work with local stakeholders in an attempt to achieve consistency between government policy and action through an active policy dialogue.

6. The second strategic thrust, which focuses on assisting poor rural households in remote areas to raise their income, food production and productivity, will mainly focus on assisting smallholders in geographical areas with limited potential to participate in the ongoing expansion of commercial crop production, to improve the management of their own resources and optimize their production systems with the immediate objective of enhancing food production and food security. Investments to improve access to knowledge, appropriate techniques and technical services will be of key importance under this thrust.

7. Addressing issues specifically related to gender and HIV/AIDS is very important under the second thrust. Future interventions will adopt measures to alleviate the major constraints faced by women and provide opportunities in areas of priority to them. Gender aspects are particularly important in the areas of NRM, where immediate improvements to food production through labour-saving technologies will be prioritized, and in livestock development where income-generating opportunities for women are likely to be provided through distribution of small stock. Major efforts also will be made to increase food production for severely labour-constrained households, including HIV/AIDS-affected households, drawing on work done by IFAD and FAO to identify labour constraints in these households and develop feasible technical options.

**ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED**

<b>Donor/agency</b>	<b>Name/Nature of Intervention</b>	<b>Coverage</b>	<b>Status</b>	<b>Potential complementarities and synergies</b>
World Bank	<ul style="list-style-type: none"> <li>- Zambia Social Investment Fund Project</li> <li>- Agricultural Development Support Program</li> <li>- Cotton Development Trust</li> </ul>	<ul style="list-style-type: none"> <li>- Countrywide</li> <li>- Countrywide</li> <li>- Southern, Eastern, Central and Lusaka Province</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> <li>- Preappraised August 2002, Appraisal 2004</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Rural poverty alleviation initiatives</li> <li>- Demand-driven agricultural services for communities, strengthening of market linkages for smallholders</li> <li>- Crop diversification and markets</li> </ul>
UNDP	<ul style="list-style-type: none"> <li>- HIV/AIDS control</li> <li>- Gender/equal opportunity</li> </ul>	<ul style="list-style-type: none"> <li>- Countrywide</li> <li>- Countrywide</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Assisting affected communities to cope with the consequences of HIV/AIDS and install preventive measures</li> <li>- Assist women to gain equal opportunities in employment and enterprises</li> </ul>
FAO	<ul style="list-style-type: none"> <li>- Technical assistance</li> </ul>	<ul style="list-style-type: none"> <li>- Project-specific</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Crop diversification, conservation farming and wetland/irrigation development</li> </ul>
European Union	<ul style="list-style-type: none"> <li>- Export Development Programme</li> <li>- Support to Conservation Farming Unit</li> </ul>	<ul style="list-style-type: none"> <li>- Nationwide</li> <li>- Countrywide/Southern Province</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> <li>- To start in 2003</li> </ul>	<ul style="list-style-type: none"> <li>- Export opportunities for agriculture</li> <li>- NRM, including conservation farming</li> </ul>
DFID	<ul style="list-style-type: none"> <li>- No current programme, in preparation</li> </ul>	<ul style="list-style-type: none"> <li>- To be determined</li> </ul>	<ul style="list-style-type: none"> <li>- Under preparation</li> </ul>	<ul style="list-style-type: none"> <li>- Improved donor/government dialogue</li> </ul>
The Netherlands	<ul style="list-style-type: none"> <li>- Livestock development assistance to MACO, including veterinary services and assistance to the Livestock Development Trust</li> <li>- Golden Valley Agricultural Research Trust</li> <li>- Support to Zambian Agricultural Commodity Agency, Zambia Export Growers Association and Agricultural Consultative Forum</li> </ul>	<ul style="list-style-type: none"> <li>- Countrywide</li> <li>- Countrywide</li> <li>- Countrywide</li> </ul>	<ul style="list-style-type: none"> <li>- Support to MACO ending 2003; support to thrust continuing</li> <li>- Ending 2003</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Livestock/veterinary services</li> <li>- Agricultural research and extension</li> <li>- Smallholder commercialization and general rural and agricultural policy and strategies</li> </ul>
Germany	<ul style="list-style-type: none"> <li>- Smallholder empowerment</li> </ul>	<ul style="list-style-type: none"> <li>- Southern Province</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- NRM/livestock services</li> </ul>
Japan	<ul style="list-style-type: none"> <li>- Mongu Rural Development Programme</li> <li>- Agriflora Small-Scale Scheme</li> </ul>	<ul style="list-style-type: none"> <li>- Sefula in Mongu District</li> <li>- Lusaka Province</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Irrigation development</li> <li>- Outgrower scheme for exports</li> </ul>
Norway	<ul style="list-style-type: none"> <li>- Farmers' Associations Project, including support for Agribusiness Forum and outgrower schemes</li> <li>- Support to Conservation Farming Unit</li> </ul>	<ul style="list-style-type: none"> <li>- Ten districts</li> <li>- Countrywide</li> </ul>	<ul style="list-style-type: none"> <li>- To end in 2004</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Smallholder commercialization</li> <li>- Farmer self-help capacity</li> </ul>
Sweden	<ul style="list-style-type: none"> <li>- Agricultural Support Programme</li> </ul>	<ul style="list-style-type: none"> <li>- Five districts in each of four provinces</li> </ul>	<ul style="list-style-type: none"> <li>- To end in 2005</li> </ul>	<ul style="list-style-type: none"> <li>- Conservation farming, extension, crop diversification, seed supply, farmer training</li> </ul>
United States	<ul style="list-style-type: none"> <li>- Food Security Research</li> <li>- Rural Business Groups Programme, CLUSA</li> <li>- Zambia Agribusiness Technical Assistance</li> <li>- Natural Resource Management and Agroforestry</li> <li>- Zambia Trade and Investment Enhancement</li> </ul>	<ul style="list-style-type: none"> <li>- Countrywide</li> <li>- Four districts in Central and Southern Province</li> <li>- Countrywide</li> <li>- Countrywide</li> <li>- Countrywide</li> </ul>	<ul style="list-style-type: none"> <li>- Ongoing</li> <li>- Ongoing</li> <li>- Ending 2004</li> <li>- Ongoing</li> <li>- Ongoing</li> </ul>	<ul style="list-style-type: none"> <li>- Agricultural policy development</li> <li>- Smallholder commercialization</li> <li>- Agribusiness and market development</li> <li>- NRM</li> <li>- Agricultural trade and investment</li> </ul>