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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Apr-2023 | Report No: PIDA35788



BASIC INFORMATION

A. Basic Project Data

Country Zambia	Project ID P179507	Project Name Zambia Agribusiness and Trade Project-II (ZATP-II)	Parent Project ID (if any)
Region EASTERN AND SOUTHERN AFRICA	Estimated Appraisal Date 03-Apr-2023	Estimated Board Date 23-Jun-2023	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance and National Planning	Implementing Agency Ministry of Commerce Trade and Industry	

Proposed Development Objective(s)

To increase access to markets, finance and promote firm growth in Zambia's Agribusiness sector.

Components

Support Access to Markets & Finance
Promote Trade and Agribusiness Competitiveness
Project Management

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	70.00
Total Financing	70.00
of which IBRD/IDA	70.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	70.00
IDA Shorter Maturity Loan (SML)	70.00



Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Despite a previous high growth trajectory, Zambia recently succumbed to unsustainable debt accumulation and fiscal deficits, leading to being reclassified as a low-income country in 2022.** Between 2000 and 2010, Gross Domestic Product (GDP) growth averaged 7.4 percent per year, but in the next decade declined to an average of 3.6 percent over the 2011-2021 period. Its lower-middle income classification was finally reversed in 2022. In November 2020, Zambia encountered its first recession since 1998 and became the first country in the region to default on its sovereign debt as the COVID-19 pandemic reduced Zambia's growth prospects. The COVID-19 pandemic resulted in a multidimensional crisis - a health, social and economic crisis. These factors—coupled with aforementioned long-term challenges—have placed considerable strain on Zambia's macroeconomic environment.
2. **Given current macroeconomic conditions, Zambia faces ongoing challenges to generate high-quality employment and opportunities, especially for vulnerable groups such as women and youth.** The youth and female unemployment rates are even higher at 26 and 14 percent, respectively. The population is also estimated to reach 27 million by 2035 from 18 million in 2020.⁵ This demographic dividend can be a boon via decreased dependency ratios, but only if the economy can generate enough high-paying, and high-productivity jobs. Zambia needs to generate an average of at least 375,000 jobs each year by 2030 to maintain its already-low labor force participation rate and employment levels. Economic inequalities are glaring in Zambia and skewed against women. As per 2020 labour force survey, male labor force participation was at 43.7 percent, compared to 27.2 among women¹. World Bank's recent Zambia gender assessment report points to only 7.8 percent women participating in mining sector compared to 92.2 percent for males. Also, lack of access to land and assets, input markets (good quality seeds, fertilizers etc.) and output markets as well as access to good quality business development services is a key constraint. These critical aspects have multiple linkages to the overall economic development of women and needs to be tackled urgently.
3. **Zambia's economy and population are highly vulnerable to climate change.** Adverse impacts of climate change include increased frequency and severity of seasonal droughts, higher temperatures,

¹2020 Labour Force Survey, <https://www.mlass.gov.zm/wp-content/uploads/2022/03/2020-Labour-Force-Survey.pdf>



flash floods, occasional dry spells, and changes in the growing season. This vulnerability is exacerbated by heavy dependence on rain-fed agriculture and hydropower.⁶ In the absence of mitigation/adaptation policies, climate change is expected to reduce Zambian GDP by about 6 percent by 2050.⁷ One study showed that the country lost US\$5 billion in GDP between 1991 and 2011 due to the negative economic impacts of climate-related disasters such as floods and droughts, estimating that climate variability reduces Zambia's annual GDP growth rate by 0.4 percent, equivalent to US\$4.3 billion over a 10-year period.

Sectoral and Institutional Context

4. **Zambia's dependence on the cyclical and capital-intensive copper industry presents a challenge to structural transformation, economic diversification, and employment generation.** This dependence exposes the economy to commodity price fluctuations. Most workers remain smallholder farmers. Off-farm jobs continue to be generated mainly in low-productivity activities, often in the informal service sector. Facilitating growth of alternate industries entails strengthening the business environment, promoting trade and expanding access to markets, promoting technology adoption⁹ and supporting innovation. While the mining sector only employs 2.3 percent of the total labor force, it generates 70 percent of Zambia's export revenues. In contrast, the manufacturing sector, which employs around 4 percent of the labor force, contributed only 8.8 percent of GDP in 2021. Recent growth in manufacturing has largely been driven by agro-processing and to a lesser extent the textiles and leather subsectors.
5. **The agriculture sector is the largest source of employment with considerable untapped potential for livelihood improvement and export growth.** The main factors contributing to agriculture's low contribution to GDP include poor rural infrastructure, limited technology adoption, a lack of innovation, low productivity, and extreme vulnerability to climate change-related shocks. Nevertheless, the agriculture sector has huge potential for poverty reduction and export diversification, particularly given that it accounts for close to 50 percent of non-copper exports. Opportunities in food processing, agribusinesses and commercial farming can boost jobs, incomes, economic diversification, and inclusion. According to the World Bank's Zambia Jobs Diagnostic and the Zambian Labor Force Survey, value added per worker in agriculture is well below that in industry and services. This is especially true among youth and women in rural areas: About 55 percent of Zambian women earn their livelihoods in agriculture, compared to 45 percent of men.
6. **The agriculture and agribusiness sectors could contribute significantly to employment due to its labor-intensive nature and potential for backward linkages.** Agriculture-linked food systems also entail significant off-farm job opportunities as they generate demand for aggregation, storage, processing, logistics, and other related services. Thus, there are significant opportunities for improvements to Zambia's food processing, agribusinesses and commercial farming subsectors boost jobs, incomes, economic diversification, and inclusion. Improving private agriculture and agribusiness performance would also help reduce Zambia's reliance on copper mining—which currently accounts for 70 percent of exports. The ongoing Zambia Agribusiness and Trade Project (ZATP) aims to contribute to increased market linkages and firm growth in agribusiness along these lines and is described in the box below.



7. **To realize the potential of the agriculture and agribusiness sectors, Zambian farmers, producer organizations, and agribusiness firms must improve their business and agronomic capabilities.** Producer organizations and agribusinesses in Zambia lack training opportunities on business planning, strategy, marketing, and supply chain management, operations, financial management, and digital skills. Even where producer organizations and firms possess the requisite capabilities, lack of access to finance often prevents them from scaling up and making investments to improve productivity. Per the 2019 Economic Survey, over 30 percent of firms reported access to finance as their primary business environment constraint, more than for any other potential constraint. Access to finance for agribusinesses is constrained by a lack of formal financing options, crowding out due to public sector borrowing, insufficient sector-specific products, high cost and collateral requirements and inappropriate risk assessment frameworks. Firms also lack access to alternative funding sources such as venture capital, private equity, crowdfunding, and capital markets, which remain underdeveloped in Zambia.
8. **Digital technologies have not been fully exploited to reduce cost of finance and improve access to formal financing.** The Finscope 2020 survey indicated that 58.4 percent of adults used mobile money, which accounts for 55 percent of total banking transactions in terms of volume, a marked improvement from 3 percent in 2019. Only 20.7 percent of adults used physical banks. While the exponential growth of mobile money accounts has been a major contributor to expanding financial access and usage in Zambia, several challenges remain. These include lack of sufficient credit infrastructure, lack of digitization of largest payment streams in the country (business-to-government, (B2G) and person-to-government (P2G)), lack of financial awareness amongst beneficiaries, and lack of adequate customer protection principles.
9. **Zambia's reliance on imports and commodity exports also makes its economy particularly sensitive to supply chain interruptions and delays.** Approximately 52 percent of Zambia's import are from South Africa (retail sector sources) and DRC, while the bulk of small to medium scale commerce imports are from China. Zambia needs efficient trade facilitation and transport and logistics services. Developing market linkages will enable the agribusiness sector to meet the growing urban demand for food products, while connecting more people to jobs. Border clearance documentation and procedures are still largely manual beyond Customs at other border agencies, duplicative, and cumbersome with little coordination among them. While Zambia has recently invested in modernizing several key border posts, they still lack automation e.g., all government agencies are not linked to a single payment window or connected to the single window system. To increase the impact from modernizing borders and related procedures, trade-related agencies need to invest in complementary ICT systems.
10. **Better continental and regional integration and cooperation is also critically important since Zambia is a landlocked country that borders eight countries.** Regional approaches to trade facilitation—rather than disjointed national reforms—have the potential to deliver greater benefits to individual countries and the regional community.¹⁶ AfCFTA will help Zambia achieve 4 out of 5 goals outlined in 2012-2030 National Agriculture Policy by increasing agricultural productivity, reducing marketing costs of agribusiness, including small-scale farmers and farmer groups, increasing agricultural exports to preferential markets and improve access to productive resources and services for small-scale farmers.



11. Enabling government regulations and policy on business registration and investment policy and promotion can significantly promote business formalization and growth. This can also reduce time and costs of business entry and operations, especially critical for micro, small and medium sized businesses. Business Regulations will be critical for enhancing the predictability and efficacy of PSD policies. The government has also shown commitment to undertake some of these significant business enabling reforms, including the recent pilot of single licensing reforms. The Zambia Development Agency Act and the Investment, Trade and Business Development Act have been revised with provisions that strengthen investors, improve market access, and enhance alignment with the upcoming investment protocol of the Africa Continental Free Trade Agreement (which Zambia ratified in February 2021).

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to increase access to markets, finance and promote firm growth in Zambia's agribusiness sector.

Key Results

- 12.** The project will support 45,000 small and marginal farmers and small-scale traders engaged in nearly 20 Agriculture value chains and allied activities². It is envisaged that the project will help improve access to economic opportunities for the smallholders through targeted interventions supporting agribusinesses, enhancing business environment and improving trade pathways. The project is of national scale and aims to create impact in all ten provinces and districts identified. Furthermore, the project will benefit value chain actors at various levels including farm level workers, input manufacturers, dealers, equipment suppliers, agro-dealers, aggregators, off takers, agro-processors, manufacturers, logistics and warehousing service providers, AgriTech firms including start-ups, wholesalers, retailers, distributors, e-commerce firms, exporters, etc operating along the value chains.
- 13.** It is expected that 8,700 new FTE jobs will be created through multiple pathways including creation, scale up and diversification of business operations of Agribusinesses, Agripreneurs, POs and expansion of agribusiness linkages as well as access to new channels of finance. The project will have a strong focus on addressing gender gaps. It will also increase participation of women, youth and persons with disabilities in economic opportunities and enable the ownership and control of productive assets by providing technical and financial support to enterprises that are owned or led by these segments. Below illustration indicates specific beneficiaries per project component.

² Agriculture Value Chains supported will include: Cereals (Rice, Maize, Wheat, Millets); Pulses; Oilseeds (Sunflower, Soyabean, Groundnuts, sesame); Horticulture (Fruits and Vegetables); Other cash crops and Plantation (Cotton, Sugarcane, Coffee, Tapioca, Cashew,etc); Animal Husbandry (Livestock, Fisheries, Dairy, Poultry, etc). Food processing/value addition (bakery, beverages, honey, peanut butter, dairy) and allied services (agrologistics, agritech) will be supported under MarketConnect



D. Project Description

14. The project aims to support Zambia's aspirations on diversification and regional integration as well as private sector-led growth. The project centers on inclusion and impact at scale by targeting growth for the bottom 40 percent of earners, most of whom are employed in Zambia's agricultural sector in micro and small businesses. While doing so, the project will also improve resiliency of Zambia's agribusiness sector and render it more competitive, with an impetus on i) capitalizing on opportunities presented by the AfCFTA; ii) improving access to credit, thus amplifying the impact of public funding; iii) strengthening the business environment to ensure sustainability of project interventions; and iv) mainstreaming the role of the private sector especially women and rural youth as Zambia transitions to an inclusive and greener economy.
15. The project is proposed to be an Investment Project Financing under the SUW/SML window with a credit amount of USD 70.00 million, with interventions that are mutually reinforcing across three project components: 1) Support access to markets and finance; 2) Promote Trade and Agribusiness Competitiveness by Strengthening Regulatory & Institutional Frameworks; and 3) Project Management.

Component 1: Support access to markets and finance (USD 43.00 million)

16. This component addresses key constraints related to limited access to finance, inadequate integration along value chains, lack of market linkages and weak business capabilities. This will be achieved through an integrated approach, including technical assistance or business development services and structured financing through a Line of Credit and Matching Grant facility. This component has the following three subcomponents.

Subcomponent 1.a. MarketConnect (USD 16.00 million) : The objective of this subcomponent is to provide tailored technical assistance to Producer Organizations (POs) and agribusiness firms to 'upgrade' and improve market linkages as well as foster partnerships with off takers and buyers.

Subcomponent 1.b. Productive Alliances (USD 12.00 million): The objective of this subcomponent is to support transition of small and marginal farmers to market-centric approaches by improving their capacity to finance and execute productivity enhancing investments.

Subcomponent 1.c. Line of Credit (LoC) to support Agribusinesses (USD 15.00 million): This subcomponent will enhance access to finance by galvanizing financial intermediaries to work with growth-oriented agribusiness firms and enterprises.

17. Overall—through a combination of business development services, matching grants to jumpstart productive alliances, and provision of a credit facility—Component 1 will address demand-side constraints of farmers and high-growth agribusinesses in Zambia. This component is aligned with Pillar 1 and Pillar 2 of GCRF.

Component 2: Promote Trade and Agribusiness Competitiveness (USD 20.00 million)

18. The objective of this component is to enable the key stakeholders in Zambia's agribusiness sector and those benefitting from component 1 to take advantage of improved business environment and



opportunities emerging from AfCFTA. This component will seek to improve trade pathways, quality infrastructure, and business enabling environment i.e., meso-level sectoral activities that are critical for firms and farmers and in line with the AfCFTA. Special focus would be placed on SMEs and women traders to ensure that the project addresses the key constraints faced by them. Component 2 is aligned to Pillars 1 (Responding to Food Insecurity) and Pillar 2 (Protecting People and preserving Jobs) of GCRF and will comprise of the following activities:

- **Implementing trade commitments.**
- **Improving trade efficiency:**
- **Strengthen Business regulatory, NQI and SPS capacities and facilities:**

Component 3: Project Management (USD 7.00 million)

19. This component will ensure effective implementation of project activities, including monitoring and evaluation of project implementation progress. It will primarily build on the implementation experience of Zambia Agribusiness and Trade Project (ZATP), that was Started in 2017 and slated to run through 2024. This Component will support i) project operations; (ii) implementation of the stakeholder engagement plan and feedback mechanism to inform project implementation; (iii) implementation of the project's grievance redress mechanism; and iv) an M&E system to account for the national project scale-up and additional sub-components being introduced on top of existing ZATP interventions. An indicative list of financed activities under this component includes dedicated staffing of the project at the provincial level, accompanying costs to ensure fiduciary compliance and adherence to safeguards, consultancies, training and related material, project communications, office equipment (including project ICT systems), and incremental operational costs

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

The environmental risk rating is Moderate as the project expects minor construction works such as the metrology laboratory and infrastructure to support digital and automated trade and accreditation on systems under component 2. Component 1 activities include the direct support to small and marginal farmers associated through Producer Organizations (POs) and high growth agribusiness, which are moderate risk scale up activities building on the success of Zambia Agribusiness and Trade Project (ZATP). The project is not expected to include Associated Facilities. The project will see (i) scale up the practice of climate smart agriculture introduced to five new provinces supported by the creation of multiple farmer field schools (ii) an expansion of Occupational Health and Safety practices that were



introduced into ZATP for construction, farmer and POs activities and (iii) an improved subproject E&S screening and subproject design process perfected from ZATP lessons learned. The environmental risks and impacts of the project could include (i) disposal of e-waste generated from the proposed digitization activities or solar panels, equipment and batteries used in project activities when irreparable or at end of life (ii) construction related impacts from component 1&2 activities such as elevated dust and noise levels, raw material extraction, natural resource use, the generation and inadequate management of solid, construction and hazardous waste (iii) the uncontrolled use and application of pesticides (iv) energy generation using old diesel generators (v) impacts on biodiversity and habitats (vi) inadequate implementation, supervision and management of OHS on all sites (vii) infrastructure designed and built using inadequate building and fire codes; and (viii) project road related accidents and incidents. Environmental risks will be managed using a framework approach because exact locations and activities are not known at this stage. The project ESMF will provide a rigorous E&S screening process for all subproject activities, a framework for ESMP development, an e-waste management plan, TORs for a Biodiversity Management Plan (BMP), a road safety policy, activity exclusion list etc.

The proposed social risk classification is Moderate at this stage, considering the nature and magnitude of the potential social risks and the impacts of subprojects. Though the project will be implemented across the entire country, there are no conflict-affected areas that might have an impact on the project's implementation. Key potential risks include:(i) risk of exclusion of or discrimination against women, youth, and people living with disabilities in the selection of farmers and agribusinesses, (ii) risk of land acquisition and involuntary resettlement due to activities under sub-components 1 b, 1c and 2a, (iii) labor and working conditions risks due to failure to abide by national legislation on working hours, wages, overtime, compensation, or benefits, (iv) sexual exploitation and abuse, and sexual harassment (SEA/SH) among project workers, stakeholders and/or local communities; (v) risk of child labor in the farming activities and agribusinesses; and (vi) challenges in organizing or obtaining access to grievance redress and referral processes. These social risks will be addressed in ESF instruments which will be developed by the Borrower, such as the ESMF, Environment and Social Commitment Plan (ESCP), the Stakeholder Engagement Plan (SEP), which include the GRM, the Labor Management Procedures (LMP), to be prepared as part of the ESMF. The ESMF will also include a GBV action plan and an accountability and response framework which consist of procedures that detail how to respond to SEA/SH allegations, and guidance on how to screen for any land acquisition and resettlement. Screening criteria will be applied to all investments under Sub-component 1b and 1c. Small infrastructure investments under Subcomponent 2a will also be screened to avoid land acquisition and resettlement. To mitigate social risks for FI subprojects, an ESMS, which includes eligibility criteria for accessing grants and loans and compliance with local labor laws, will be prepared by the Apex financial institution and the participating financial institutions (PFIs) .

E. Implementation



Institutional and Implementation Arrangements

- 20. The project will be implemented by the Ministry of Commerce, Trade, and Industry (MCTI) with the Department of Planning and Information (DPI) serving in a coordination role.** A dedicated Project Implementation Unit (PIU) structure will be leveraged for day-to-day management of ZATP-II. The ongoing implementation arrangements (overall project coordination with MCTI and implementation through the PIU) under ZATP will be utilized for ZATP-II. However, few additional functions will be added to the PIU structure both at national as well as provincial level. The PIU for ZATP-II will comprise of dedicated staff - Project Manager, Agribusiness Specialists, Financial Management Specialist, Procurement Specialist, Environmental and Social Safeguards Specialists, Infrastructure Specialist, Access to Finance specialist, Monitoring and Evaluation Specialist and Communications Specialist. The PIU will develop annual performance targets, in consultation with the Project Coordinator and approved by the Controlling Officer (MCTI) and the World Bank.
- 21. To support the project implementation, ZATP-II will have a two-tier governance structure including a Steering Committee and Technical Working Group (TWG) supported by the PIU as Secretariat.** The Project Steering Committee (PSC), chaired by the Permanent Secretary for Commerce, Trade and Industry will provide oversight and will include Permanent Secretaries from partner ministries as well as private sector among others. The steering committee will (a) oversee overall implementation of the project; (b) provide policy guidance to the project; (c) ensure inter agency coordination of the project; and (d) review and approve annual work plans and budgets. The project manager shall serve as the secretary of the project Steering Committee. The Committee will meet at least once per quarter particularly during the early phases of the project but shall have a minimum of two meetings in a year as per Financing Agreement for the project.

Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.
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