

Developing an Enabling Environment to Improve Zambian Smallholders' Agribusiness Skills and Commercial Orientation

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SYNOPSIS OF PROJECT DATA

Country:	Zambia
Project:	Agricultural Development Support Project (ADSP)
Cost:	US\$37.2 million (total project cost US\$39.6 million)
Component cost:	Support to Farmers and Agribusiness Enterprises (US\$33.2 million); Institutional Development (US\$3.9 million); Project Management and Coordination (US\$2.6 million)
Dates:	FY 2006–14
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CONTEXT

Agriculture has become a major driver of growth and a significant source of export earnings and diversification in Zambia as a result of rising mineral prices. Notwithstanding Zambia's abundant and fertile land and water and economic growth (exceeding 5 percent for the past seven to eight years), small-scale farmers have seen little change in their quality of life. Smallholders' productivity is very low compared with that of Zambia's commercial farmers and farmers in other parts of the world. Productivity is partly constrained by the lack of title to land, limited financial resources, and insufficient infrastructure, but much of the problem arises from the unfavorable policy environment for small-scale farmers.

Starting in the 1990s, consecutive investments by the International Development Association (IDA) have sought to raise productivity in Zambian agriculture in line with government strategy to support the commercialization of smallholder agriculture. This strategy aims to reduce poverty by expanding contract farming and outgrower schemes that link smallholders with commercial farmers or agroenterprises.

In 2006, the government initiated the World Bank-funded Agricultural Development Support Project (ADSP). Through support to Zambia's Ministry of Agriculture and Co-operatives (MACO), the ADSP fosters the commercialization of smallholder agriculture by developing a network of competitive value chains in selected high-quality, high-value commodities (such as cotton, horticultural crops, honey, and dairy). Interventions provide better technology (improved seed, microirrigation), strengthen institutions (public-private partnerships, outgrower schemes), and develop well-maintained rural roads in high-potential agricultural areas. The objective is to ensure that the selected value chains operate efficiently to increase value addition, improve smallholders' access to markets, and improve the competitiveness of their agricultural commodities.

PROJECT OBJECTIVES AND DESCRIPTION

As noted, the ADSP was designed to increase the commercialization of smallholder agriculture by improving the productivity, quality, and efficiency of value chains in which smallholders participate. The project funds three investment areas: (1) matching grants to promote innovative agribusiness activities that build synergies to develop value chains, (2) rural feeder roads, and (3) public institutional support for market development.

The Market and Innovation Facility (MIIF) provides matching grants to fund innovative activities in which agribusinesses interact with smallholders or business-oriented farmer groups and cooperatives. The activities match the business development needs of each subsector, emphasize technical assistance, and fall into three categories: (1) technology, training, capacity-building, and agricultural services in production, processing, and marketing in value chain development; (2) information, research, and studies associated with value chain development; and (3) services and capacity-building in business management

and development, product promotion, and acquisition of technical and market information.

The Rural Roads Improvement Facility (RRIF) provides resources to rehabilitate and maintain rural and district roads to link selected high-potential agricultural areas to markets as a means of improving incomes and livelihoods. Target roads are in five districts (Choma, Chongwe, Katete, Chipata, and Lundazi) in two provinces (Southern and Eastern). RRIF investment is expected to provide the essential rural road network for improved market access and associated product delivery efficiencies and benefits. The road facility supports the ADSP's general aims, because value chain development is superimposed within the rural road grid. To date, 642 kilometers of critical feeder roads have been rehabilitated (57 percent achievement of the target of 1,129 kilometers).

The Supply Chain Credit Facility (SCCF) was originally designed to provide credit, on a demand-driven basis, for investments to improve the supply chains of existing and emerging outgrower schemes and enable agroenterprises, traders, or nucleus and commercial farmers working with smallholders to finance capital investments, seasonal inputs, and export activities. Following implementation delays, SCCF was modified to improve the productivity of outgrower schemes, scale them up, establish new contract farming enterprises, and upgrade processing and marketing capacity.

Under the project's institutional development component, ADSP builds capacity in selected departments of MACO to provide the core public services for enhancing smallholders' productivity, quality of produce, and access to markets. For example, the project has enabled the Cotton Development Trust (a public-private trust) to provide seed and technical assistance to smallholders and increase its production of foundation seed for cotton through improved irrigation facilities. The project has also helped to build and equip a biotechnology laboratory at the Seed Control and Certification Institute (SCCI) and improve the SPS services of the Zambia Agricultural Research Institute.

The Project has multi-institutional and innovative institutional arrangements for implementation. For example, the National Coordination Office is based in MACO. MIIF is administered by Africare, an international NGO, and coordinated and managed by an independent, outsourced secretariat. Independent technical reviewers assess the technical and financial feasibility of proposed subprojects. A multistakeholder subcommittee of the National Project Steering Committee (with representatives of the Bankers Association of Zambia, the agribusiness sector, MACO, and a member of the secretariat) is responsible for final funding decisions. The project's rural road component is imple-

mented by the Road Development Authority (RDA) and the National Road Fund Agency (NRFA). The institutional development component is managed by the respective MACO departments.

INNOVATIVE ELEMENT

The innovative feature of ADSP's design is a demand-driven, value chain approach that facilitates smallholders' participation in key value chains. Innovative features of ADSP's implementation include the demand-led innovation fund, matching investments by agribusiness to finance a sustainable rural road network (crucial for innovation by agribusiness), and the piloting of an improved market information system. Rural road improvements are procured through Output and Performance-based Road Contracting (OPRC). A spatial approach is used to ensure that technological interventions in the selected value chains are compatible with the improved rural road grid.

Under MIIF, matching grants support innovative interventions by agribusiness that add value to agricultural products, improve agricultural productivity, and improve smallholders' links to markets. The MIIF Innovation Categories in agricultural value chains include new products, new technologies or processes, new markets, new strategic partners or organizational arrangements, and new geographical locations.

The innovative element expected of SCCF is that it would enable entrepreneurs to make the capital investments that are vital to stronger and more competitive value chains with or without scaling up while reducing risk absorption.

BENEFITS, IMPACT, AND EXPERIENCE

Value chains strengthened through the project include dairy, cotton, horticultural crops, paprika, honey, biodiesel, and tobacco, among others. Some of the key benefits and outcomes associated with the project are described next.

An innovative matching grant scheme is under way

In its three-plus years of implementation, MIIF has funded 17 subprojects (for which the total budget exceeds US\$2.6 million) involving more than 28,800 smallholder beneficiaries. Six additional subprojects are under review, and 20 or more proposals are under development. MIIF subprojects have generated 22 technologies and innovations for a range of value chains, including dairy, groundnuts, honey, biofuels, and fisheries. The grant scheme has leveraged an additional 85.6 percent cofinancing,

illustrating the considerable buy-in and commitment by agribusinesses. It is too early to project the outcome of the subproject grants, but initial assessments by beneficiaries have been very positive.

To date, the grant scheme has funded high-quality proposals that are demand led and innovative. One lesson from the experience with MIIF, however, is that it is vital to maintain the number of high-quality subprojects that enter the funding pipeline. Awareness of the facility is spread through continuous publicity; a variety of field days, symposia, and workshops; and word of mouth in the business community. Another lesson is that a favorable external business environment (especially exchange rates for commodity exports and inputs for production and value addition) is essential for strong participation in an innovation grant scheme such as MIIF that attempts to increase competitiveness.

MIIF's implementation has faced several challenges. Initially agribusinesses were reluctant to participate because of their limited awareness of and low interest in the need to innovate for greater competitiveness. The high transaction costs (time, resources) and lack of experience in developing concept notes, proposals, follow-up documentation, and cofinancing commitments also presented a challenge for some participants. The private sector was wary of engaging with what it perceived to be NGO- and government-"driven" activities. Similar issues of limited trust and experience in working with the private sector impeded collaborative arrangements between private and nonprivate actors. Another challenge that must not be underestimated is that the effort involved in working with smallholders in outgrower schemes can limit the private sector's interest in submitting proposals.

Although it is too early to point to specific benefits arising from the project's various kinds of support to specific value chains, the adoption of more productive and favorable technologies has increased. A baseline study in two provinces where rural road work is taking place was completed, and an impact study is being undertaken in the same areas.

Performance-based contracts for rural roads successfully implemented

As noted, the project uses a new method of road contracting called OPRC, in which the contractor rehabilitates the roads under the contract and maintains them for five years. This agreement ensures that project participants in rural areas that are far from markets have consistent access to those markets. Spillover benefits include improved access to health facilities and primary schools. By its third year, the

project had rehabilitated 583 rural district and feeder roads in the national road network. It is actively encouraging the use of MIIF grants in contracting for road rehabilitation and maintenance to create synergies between improved crop production and marketing in the value chains. The socioeconomic targets of the OPRCs in selected catchment areas (3,136 households were surveyed as a baseline) are mainly related to process impacts (income-generating opportunities from road rehabilitation), access impacts (associated with providing the road infrastructure), and mobility impacts (on transport services or growth in traffic volumes), but they are still too early to quantify.

An agricultural market information system piloted in an integrated project activity zone

As noted, the project used a spatial approach to target the technology interventions for the selected value chains within the improved rural road grid in Southern Province, where a market information system has also been successfully piloted in three districts. Given the popularity of radio broadcasts of commodity market prices, this program is being scaled up to include all districts in Southern Province and will also be introduced to Eastern Province, where the OPRC rural road work is taking place.

Short-, medium-, and long-term loans to support investment

Loans provided through the SCCF are an important complement to the matching grants provided through MIIF, and access to short-, medium-, and long-term agricultural finance remains critical to the project's success. This aspect of the project has been implemented more slowly than expected, however. Responsibility for implementation has been transferred to the Development Bank of Zambia, where institutional capacity strengthening has been initiated.

Serving the public goods agenda

The outcomes of ADSP far exceed the cost of the public investments. Aside from reinforcing the private sector's capacity to increase the competitiveness of Zambian agriculture and improve smallholders' participation in lucrative value chains, the project strengthens the public goods delivery agenda through targeted institutional development, with long-term benefits for the agricultural sector. Examples of these public goods include wider availability of good quality seed for multiplication by private and public

agencies, more skilled human resources in public institutions, and development of the rural road network.

Projects similar to ADSP under way in other parts of the world

Productive partnership projects funded by the World Bank in Colombia and Vietnam also use matching grants to facilitate partnerships and build capacity in value chains. These projects and ADSP are demonstrating the challenges of engaging and retaining the interest of a diverse group of private actors, such as traders, processors, exporters, wholesalers, and retailers. Such projects often require greater attention to entrepreneurial skills than to farming practices.

LESSONS LEARNED AND ISSUES FOR WIDER APPLICATION

To date, the ADSP approach has yielded three *key lessons*. First, the development of market institutions is not in synchrony with development of other parts of the value chains. There is need to consistently identify areas, themes, and issues that can contribute to activities that strengthen value chains. Second, alliances and partnerships for agribusinesses do not “just happen” in projects of this nature. They must be actively facilitated and nurtured and benefit from early technical and financial support. A conducive political economy is essential for success. Third, owing to its demand-driven design, MIIF responded to greater and more varied demand from more diverse businesses than originally anticipated. The focus of the grant scheme became fragmented as a result and increased the administrative burden. Other lessons are discussed in greater detail in the sections that follow.

Engage private sector grantees/actors for dialogue and innovative enterprise development

A project such as ADSP, which seeks to promote innovation in value chains and involve smallholders in commercial agriculture, must engage the private sector when it is first developed and designed. ADSP carefully engaged the private sector as the project was prepared, but a more consistent effort was warranted later, during the project’s implementation. Matching grants under ADSP did not automatically strengthen value chains and develop agribusiness. Midway through the project, it was realized that consultative processes (multistakeholder platforms, forums for value chains, sector associations, and field days) were useful instruments to support development of the agricultural sector.

These platforms help to develop a shared understanding of challenges, opportunities, and intervention that may guide the support services and matching grant program. They can also foster collaboration, including partnership between public and private agencies.

Establish a high-caliber secretariat with private sector experience

The secretariat or fund administrator has a key responsibility in implementing a grant scheme. Selection of the grant administrator requires significant effort, and often special capacity building is warranted. Deficiencies in management capacity and leadership could cause delays or even the failure of the scheme. As noted, under ADSP this function was outsourced to an NGO. This option is useful when a project requires autonomy, experience in working with participants at the grassroots level and in decentralized projects, as well as experience with donor requirements (reporting, procurement, and fiduciary issues). NGOs also come with challenges, however, including the potential for greater overhead costs, problems with long-term institutional sustainability, and a greater risk that they will lack business understanding. The essential features for a secretariat to succeed are the available capacity, institutional sustainability, overhead costs, separation of the funding and implementation of the grant fund, potential for political interference, and the interests of the key stakeholders.

Strengthen aspects of the matching grant scheme

The matching grant scheme could be strengthened in a number of ways. The activities and value chains supported by the facility could be adjusted to focus more on high-priority value chains and on moving away from activities involving technology, extension, and studies toward a wider set of business-promoting activities. Stronger, direct communication with actors in the agricultural sector is vital to increase awareness of the facility. The grant application and review process should be streamlined. The MIIF administrator requires greater capacity to interact with private sector stakeholders, train clients, and manage the overall program.

One final lesson from the experience with MIIF is that the grants have been quite useful for building institutional capacity in public organizations at the provincial and district level. In other words, participation in grant schemes that strengthen agribusinesses can benefit not only national goals but provincial and district institutions and economies.