

AFRICAN DEVELOPMENT BANK



ZAMBIA

SKILLS DEVELOPMENT AND ENTREPRENEURSHIP PROJECT SUPPORTING WOMEN AND YOUTH

APPRAISAL REPORT

Public Disclosure Authorized

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OSHD DEPARTMENT

September 2015

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Currency Equivalents

As of July 2015

Currency Unit	=	US Dollars
1 UA	=	USD 1.444
1 USD	=	ZMW 7.53136
1 UA	=	ZMW 10.47236

Fiscal Year

January 1st – December 31st

Weights and Measures

1 metric tonne (t)	=	2,205 lbs.
1 kilogramme (kg)	=	2.205 lbs.
1 metre (m)	=	3.281 ft.
1 kilometre (km)	=	0.621 mile
1 square kilometre (km ²)	=	0.386 square mile
1 hectare (ha) = 0.01 km ²	=	2.471 acres

Acronyms and Abbreviations

ADB	African Development Bank
AfDB	African Development Bank Group
BDS	Business Development Services
CEEC	Citizens Economic Empowerment Commission
DfID	Department for International Development
DHS	Demographic and Health Surveys
DoL	Division of Labour
DP	Development Partners
FM	Financial Management
GDP	Gross Domestic Product
GoZ	Government of Zambia
HDI	Human Development Index
IIAG	Ibrahim Index of African Governments
IMF	International Monetary Fund
IPR	Implementation Progress Report
JASZ	Joint Assistance Strategy for Zambia
LIBOR	London Interbank Offered Rate
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprise
PIT	Project Implementation Team
PPP	Public Private Partnership
PSC	Project Steering Committee
QPR	Quarterly Progress Report
RBCSP	Revised Results Based Country Strategy Paper
R-SNDP	Revised Sixth National Development Plan
SA	Special Accounts
SC	Steering Committee
SDEP-SWY	Skills Development and Entrepreneurship Project - Supporting Women and Youth
TEVETA	Technical, Entrepreneurship and Vocational Education and Training Authority
UA	Unit of Account
UN	United Nations
USD	United States Dollars
ZCSMBA	Zambia Chamber of Small and Medium Business Associations
ZEMA	Zambia Environmental Management Agency
ZMFO	Zambia Field Office

Loan Information

Client's Information

BORROWER:	Republic of Zambia
EXECUTING AGENCY:	Ministry of Commerce, Trade and Industry

Financing plan

Source	Amount (UA)	Amount (USD)	Instrument
ADB	20 million	30 million	Loan
GoZ/ Beneficiaries	3.50 million	5.25 million	Contribution
TOTAL COST	23.50 million	35.25 million	

ADB's key financing information

Loan / grant currency	United States Dollars (USD)
Loan Type	Enhanced Variable Spread Loan
Interest Rate	Base Rate +Funding Cost Margin+ Lending Margin
Base Rate	Floating Base Rate based on 6-month LIBOR with a free option to fix the Base Rate
Funding Cost Margin	Refer to footnote (1)
Lending Margin	60 basis points (0.6%)
Fees	None
Tenor	Up to 20 years inclusive of Grace Period
Grace Period	Up to 5 years
EIRR, ENPV (base case)	21%, USD 11.9 million
FIRR, FNPV (base case)	8%, USD 1.07 million.

- (1) The six months adjusted average of the difference between: (i) the refinancing rate of the Bank as to the borrowings linked to 6-month LIBOR and allocated to all its floating interest loans denominated in USD and (ii) 6-month LIBOR ending on 30 June and on 31 December. This spread shall apply to the 6-month LIBOR which resets on 1 February and on 1 August. The Funding Cost Margin shall be determined twice per year on 1 January for the semester ending on 31 December and on 1 July for the semester ending on 30 June.

**if applicable*

Timeframe - Main Milestones (expected)

Concept Note approval	February 2015
Project approval	October 2015
Effectiveness	November 2015
First Disbursement	January 2016
Completion	December 2020
Last repayment	December 2035

Program Summary

1. **Overview: The Zambia Skills Development and Entrepreneurship Project – Supporting Women and Youth (SDEP-SWY) aims to promote job creation, gender equality and poverty reduction.** The project seeks to improve the livelihood opportunities of Zambia's working poor, especially in rural areas and will benefit particularly, women and youth through enabling infrastructure and entrepreneurship for MSME business development. The project supports the development of: (i) industrial cluster infrastructure and enabling environment to enhance MSMEs competitiveness and (ii) the cassava value chain sub-sector targeting mostly the rural poor. The Project will be implemented over 60 months beginning January 2016 through an ADB loan of USD 30 million, and in-kind counterpart contribution estimated at USD 5.25 million from the Government of Zambia (GoZ).

The pilot project seeks to contribute to Zambia's national goals of reducing extreme poverty and youth unemployment as stated in the National Vision 2030. Government's commitment to this goal is further elaborated in the Revised Sixth National Development Plan 2013-2016. This project supports the implementation of the Governments Industrialization and Job Creation Strategy which seeks to create 1,000,000 jobs by 2018 and underscores the need to diversify Zambia's economy through industrialization and the development of indigenous MSMEs particularly in value addition and agricultural value chains.

2. **Needs Assessment: Zambia's progression to a middle income status has been significantly mining-led, with a limited number of job creation and distribution of wealth.** The bottom 50 per cent accounted for 9.1 per cent of the total income, while the top 10 per cent accounted for 52.6 per cent of the income in 2010¹. In the same year, 74.5% of the population lived below the poverty line concealed by significant spatial dispersion; 78% rural headcounts compared to 28% urban. Unemployment is primarily a major urban youth and female challenge and high masses of working poor, a rural phenomenon. Unemployment rate was 7.9% in 2012 and higher for urban areas- 15.3% than the 3.1 % in rural areas. Female unemployment in urban areas was also significantly higher at 18.7 % in comparison to 12.7% for males. Youth unemployed has averaged 25% for almost a decade. Underemployment is a key constraint reflected by low incomes earned. With an average salary of around \$100 per month, more than 50% of workers live under the national poverty line² and constitutes millions of the working poor. The informal sector holds great potential for spurring jobs and harnessing youth and women entrepreneurial talent if targeted interventions are maintained with enabling government policy. The sector provided 88.7% of jobs created in 2012 but is often characterized by increasing poverty. With agriculture holding majority of the working poor-81% and making up 54.2% of the informal sector jobs, significant attention is necessary as it will continue as an important job driver for some time given that 55.8% of the population is employed by the sector, culminating at 80.1% in rural areas.

3. **Banks' added value:** The project consolidates past and ongoing interventions by the Bank in Zambia to scale up development results. The added value by the Bank includes its successful experience in promoting inclusive jobs through skills and enterprise development initiatives. Key outcomes of this project include (i) MSME productivity and competitiveness; (ii) Increased income for farmers; and (iii) employment creation. These will be achieved through support to MSME product development and the promotion of business linkages and enhanced commercialization of cassava through a value chain approach supported by enabling regulation. The Bank will continue to play an active role in policy dialogue in the skills and enterprise development and the reform agenda.

¹ Most recent data available. The Zambia Statistics Office is in process of conducting the Living Conditions Monitoring Survey and results are expected by later end of 2015

² Development Effectiveness Review Zambia, AfDB 2013

4. **Knowledge management:** The Project will contribute to: (i) generation of data, information evidence and analysis in MSMEs involvement in the cassava value chain and industrial clusters in particular light manufacturing; (ii) generate information on strategies of improving MSMEs business development services. Key knowledge generation processes envisaged under the project include a baseline survey, policy research on reforms in the cassava sector, robust project monitoring , an impact evaluation and final project evaluation, all with a gender and inclusion perspective, with attention to particular challenges in rural areas and those faced by young men and women. The knowledge generated through this project will be disseminated through websites of the Ministry of Commerce, Industry and Trade and the African Development Bank. The Project Team will also organise interactive sessions with stakeholders to disseminate reports and other knowledge products produced by the Project.

Results Based Logical Framework

Country and Programme Name: Zambia- Skills Development and Entrepreneurship Project – Supporting Women and Youth (SDEP-SWY).							
Purpose of the programme: The purpose of the programme is to support job creation, promotion of gender equality and poverty reduction amongst women and youth through skills development and entrepreneurship.							
RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES	
		Indicator	Baseline ³	Target			
IMPACT	Inclusive growth and reduced poverty	Incidence of extreme poverty	42.3% (2010)	30% (2025)	Living Conditions Monitoring Survey Report		
		Unemployment rate (15-35 yrs.)	42.2% (2012) Male: 42% Female: 47.5%	32% (2025) 30%(2025) 32%(2025)	Labour Force Survey Reports DHS		
OUTCOMES	Outcome 1: Increased MSME productivity and competitiveness.	% increase in business volumes for youth and women MSMEs in industrial clusters in target market segments. Additional full time jobs created in targeted MSMEs in industrial clusters	0% (2015) 0 (2015)	25% (F-Youth - 2020); 25% (M-Youth - 2020) 2000 (M – 2020) 2000 (F – 2020)	Quarterly Progress Reports; IPRs	1. Risk: Low MSME product quality could limit growth in business volumes. Mitigating measures: Support for product quality control and training shall be provided. 2. Risk: Weak regulator environment could fail to stimulate cassava commercialization Mitigating measures: TA included to conduct policy research and facilitate reforms in the sector	
	Outcome 2: Increased income for farmers and employment	% increase in the volume of sales of farmer groups in targeted Districts; Increase in employment in targeted rural Districts	0% (2015) 0 (2015)	30% (M, F-headed by 2020) 7,000 (M – 2020) 10,000 (F – 2020)	FinScope Reports; Impact Evaluation Report		
OUTPUTS	Component 1: Industrial Clusters					3. Risk: Weak management of industrial clusters could reduce occupancy rates of Industrial clusters by MSMEs: Mitigating measures: PPP arrangements shall be used for effective management and sustainability of the Industrial clusters.	
	1.1 Infrastructure Strengthened	No. urban industrial clusters constructed	0 (2015)	5 (2018)	QPR); IPRs		
		No. rural industrial clusters constructed	0 (2015)	5 (2018)	QPR; IPRs		
	1.2 MSME product development improved	N° of MSMEs operating from modern industrial clusters	0 (2015)	1000 (2020); 50% F-headed	QPR; IPRs		
		No of MSMEs with access to improved technology for product development	0 (2015)	300 (F-headed - 2020) 300 (M-headed-2020)	QPR; IPRs		
		N° of MSMEs receiving BDS support, mentoring and counselling	0 (2015)	1000 (2020); 50% Female-headed	QPR; IPRs		
	1.3 MSMEs business opportunities enhanced	N° MSMEs in industrial clusters with business linkages to large companies/ government procurement.	0 (2015)	100 (F-headed - 2020) 100 (M-headed-2020)	QPR; IPRs		
		N° of MSMEs in industrial clusters with working capital from external sources including from the CEEC and commercial banks	0 (2015)	300 (F - 2020) 300 (M- 2020)	QPR; IPRs		
	Component 2: Value Chain Development						4. Risk: Weak organisation of cassava supply-side might fail to stimulate demand Mitigating measures: TA and BDS providers shall be mobilized to strengthen the organization of cassava producers.
	2.1 Cassava yields improved	Cassava yields per hectare	5 ton/ha (2015)	10 ton/ha (2018)	QPR; IPRs		
2.2 Increased cassava commercialization	% of cassava sold by producers	15% (2015)	50% (2020)	QPR; IPRs			
	N° of cassava bulking centres constructed	0 (2015)	22 (2018)				
	% of cassava processed into value-added products (excluding cassava flour)	10% (2015)	30% (2020)	QPR; IPRs			
2.3 Improved environment for cassava commercialization	Regulations on a mandatory percentage of cassava in food track and stock feed industry. ⁴	None (2015)	Regulations in force by 2018	QPR; IPRs			
2.4 Garri production and fortification	No. of women involved in piloting garri production	0 (2015)	500 (2020)				

³ All indicators with zero baselines will be determined when baseline survey is completed for the project.

⁴ bread/animal feed/ and school feeding programmes (fortified garri / flour)

KEY ACTIVITIES	piloted					
		No. of school feeding programmes adopting fortified garri	0 (2015)	10 (2020)		
	Component 3: Institutional Support and Project Management					
	3.1 CEEC capacity enhanced	Existence of qualified procurement and gender specialists	None (2015)	1 Gender specialist; 1 procurement Specialists in place (2016)	QPR; IPRs	Risk 5: Lack of market anchorage for cassava could stall commercialization Mitigation: TA on market development and linkages to pursue existing markets and new ones to help establish product anchorage for sustained market linkages
	3.2 BDS provision Regulated	Existence of MSMEs BDS Certified Training Programme	None (2015)	Programme developed and tested (2018)	QPR; IPRs	
		% of 200 Business Development Services providers trained on the new curriculum that graduate as certified MSMEs BDS providers	n/a (2015)	75% certified (50% women)	QPR; IPRs	
	3.3 Project activities implemented	Existence of Baseline survey report disaggregated by sex	None (2015)	Report prepared (2016)	QPR; IPRs	
		Existence of Project Implementation Manual with a gender and inclusion perspective	None (2015)	Manual prepared (2016)	QPR; IPRs	
		Timely implementation of project activities and preparation of reports, including audits.	n/a	Project activities and reports, including audit prepared and submitted on time (during project duration)	QPR; IPRs	
		Existence of impact evaluation report	n/a (2015)	Report in place by 2020	QPR; IPRs; PCR	
Components: Component 1: Industrial Clusters Component 2: Value Chain Development Component 3: Institutional Support and Project Management			Inputs- Funding in million USD ADB: 30 GoZ: 5.25 Total: 35.25			

Quarterly Progress Report (QPR); Implementation Progress Report (IPR); Citizens Economic Empowerment Commission (CEEC)

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED ADB LOAN OF USD 30 MILLION TO ZAMBIA FOR SKILLS DEVELOPMENT AND ENTREPRENEURSHIP PROJECT

Management submits the following Report and Recommendation for a proposed loan for USD 30 million on ADB terms to the Republic of Zambia to finance the Skills Development and Entrepreneurship Project – Supporting Women and Youth.

I. STRATEGIC THRUST AND RATIONALE

1.1 Program linkages with country strategy and objectives

1.1.1. **The Government of Zambia’s (GoZ) development agenda is articulated in the National Vision 2030 and the Revised Sixth National Development Plan (R-SNDP: 2013-2016).** Under the R-SNDP, there is a public capital investment plan, aimed at rural development, job creation and inclusive growth. The government has prioritised four thematic areas under the R-SNDP, including: (i) Skills Development; (ii) Science and technology; (iii) Agriculture, livestock and fisheries; and (iv) Energy and Infrastructure. It also emphasises the need to advance towards gender responsive sustainable development and inclusion for poverty reduction. The Project therefore aligns to the Government’s aspiration through its support for the development of entrepreneurship skills to improve the competitiveness of small businesses. In addition the Project is also aligned to the Industrialization and Job Creation Strategy, which has set targets for job creation and identified priority sectors that will contribute to the creation of over one million jobs in Zambia in the medium term. The four sectors identified as having the greatest potential to create jobs include Agriculture, Tourism, Construction and Manufacturing.

1.1.2. **In line with the overarching objectives of the R-SNDP, the Bank’s Revised Results Based Country Strategy Paper (RBCSP) for Zambia (2011-2015) has two pillars:** (i) Support to Economic Diversification through Infrastructure Development and (ii) Support for Economic and Financial Governance. The proposed project is aligned to the first pillar of the CSP through (i) the development of infrastructure for cassava bulking centers and early processing and storage facilities and (ii) industrial cluster infrastructure for light manufacturing and agro processing to support the government’s economic diversification and job creation agenda. The project is also aligned to the Private Sector sub component linked to the two pillars of the CSP which inter alia include support for wider competitiveness of the private sector through supporting enabling policy reforms for cassava commercialization and strengthening business development services for MSMEs in both urban and rural areas.

1.1.3. **The Project also conforms to the Bank’s Strategy for 2013-22, which emphasises inclusion as a core objective and “skills and technology” as one of the core operational priorities to achieving inclusive growth.** It also aligns with the Human Capital Strategy, under its pillar of skills and technology for competitiveness and jobs; and the Private Sector Development strategy. Furthermore, the Project is aligned to the Bank’s Gender Strategy (2014 – 2018), especially under the *women’s economic empowerment* pillar through the mainstreaming of gender equality in all the activities of the project. The Bank has, however, not yet conducted a fragility assessment for Zambia.

1.2 Rationale for Bank’s involvement

1.2.1. **Prevailing challenges of inclusion and inequality continues to constraint Zambia’s economic growth and human development results.** Economic growth has not been able to create enough jobs (Figure 1) for the growing labour force, which is largely youth and in addition has discriminated against women who are most of the working poor and unemployed. Recent data shows the bottom 50 per cent accounted for 9.1 per cent of the total income, while the top 10 per cent

accounted for 52.6 per cent of the income in 2010ⁱ. In the same year, 74.5% of the population lived below the poverty line concealing significant Spatial variations (Figure 2); 78% rural headcounts compared to 28% urban.

Zambia's poorest areas are concentrated in the Western, North Western, and Luapula provinces, while the largest concentrations of the poor population are located in some of the wards in the Lusaka, Eastern, Central, and Northern provincesⁱⁱ. The bottom 40% of the Zambian population has seen a declining share of their income since 2003, thus necessitating targeted interventions to improve earning to foster transitioning from working poor status, particularly in rural areas where the working poor (concentrated in farming) upsurge to 81% (2013)ⁱⁱⁱ, while safe guarding and scaling achievements in urban areas.

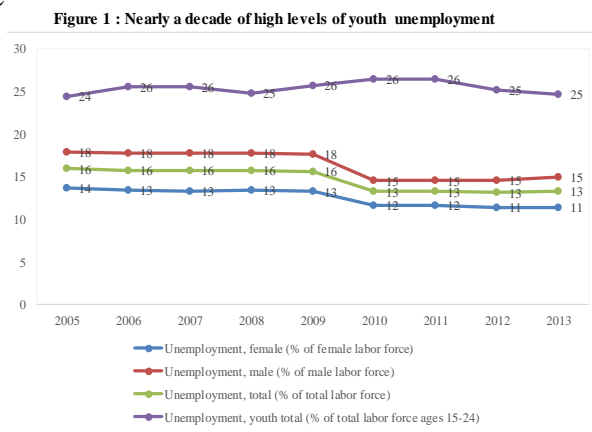
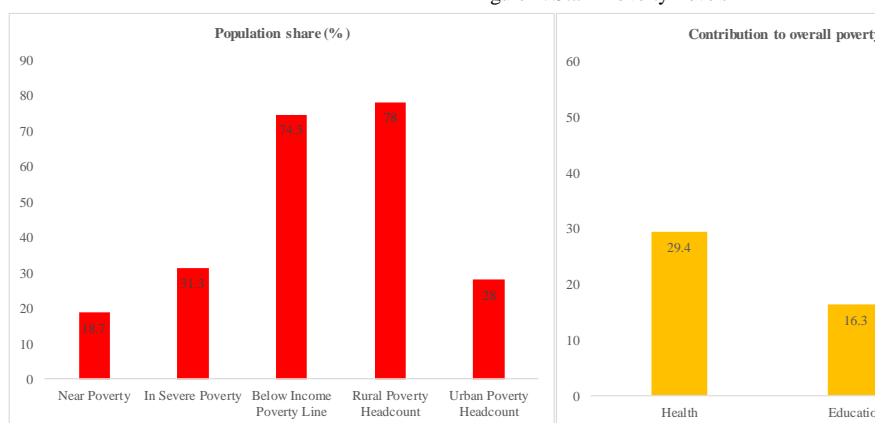


Figure 2: Stark Poverty Levels



Source: 2010 Living Conditions Monitoring Survey

1.2.2 There is an important opportunity for growing and expanding indigenous MSMEs with prospects for spurring job creation, innovation, prosperity and competitiveness. The informal sector provided about 88.7%^{iv} of jobs created in 2012, echoing its potential for job creation and poverty reduction if this sector is strengthened into formality with conducive policies implemented. There is the need to strengthen the sector which is presently characterized by, low skills and low productivity, limited access to technology and innovation, finance, markets and poor employment conditions^v.

1.2.3 Growing indigenous MSMEs and developing value chains in agribusiness has been key for government in spurring economic diversification, promoting job creation and tackling poverty. The momentum to boost the productivity and competitiveness of the informal sector, promote cash crops and other viable economic agriculture products, services and manufacturing industries and also create nonfarm jobs while maintaining a business friendly environment that inspires investor confidence remains critical. To fast-track Zambia's industrialization process, it will be vital to accelerate the development of MSME manufacturing and other value addition enterprises. As the second most important staple crop in Zambia with an annual production, in 2013, estimated at 1.07 million metric tons, cassava is one of the major crops which the government seeks to commercialise for greater impact on incomes for smallholder farmers in the cassava belt where over 90% of farm households grow cassava and poverty is pervasive^{vi} and also given that, the reliance on maize over other crops has sparked concerns over food security and dietary habits in Zambia. Moreover, in the cassava belt, cassava prices range from 50% to 60% of the price of maize^{vii}. Previous models for cassava commercialization have, however, been largely supply driven. Untapped local and regional opportunity market linkages particularly from the copper belt and DRC offers a great potential for Zambian firms and farmers especially in cassava products. The organization of the sector has been plagued with

fragmented and erratic supply and weak linkages; small scale production of heterogeneous varieties, poor quality and standards, inadequate training and access to finance. Cassava product development through a value chain approach would be critical if the cassava belt is to succeed in cassava-based commercialization for poverty reduction.

1.2.4 Zambia is committed to implementing its Revised –Sixth National Development Plan (R-SNDP) 2013-2016. The plan aims to make Zambia a prosperous middle income country by 2030 with an economic program leading to inclusive growth and poverty reduction to under 40% by 2020. The Plan focuses on public capital investments and emphasizes rural development and job creation as pre-requisites for building a sustained trajectory toward inclusive growth. The main investment areas prioritized by the plan are in Skills Development, Science and Technology, Agriculture, Livestock and Fisheries, Energy and Infrastructure Development particularly transport infrastructure while enhancing human development related Sectors of Water and Sanitation, Education and Health. Government has prioritized Agriculture, Manufacturing, Energy, Construction, Tourism and Mining, as growth Sectors in the R-SNDP with a key focus on job creation among other strategic focus areas.

1.2.5. The proposed project seeks to support government’s momentum and draws significantly from the Bank’s many years of experience in working with African Countries- on skills for entrepreneurship and indigenous enterprise development for poverty reduction, which give the Bank a comparative advantage in an intervention of this nature. Aside the application of lessons learned from implementing similar projects in Zambia and other African countries as well as international promising practices, technical assistance is embedded in the project to support the implementation work with the government and stakeholders to ensure success.

1.3 Donor coordination

Table: 1.1 Donor Support to Social Sector (2014)⁵

	Sector or subsector*	Size		
		GDP	Exports	Labour Force
	Social*	14.6%	0%	n/a
Players - Public Annual Expenditure (average) : 2014Budget				
	Government	Donors	AfDB:0.3 %	EU: 3.6% WB: 2%
UA m	UA 2.5 billion	UA 230m	USAID: 58%	JICA 3% Sweden:2.3%
% Tot	92%	8% %	DFID 22.5%	
Level of Donor Coordination				
	Existence of Thematic Working Groups (this sector/sub-sector)		[Y]	
	Existence of SWAps or Integrated Sector Approaches		[N]	
	ADB's Involvement in Donors Coordination		[M]	

Key: L: Leader. M: Member but not leader. N: No involvement. Y: Yes. N: No.

**Comprising education, health, social protection and economic Affairs including youth skill training and economic empowerment fund*

1.3.1 The recent review of the Bank’s partnership with the Government highlights the necessity for the Bank to further support Zambia, particularly by: i) Enhancing efforts to improve basic public services, protect livelihoods and enhance social inclusiveness; ii) Fostering economic diversification through catalytic projects for private sector development, focusing on agriculture, particularly livestock infrastructure, natural resources management and climate change initiatives; and iii) Improving access

⁵ Source: Ministry of Finance

to finance for SMEs, encouraging private participation in the economy through PPPs, and enhancing skills to supply the job market.

1.3.2 The aid architecture in Zambia is coordinated through the Joint Assistance Strategy for Zambia II (JASZ 2011-2015) framework. The framework specifies actions for improving aid relationships to respond to the country's priorities and its evolving context. The Government has developed a new division of labour (DoL) planned to improve coordination between government and development partners since January 2014 (updated 4th June 2014). During project design phases, DPs were consulted to inform the proposed programme. Aside the AfDB, active Development Partners supporting the government's efforts in skills and enterprise development subsector include the DFID, World Bank and JICA. The project complements ongoing efforts with focus on selected interventions to help bridge gaps, consolidate and scale up the gains of ongoing initiatives⁶.

1.3.3 The Bank, through its Field Office (ZMFO), continues to play an active role in policy dialogue. The Bank participates in the Education and Skills sector, the Governance sector and Agriculture sector; and co-chairs the Transport sector. It is active in the Water and Sanitation, Environment and Natural Resources, and Public Financial Management. The Bank also actively participates in the Cooperating Partner Group (CPG) which is the highest coordination and policy-dialogue forum in Zambia. This proposed project complements ongoing efforts with focus on selected interventions to consolidate and scale up the gains of ongoing initiatives

II. PROGRAM DESCRIPTION

2.1 Project Objective

2.1.1 The project sector goal is to contribute to job creation, promotion of gender equality and poverty reduction in Zambia supporting in particular women and youth through skills development and entrepreneurship. The specific objectives of the project include (i) to increase MSME productivity and competitiveness through improved enterprise infrastructure and entrepreneurship and business skills development; and (ii) to increase income for farmers and rural employment through the development of the cassava value chain.

2.1.2 The Project will address the key pre-requisites for unlocking the full potential of cassava as a commercial crop, while supporting women and youth as stakeholders along the value chain. The catalytic interventions to develop this sub sector include: (i) reinforcing existing markets and identification of new ones (internal and external) and promoting of market linkages; (ii) organisation of the supply side of the cassava sector with the aim of addressing the production, productivity and quality of cassava ; (iii) promoting access to technology and innovation with the aim of enhancing quality and efficiency in the subsector; (iv) enhancing the regulatory environment in order to provide incentives for the subsector; (v) Institutionalising Standards for cassava processing and cassava products quality to pave the way for food safety compliance in health and trade and (vi) enhancing business advisory services to impart the required business skills to MSMEs in the cassava sector. The Project will equally support light manufacturing through the development of industrial clusters with the promotion of access to innovation, technology and business skills for MSMEs.

⁶ See Appendix III for some related ongoing initiatives.

Table 2.1 Project Components

S/No.	Component name	(UA million)	(USD million)	Component description*
1	Industrial Clusters	15.30	22.96	<ul style="list-style-type: none"> ▪ Construction of Urban Industrial Clusters [Lusaka x3 and Copperbelt (Ndola) x2] comprised primarily of factory shells providing business space for light manufacturing (metalwork, furniture, building components, leatherwork, vehicle maintenance etc.) and agribusiness MSMEs storage, incubation centers and shared facilities for supporting services and specialised equipment, ▪ Construction of Rural Industrial Clusters [Luapuala (Mansa) x 1; Northern (Kasama) x 1; North-western (Solwezi) x 1; Eastern (Chipata) x 1; and Western (Mongu) x 1] ▪ TA Industrial Cluster Facilitation with a gender and inclusion perspective (PPP agreements, access to technology, market linkages, BDS, linkages with financial institutions) ▪ BDS Support to Industrial Clusters incl. Stakeholder trainings in business and entrepreneurship skills ▪ Environmental Protection Works (industrial clusters)
2	Cassava Value Chain Development	5.97	8.97	<ul style="list-style-type: none"> ▪ TA Cassava Value Chain Development <ul style="list-style-type: none"> ○ (Commercialization Strategy; communication messages, advocacy, buyer & producer workshops); ○ develop market linkages; (research and advisory services to all stakeholders); stakeholder consultations; ○ access to efficient technologies ○ regulatory reforms (policy research and policy briefs); ○ business skills and entrepreneurship capacity development for stakeholders; ○ access to finance (business plans and linkages with financial institutions); and ○ BDS Support for Cassava VC incl. Stakeholder trainings ▪ Construction of 15 Cassava bulking centres (5 of which will include a pilot garri processing facility for women – the estimated budget to support women empowerment through this activity is UA 0.5 million) ▪ Construction of 3 District Warehouses (cassava) ▪ Environmental Protection Works (cassava) ▪ Introduction of improved and disease-free cassava "seed" varieties ▪ Garri processing is piloted by women and women-led cooperatives and MSMEs given the necessary skills ▪ Cassava Processing Equipment for bulking centres and warehouses ▪ Cassava Breeding Equipment & screen-houses for research stations

3	Institutional Support and Project Management	2.21	3.32	<ul style="list-style-type: none"> ▪ CEEC Capacity development (Gender & Procurement Specialist) ▪ BDS - Preparation of Standards and Certification, including training on business and entrepreneurship skills and organization of coordination meetings ▪ Baseline Survey (target MSMEs and Cassava Districts) ▪ Project Steering Committee Meetings (quarterly) with substantive participation of women ▪ Preparation of Project Manuals (Implementation & Accounting) - ▪ Project Launching ▪ Mid-Term Review ▪ Project Auditing ▪ Development of a robust & M&E system, sex disaggregated and with gender analysis ▪ Establish Web portal / Information Hub for stakeholders ▪ Project Management (procurement, monitoring and reporting) ▪ Environmental monitoring ▪ Impact Evaluation ▪ Project Completion Report
TOTAL		23.50	35.25	

* Further detailed description of Project activities are found in Technical Annex B2

2.2 Technical solution retained and other alternatives explored

2.2.1 The development of Industrial Clusters that include support services to MSMEs strengthens the sustainability of the outcomes of the Project. The industrial clusters will be constructed on a pilot scale and managed by the private sector under PPP arrangements with Government as owner of the infrastructure. A facilitator shall be engaged over the duration of the Project to provide advisory services on access to modern technologies; facilitation of market linkages through market research; organizing BDS provision to MSMEs and facilitating linkages with financial institutions in order to improve access to finance for MSMEs. The services provided by the facilitator shall be taken over by private sector as an exit strategy for the Project. All these lines of work will be carried out with a gender and inclusion perspective, and will be documented.

2.2.2 Competitive cassava value chain impact driven pilot through a developmental approach and taking into consideration proximity to the Copper belt and Congo where large markets are existing: With poverty criteria and market oriented solutions in selective cassava products, this approach is adopted to ensure that poorest households and the high masses of the working poor concentrated in the cassava belt of Zambia are engaged in jobs and economic activities to enhance incomes earned and food security. Thus, an important consideration in designing the cassava value chain include local and regional market linkages, technology and innovation application, governance and enabling environment, power relations and control and sustainability issues. Small holder producers and enterprises mainly led by women and youth will be integrated in the value chain, with market development mostly concentrated for poor entrepreneurs.

2.2.3 This solution for the cassava value chain embraces both vertical and horizontal linkages at different levels from seed multipliers to producers; aggregators, processors, wholesalers and distributors. For instance, a function of horizontal linkages which the project seeks to address at the producer level include product aggregation to reduce transaction costs, more cost-effective access to inputs and services, access to information, and the empowerment of small firms and farmers to advocate for socio-economic change in aspects of inclusion, gender equality among others. Vertical linkages draws on existing opportunities to create demand driven reactions through market linkages for supply response. Thus, a Technical assistance on market development and linkages is part of an initial

phase to support the take-off of this aspect. Other upstream value added interventions such as cassava processing is cautious of reducing the impact of its effect on the environment. Other cross cutting issues retained include business development services for the improvement of entrepreneurship and business skills, access to finance through the Citizens Empowerment Commission arrangement with commercial banks; and public support to leverage greater private sector involvement in functioning cassava value chains.

Table 2.2: project alternatives considered and reasons for rejection

Alternative name	Brief description	Reasons for rejection
<i>Industrial Clusters</i>		
Construction of Industrial Clusters across all provinces of the country at full scale	Construction of 25 industrial clusters across all provinces of the country	<ul style="list-style-type: none"> ▪ The alternative will not allow lessons to be learnt before expanding the programme to the rest of the country; ▪ This alternative would also be costly and absorb all Project resources that have been allocated to the cassava value chain development, which has a greater impact on the rural poor.
Construction of industrial clusters only in urban areas	Industrial clusters to be constructed in urban areas only given the higher concentration of MSMEs	<ul style="list-style-type: none"> ▪ This alternative will foster the inequalities between rural and urban areas, with the rural missing out in the opportunity to avoid the widening of the income gap between rural and urban areas ▪ The development of rural industries is prioritized as a strategy to reduce rural poverty, which remains at high levels and affects particularly the youth.
<i>Cassava Value Chain</i>		
Full scale implementation in cassava belt where the region has a comparative advantage in production and poverty is pertinent.	Expanding the project to cover the entire cassava belt for a greater intervention impact on the larger population	<ul style="list-style-type: none"> ▪ Scope of operation is too broad vis-a-vis resources available and no existing capacity to upscale. ▪ The sector is largely underdeveloped and need focused and catalytic interventions by working with a small target population with minimum enabling environment particularly regarding ease of implementing market development approaches focused on scale before expanding positive change on a massive scale.

2.3 Project Type

2.3.1 **This is a stand-alone investment project. The Project will, however, have synergies with similar projects that are being implemented in the country.** The Project will support the Government in its drive to address youth unemployment and reduce rural poverty and underemployment by creating about a million jobs in the medium term through support to the implementation of the Industrialization and Job Creation Strategy to ultimately promoting inclusive growth.

2.4 Program Cost and Financing Arrangements

2.3.2 **The estimated total cost of the project, net of taxes and duties, is USD 30 million (UA 23.50 million). A price contingency of 4.5% and a physical contingency of 3% have been included in the cost estimate.** Tables (2.3) and (2.4) present the estimated project cost by component and sources of finance, whereas Tables (2.5) and (2.6) present the estimated project costs by Category of Expenditure and the Expenditure Schedule. Details of the project cost by component and expenditure category are presented in Technical Annex B2.

Table 2.3: Program Cost by Component

component	USD	Cost (UA million)			%	
	Total	Local	Foreign	Total	Foreign	Base
Component 1: Industrial Clusters	21.35	10.51	3.72	14.24	26.15	65%
Component 2: Value Chain Development	8.34	2.93	2.63	5.56	47.34	25%
Component 3 – Institutional Support and Project Management	3.09	1.61	0.45	2.06	21.88	9%
Total Base Cost	32.79	15.05	6.81	21.86	31.1	100%
Physical Contingency (3%)	0.98	0.45	0.20	0.66		
Price Contingency (4.5%)	1.48	0.68	0.31	0.98		
TOTAL	35.25	16.18	7.32	23.50		

Table 2.4: Sources of Financing, Amount and Percentage Contribution (%)

Sources of Financing (million)	FE	%	LC	%	Total (UA million)	Total (USD million)	%
ADB Loan	7.32	100.00	12.68	78.39	20.00	30.00	85.12
GoZ Contribution	-	-	3.50	21.61	3.50	5.25	14.88
Total	7.32		16.18		23.50	35.25	100
Percentage	31.14	-	68.86	-	-	-	-

2.4.2 The project will be financed by an ADB Loan and in-kind contributions of the Government of the Republic of Zambia (GoZ). GoZ Contribution shall be in-kind and represents mainly the value of land provided for the construction of infrastructure under the Project. The respective contributions are as shown in Table 2.4. The counterpart funding is estimated at 15 % of the total cost of the Project and less than the 50% stipulated in the 2008 Policy on Expenditure Eligible for Bank Group Financing (§2.1.2 Counterpart funding). The reduced percentage is based on a request from the GoZ (Appendix IV) justifying the Government’s inability to meet the 50% requirement, by the current economic outlook as regards lower than budgeted revenues resulting from falls in copper prices. Copper exports remain the main stay of the Zambian economy. In accordance with §4.2.2 of the Policy, further justification for the reduced percentage of counterpart funding is provided in Appendix IV.

Table 2.5a: Summary Program Cost by Expenditure Categories (ADB Loan)

Disbursement Categories	Cost in million			
	Local (UA)	Foreign (UA)	Total Cost (UA)	Total Cost (USD)
Civil Works	9.03	4.13	13.16	19.74
Goods	0.28	0.38	0.65	0.98
Services	2.43	2.26	4.69	7.04
Operating Cost	0.94	0.55	1.49	2.24
Total cost	12.68	7.32	20.00	30.00

Table 2.5b: Summary Program Cost by Expenditure Categories (GoZ Contribution)

Disbursement categories	Cost In million			
	Local (UA)	Foreign (UA)	Total Cost (UA)	Total Cost (USD)
Civil Works	3.41	-	3.41	5.12
Goods	-	-	-	-
Services	-	-	-	-
Operating Costs	0.09	-	0.09	0.13
Total cost	3.50	-	3.50	5.25

Table 2.6: Expenditure Schedule by Components (UA Million)

Components	2016	2017	2018	2019	2020	Total
Component 1: Industrial Clusters	2.14	2.14	4.27	2.85	2.85	14.24
Component 2: Value Chain Development	0.83	0.83	1.67	1.11	1.11	5.56
Component 3 – Institutional Support and Project Management	0.31	0.31	0.62	0.41	0.41	2.06
Total Base Cost	3.28	3.28	6.56	4.37	4.37	21.86
Physical Contingency (3%)	0.10	0.10	0.20	0.13	0.13	0.66
Price Contingency (4.5%)	0.15	0.15	0.30	0.20	0.20	0.98
TOTAL	3.52	3.52	7.05	4.70	4.70	23.50

2.5 Program’s target area and population

2.5.1 The target population to benefit directly from the project will be mainly be youth and women with emphasis on urban and rural poor. The population of the targeted districts, totalling 5,266,346 (2,685,836 males; 2,685,836 females) is expected to benefit indirectly from the project. Targeted areas span across 7 provinces namely Luapula, Northern, North-western, Eastern, Western, Copperbelt and Lusaka. A total of 17, 000 youth and women located in the project geographic scope will benefit from additional off-farm jobs to be created. 1000 MSMEs are expected to be reached with business development services, appropriate technology and facilitating their access to credits or loans. 200 Business Development Service providers for MSMEs are expected to be trained to promote standards for quality service delivery and the development of business skills for supported small businesses. In addition, the project will facilitate women cooperatives and provided them with business and technical skills to pilot fortified garri processing for 10 schools under the school feeding programme. A total of 500 women in cooperatives and women led MSMEs will be supported in garri processing activities. Indirectly, the total population of 14,638,505 is expected to be eventually reached by the project interventions.

2.6 Participatory process for program identification, design and implementation

2.6.1 The Project was designed through participatory approaches including meetings, focus group discussions, interviews and site visits. The Bank’s identification, preparation and appraisal mission consultations involved stakeholders including government line ministries and institutions, district officials, civil society organisations, the private sector, development partners, financing institutions and project beneficiaries. The appraisal mission also visited Luapula Province which is one of the producers of cassava in order to understand the dynamics and potential from farmers’ perspective. All stakeholders agree on the need to improve the livelihood of the rural and urban working poor through value addition. Stakeholder participation shall continue during project implementation particularly through the Project Steering Committee⁷ and in the monitoring of project activities in the field. The major key point messages from the consultations are summarized in Box 1 below:

⁷ §4.1.1 – PSC includes CSO and the Private Sector.

Box1: Key Messages from the Project's Stakeholders Consultations

- There is potential in cassava as a cash crop if commercialisation and production linkage for increased marketing and trade is pursued.
- Potential to reduce mal nutrition if consumption habits change
- The need for organisation cassava smallholder farmers in order to enhance production, facilitate market linkages and influence policy.
- Need for soft skill development of rural and urban poor, in particular youth and women
- Policy intervention is critical to enhance cassava in dietary diversification thus expanding consumption of cassava and increase participation of MSMEs in local content. About 30% of the population consume cassava.
- The importance to enhance capacity and quality of business advisory services; access to markets, technologies and finance in order to enhance competitiveness of MSMEs and promotion of gender equality.
- Clustering could enhance integration of SMEs with large industries (suppliers) and promote production efficiency through improved technology, knowledge transfer and lower transaction costs.

2.7 Bank Group experience and lessons reflected in program design

2.7.1 The Project design has benefited from lessons learned in the implementation of Projects in Zambia in general and for the social sector in particular. These include: (i) allowing adequate time for signature delays as experienced in the Support for Science & Technology Education Project, and ensuring the Project Management Team is in place before project commencement to reduce start-up delays experienced in the same project – for the proposed project, the CEEC has been selected as the Implementing Agency because it already has a core Project Management Team in place, and this will be strengthened under the project; (ii) ensuring close supervision of the Project by the implementing agency and the Bank; (iii) building capacity and improving implementation conditions to reduce delays; (iv) close coordination with other development partners in order to create synergies and avoid duplication; (v) improving communication flows between all participating stakeholders – regular stakeholder consultations and the steering committee on which participating stakeholders sit provide platforms that improve communication flows under the proposed project; (vi) strong and robust project M&E system in order to improve assessment of implementation progress and impacts – adequate resources have been allocated for M&E activities; and (vii) strengthen implementation capacity of Implementing Agency, including in the area of procurement – the proposed project provides for this. The project ensures synergies with various development partners and explores areas for innovative partnerships, to avoid duplication.

2.8 Program's performance indicators

The key performance indicators identified and the expected outcomes on project completion are set out in the Logical Framework, and Results Monitoring Framework (Technical Annex B7). A summary of the expected outcomes and main related outputs for each project component is summarised below:

Key Performance Indicators (KPIs)

Impact – Level 1
<ul style="list-style-type: none"> a. Reduction of the Incidence of extreme poverty from 42.3% (2010) to 30% (2025); b. Reduction of the unemployment rate (15-35) from 42.2% (2012) to 32% (2025).



Outcome - Level 2	
Component 1: Industrial Clusters	Component 2: Value chain development
<ul style="list-style-type: none"> • 25% increase in business volumes for youth and women MSMEs in industrial clusters in target market segments. • 4000 sustainable jobs created in targeted MSMEs in industrial clusters (50% for women). 	<ul style="list-style-type: none"> 30% increase in the volume of sales of farmer groups in targeted Districts; 17,000 employment opportunities created in targeted rural Districts



Output Indicators targets– Level 3		
Comp. 1: Industrial Clusters	Comp. 2: Value chain development	Comp. 3: Institutional Support and Project Management
<ul style="list-style-type: none"> • 5 urban industrial clusters constructed • 5 rural industrial clusters constructed • 1000 MSMEs operating from modern industrial clusters • 300 MSMEs in industrial clusters with business linkages to large companies. • 300 MSMEs with access to technology for product development and innovation 	<ul style="list-style-type: none"> • Cassava yields per hectare increased from 5 to 10 t/ha • % of cassava processed into value-added products (excluding cassava flour) increased from 10 to 30% • Regulations on a mandatory percentage of cassava in bread/animal feed/ and school feeding programmes (fortified garri / flour) enacted. • 500 women supported to pilot fortified garri processing. • 10 schools reached with fortified garri under the school feeding programme. 	<ul style="list-style-type: none"> • MSMEs BDS Certified Training Programme prepared. • 75% of 200 business development advisers /providers trained on the new curriculum graduate as certified MSMEs BDS providers • Baseline survey report prepared. • Impact Evaluation Report Prepared

Source: SDEP-SWY Project Result Measurement Framework.

III. PROGRAM FEASIBILITY

3.1 Economic and financial performance

Table C.1: key economic and financial figures

EIRR, ENPV (base case)	21%, USD 11.9 million
FIRR, FNPV (base case)	8%, USD 1.07 million.

NB: detailed calculations are available in Technical Annex B7

3.1.1 The underlying assumptions for the calculation of the EIRR and the FIRR of the project are provided in Annex B7. The main assumptions are: incremental foreign exchange earnings from the export of cassava products and foreign exchange savings from the import of starch for the paper and mining industries; incremental earnings to smallholder cassava farmers from yield increases and the commercialization of cassava products; improved earnings to industrial cluster MSMEs from more productive light manufacturing activities; incremental earnings to other cassava value chain stakeholders (processing, distribution, retail); additional earnings to other light manufacturing value chain stakeholders (suppliers and clients of the MSMEs). On the cost side, these include investment costs, replacement costs, and other items as part of operation and maintenance costs, comprising of staff costs, energy, repairs and other overhead costs have been taken into account. The incremental O&M costs are estimated at 5% of investment costs. The economic life of the investment is estimated at 20 years, all the costs and benefits considered are net of duties and taxes. The Project's economic

rate of return is estimated at 21 %. The value is higher than the opportunity cost of capital of 12% and thus the Project is considered economically viable. Sensitivity analysis to test the robustness of the EIRR was carried out to determine the impact of adverse variations. The EIRR decreases to 18% assuming that costs increase by 10% or the benefits reduce by 10%. The Project's financial rate of return is estimated at 8 %. The value is higher than the financial cost of capital of 6%, which is an estimate of the cost of the loan to the Government. The analyses show that the project is financially and economically viable and socially beneficial for Zambia.

3.2 Environmental and Social Impacts

3.2.1 The program is classified as Category 2 according to the Bank's Environmental and Social Assessment Procedures (ESAP) which was validated by the Quality Assurance and Results Department (ORQR.3) on 03/02/2015. The proposed program interventions are expected to result in overall reversible environmental impacts. The construction of industrial cluster buildings and agribusiness infrastructure could have some reversible environmental effects such as air pollution, noise, vibration, health and safety and waste management; involuntary relocation of the resident population; creation of inadequate expectations concerning the project; increase in crime rates due to the opening of temporary vacancies; increase of infectious-contagious illnesses, due to the opening of temporary vacancies; compacting the soil by handling vehicles and machinery; increase of unemployment (in the demobilization phase), as a result of the loss of direct and indirect jobs. Positive impacts at building and agribusiness infrastructure construction stage include increase in the transfer of competences to the population related to the mobilization of temporary personnel; increase in indirect multiplying effects on the local economy, result of the acquisition of materials and services; increase in the indirect effect on the creation of jobs, result of the acquisition of materials and services; and improvement of the competitiveness of MSMEs, result of the enterprise infrastructure constructed. The Project will also promote green technologies such as recycling and making coal briquettes from waste and the production of paper from wood chips.

3.2.2 Mitigation will include the preparation of an Environmental and Social Management Plan (ESMP) to cover the construction activities and all project's employees and contractors. The ESMP will set environmental and social objectives and principles to operate through a responsible management approach and establishing partnerships with institutional stakeholders the private sector and the civil society. The ESMS shall include the key management tools that enable the mitigation of ES impacts and their management, resulting from the ESIA studies and legal requirements. The Ministry of Lands, Natural Resources and Environmental Protection and the Zambia Environmental Management Agency (ZEMA) shall assist in the monitoring of the implementation of the ESMS. The total cost of mitigation measures is estimated at US \$ 100,000. The ESMP requirements will be incorporated into construction contracts. The Summary Environmental and Social Management Plan (ESMP) was published on the Bank's website on the 20th of August 2015.

3.2.3 Climate Change: Adverse changes in weather patterns associated with climate change such as droughts and floods have increased in frequency and magnitude in Zambia. The country has suffered from 3 major droughts in the last 20 years as well as from dry spells at critical stages for crop development in recent years. Hence, climate resilience shall be built into any activities to be carried out under the Project in accordance with the Bank's Climate Risk Management Policy. The Project will promote the use of improved seed varieties that are high yielding, drought-resistant and early maturing as well as soil and water conservation measures to ensure optimal crop productivity.

3.2.4 Gender: There are gender gaps in different areas related to skills, employment and economic autonomy as 2012 labour force survey. Females made up 60.8% of the unemployed while 39.2% were males. Unemployment rate was highest in urban areas at 14.2 percent compared to 3.3 percent in rural areas. However, rural areas have higher percentage of working poor. About 10.0% of the male population received skills training compared to 3.7% for females. Of the total population that

did not receive skills training, males accounted for 89.5 percent compared to 95.4 percent for the females.⁸ According to the Human Development Report 2014 (HDR 2014) 25.7% of adult women have reached at least a secondary level of education compared to 44.2% of their male counterparts. The gender adult literacy rate is also congruent with this gender hierarchy as the rate of females as % of males (2008-2012) is only 72%,⁹ reflecting a historical preference to educate boys over girls. Young women and overall women in reproductive age have also additional obstacles to access skills and employment due to early marriage and lack of access to information and contraceptive choice. The percentage of adolescent girls married in the country is 17.8%, (for boys is just over 1%), Women are disproportionately made responsible for all reproductive work in their families and communities¹⁰ and therefore they tend to have less availability of time than men for paid employment and entrepreneurship. Women have also less access to resources, land and overall decision making: Only 11.5 percent of parliamentary seats are held by women.

3.2.5 The project has taken into account existing gender gaps which disadvantage women and girls in its areas of intervention. The project will empower and train women beneficiaries in entrepreneurship development, include a gender perspective and substantive participation of women in all research, action, decision making mechanisms, monitoring and evaluation. In addition, 500 women are solely targeted for the piloting of fortified Garri processing and marketing to supply 10 schools under the school feeding programme. The overall impact of the project is expected to be positive for gender equality in the sectors of intervention and targeted groups, however there may be an unintended negative outcome which would need to be prevented and managed: as the project will reinforce the ability of women and girls to engage in skills development, employment and entrepreneurship, and they may increase the amount of hours that they engage in productive and paid employment, and considering that they are made responsible for most reproductive work, they may suffer from additional pressure on their already squeezed time budgets.

3.2.6 Social: Zambia's is ranked 141 of 187 countries and territories¹¹ in the Human Development Index (HDI) of the UN Development Programme. In spite of its lower middle income status, Zambia still faces many of the development challenges faced by low-income countries and allocates a significant percentage of the national budget in addressing these challenges in the social sector. Zambia is lagging on various Millennium Development Goal targets (Technical Annex A). Poverty rates are stubbornly high as is inequality (paragraph 1.2.1). Key measures of human development are worse than many low-income countries—such as under 5 mortality per 1000 live births of 119 (compared to low income average of 108) and life expectancy of 49 (compared to a low income average of 59), and malnutrition (stunting) in children under five of 45% (compared to low-income country average of 39.6%¹²),—resulting in Zambia being ranked 141 out of 187 countries in the UN's Human Development Index in 2014. The country has a Gender Inequality Index of 0.617 ranking 133 of 149 countries (2013). More effort is required for gender equality regarding education, economic empowerment and decision making. Youth and women unemployment has been a key constraint and the government is divulging solution to this menace (paragraph 1.2.3). In the Government's continued determination to address these challenges, Zambia has allocated almost one-third (32.5%) of the 2015 National Budget to the Social Sector (Health, Education and Social Protection).

⁸ Concept note on the implementation of the strategy on industrialization and job creation, Ministry of Labour and Social Security, Republic of Zambia, 2014

⁹ http://www.unicef.org/infobycountry/zambia_statistics.html

¹⁰ (cleaning, cooking, children, searching for water, looking after the infirm)

¹¹ UN Human Development Report 2014

¹² World Development Indicators- 2010 values

3.2.7 The agriculture sector is the main source of livelihood for many vulnerable groups in Zambia, particularly in the rural areas. Increasing the competitiveness and the productivity of farming groups and of operators in the agribusiness sector would create additional jobs and increase incomes. For instance, a total of 100,000 cassava farmers (over 50% of whom are women) are expected to increase their incomes by about 30% by the end of the Project.

3.2.8 The Project will work to strengthen the existing initiatives supporting youth employment; linkages will be created with programmes funded by other development partners and the Government. The innovative approaches embedded in the Project would foster access to finance, enhance participation of MSMEs in the selected value chains and promote the participation of the youth, women and other vulnerable groups in the value addition. In implementing the Project, attention will to be paid to spatial inequalities, with measures taken to extend benefits to remote locations.

3.2.9 *Involuntary resettlement:* There will be no involuntary resettlement. The agribusiness infrastructure will be developed based on the nature and type of facilities and decision-making processes by communities in site selection. The Project shall carry out stakeholder consultations with communities, community leaders, local authorities and other stakeholders. Grievance mechanisms shall be implemented in each of the Project districts in cases where “green” sites are proposed for the construction of industrial cluster buildings and agribusiness infrastructure. Should the scope of the activities change in such a way that result in land acquisition, the Bank’s involuntary resettlement policies and procedures shall be followed.

IV. IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 The Ministry of Commerce, Trade and Industry will be Executing Agency for the Project. The Department of Industry will be responsible for the overall management and coordination of the Project. A Project Steering Committee (PSC) will be established, consisting of representatives from the Project stakeholders (i) key line Ministries and government agencies (Commerce, Trade and Industry; National Bureau of standards; National technology center, Zambia Development Agency-PPP Unit; Gender and Child Development; Labour and Social Security; Ministry of Agriculture and Livestock); (ii) private sector; and (iii) civil society organisations (CSOs). The steering committee will ensure it is gender-sensitive. Each of the five Sector Ministries shall designate Focal Persons who will work with the Project Implementation Team (PIT). The Steering Committee (SC) will provide oversight, strategic and policy guidance. The steering committee will be chaired by PS of Ministry of Commerce, Trade and Industry and meet quarterly. The Implementing Agency shall be the secretary to the SC also provide secretarial services to facilitate the functions of the PSC. The establishment of the PSC shall be a condition precedent to the first disbursement.

4.1.2 The Implementing Agency for the Project will be Citizen’s Economic Empowerment Commission (CEEC) and will be responsible for day to day implementation of the Project. The CEEC is the implementing arm of the Ministry of Commerce, Trade and Industry, which designated the institution as the Implementing Agency for the Project. The CEEC is responsible for administering the Citizens Economic Empowerment Fund and has demonstrated technical expertise in project management and implementation of economic empowerment programmes. The CEEC will be strengthened with a Project Implementation Team (PIT) based in Lusaka and the targeted provinces of the Project for the day-to-day project implementation, and coordinate portfolio management including procurement, financial management, and monitoring and results reporting. The CEEC has offices in 7 of the 8 Districts where the Project will be piloted; the districts are the provincial capitals of

the seven provinces targeted by the Project. The Project Management Team in Lusaka will consist of a Project coordinator, an accountant, a procurement specialist, gender specialist and a monitoring and evaluation specialist. In the provinces the project implementation team will consist of the provincial coordinator and a finance and administration assistant. The teams will be supported by Technical Assistance (consulting firms) with the technical aspects of the implementation of the Project, on a needs basis.

4.1.3 Through a Memorandum of Understanding, the International Institute of Tropical Agriculture (IITA) and Zambia Agriculture Research Institute (ZARI) will implement activities related to the improvement of the yield of cassava. The two institutions have been working on cassava improvement in Zambia over several years and have released a number of improved varieties adapted to Zambia. The experience of the IITA in cassava improvement in Zambia, the institution's facilities in Zambia and the existing MoU between the IITA and the Government of Zambia is considered unique key to the efficient implementation of the activities. The District Business Associations of the Zambia Chamber of Small and Medium Business Associations (ZCSMBA), through an MoU, shall be strengthened and implement BDS training activities for MSMEs in targeted districts of the Project in collaboration with TEVETA. Technical Assistance to support market development, policy and regulatory reforms to stimulate the cassava subsector will be sourced and financed by Project funds. Also through an MOU, the Building Department in the Ministry of Transport, Works and Communications shall finalize the designs and conduct the supervision of the construction of the facilities to be constructed under the Project, in collaboration with consulting engineers firm. The Building Department has already prepared the preliminary designs and costing of the industrial clusters. Technical Assistance shall also be provided for facilitation of business processes at the industrial clusters, such as the preparation of PPP agreements, providing advisory services on access to technology, market linkages, BDS and linkages with financial institutions.

4.2 Implementation Schedule

4.4.1 The program will be implemented over a period of 5 years from fulfilment of conditions for first disbursement in January 2016. Implementation of the capacity building components will begin from January 2016 and works will commence during the third quarter of 2016. Program completion date is set for December 2020.

4.3 Procurement Arrangements

4.3.1 All procurement of goods, works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's Rules and Procedures: "Rules and Procedures for Procurement of Goods and Works", dated May 2008, revised July 2012; and "Rules and Procedures for the Use of Consultants", dated May 2008, revised July 2012, using the relevant Bank Standard Bidding Documents, and the provisions stipulated in the Financing Agreement. However, procurements within the thresholds for National Competitive Bidding (NCB) and Shopping for goods and works will be procured using the National Procurement Procedures as set forth in the Public Procurement Act, 2008, Act. No.12 of 2008, as amended by the Public Procurement (Amendment) Act, 2011 applying the appropriate national standard bidding documents and in conformity with the provisions of the Financing Agreement. In order to fast-track the implementation process, it has been agreed that advance contracting shall be used for the engagement of a Procurement Expert, Design and Supervision of Works Consulting Firm and Construction of Industrial Clusters.

4.3.2 The Citizen Economic Empowerment Commission (CEEC) shall be the implementing agency for this Project and as such will carry out all procurement activities envisaged under the project. The responsibility for the management of the procurement processes and accountability for implementation of all components will rest with the Project Implementation Team within the CEEC.

4.3.3 The various items under different expenditure categories and related procurement arrangements are summarized in Table 2.0 in Technical Annex B5. Each contract to be financed under the Project, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior-review requirements, and time frame are agreed between the Borrower and the Bank project team and are provided in the Procurement Plan (see section B.5.9). The procurement plan, methods, post and prior review thresholds for all contracts, are outlined Annex B.5.

4.4 Financial Management and Disbursement Arrangements

4.4.1 Financial Management: The project's FM will be managed within CEEC's existing structures under the overall responsibility of the Director of Finance CEEC, as the head of the finance department, and in line with the Bank's commitment to using existing country fiduciary systems to the maximum extent possible. The FM assessment carried out by the Bank (including a review of the budgeting, accounting, internal controls, flow of funds, financial reporting and auditing arrangements) concluded CEEC's FM capacity (including capacity at the Provincial level) satisfies the Bank's minimum requirements, to ensure that the funds made available for project financing are used economically and efficiently and for the purpose intended. The pilot districts targeted under the Project are provincial headquarters and the CEEC has offices in the districts. The overall residual FM risk is rated as Moderate. The Bank would continue to guide the implementation of all agreed FM actions to further strengthen the fiduciary systems within CEEC.

4.4.2 Disbursement arrangements: CEEC would make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA) and (iii) Reimbursement methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Bank will issue a Disbursement Letter of which the content will be discussed and agreed with GRZ during negotiations. Detailed FM and disbursement arrangements are also included in the Appraisal Report Volume II (Technical Annex B.4). The opening of a special account shall be a condition precedent to the first disbursement.

4.4.3 Reporting and External Audit: In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit to the Bank Interim Quarterly Progress report (IQPR) not later than forty-five (45) days after the end of each calendar quarter. Annual financial statement prepared and audited by the Office of the Auditor General (OAG) as per their mandate (or a private audit firm recruited with OAG's involvement through short-lists using the Bank rules and procedures for procurement), together with the auditor's opinion and management letter will be submitted to the Bank not later than six (6) months after the end of each fiscal year. The cost of audit will be financed from the loan if carried out by a private firm. Detailed auditing arrangements are included as part of the Appraisal Report Volume II (Technical Annex B.6).

4.5 Monitoring and Evaluation

4.5.1 The project is scheduled for implementation over a 60-month period, from January 2016 to December 2020. This schedule is reasonable, given the scope of activities to be implemented and project implementation capacity in Zambia. The CEEC will be responsible for project monitoring and

evaluation, using the SDEP-SWY Project Result Monitoring Framework (Technical Annex B7) and the project result based logical framework. The CEEC has a dedicated M&E staff in place. The periodic performance assessment and result reporting will be carried out by the CEEC, in collaboration with the beneficiary stakeholders. Quarterly and annual activity reports will also be prepared and submitted to the Bank. The Bank will carry out a rigorous monitoring and supervision mission at least twice a year, to the extent possible with other development partners in Zambia. The Zambia Field Office will play an active role in the coordination, country dialogue, and project supervision and monitoring. A project completion report will be undertaken to evaluate progress against outputs and outcomes and draw lessons for possible follow-up operation. Table 4.2 presents the project implementation and monitoring schedule.

Table 4.1: Key Milestones

Timeframe	Milestone	Monitoring process/feedback loop
August 2015	Advance Procurement	GoZ
September 2015	Board Presentation	AfDB
November 2015	Signature	GoZ/AfDB
February 2016	Launching	GoZ/AfDB
June 2016	Works commencement	GoZ
December 2020	Completion	GoZ/AfDB

4.6 Governance

4.6.1 Zambia has consistently raised its governance profile since 2000. Civil and political participation, protection of human rights, and gender equality, Zambia has been ranked highly. Zambia has also shown remarkable improvement in its accountability, transparency and governance ratings and indicators especially corruption control, rule of law, regulatory quality and government effectiveness. According to the 2013 Ibrahim Index of African Governance (IIAG), Zambia was ranked 12th out of 52 African countries and its performance across four sub-categories of governance ranged from 1st on National Security, 10th on Safety & Rule of Law, 21st on Human Development and 30th on Gender. Zambia's average score of 59.6 out of 100 was higher than the African average of 51.6. Based on the World Bank Institute's 2012 Worldwide Governance Indicators (0 = low and 1 = high), the Zambia's rating the six categories was as follows: (a) 0.44 on voice and accountability; (b) 0.65 on political stability and absence of violence; (c) 0.38 on Government effectiveness; (d) 0.36 on regulatory; (e) 0.42 On rule of law; and (f) 0.46 on control of corruption.

4.6.2 Despite these positive governance indicators, Zambia remains beset with several challenges that exhibit as weaknesses in budget management, weak internal control systems, delayed or non-implementation of audit recommendations and suspected corruption and delays in public procurement. These weaknesses can be mitigated in the project through measures such as: (i) recruitment of an experienced accounting officer (ii) provision of a financial management guidelines to guide Project staff; (iii) making full utilisation of Internal Audit capacity to pre-empt audit transaction issues; (iv) regular supervision and submission of progress reports, and (v) recruitment of qualified and experience procurement, accounting and M&E experts.

4.7 Sustainability

4.7.1 The sustainability of the Project outcomes and the continuation of the major actions of the Project are partly ensured by the public-private partnerships in the running of the Industrial clusters. The TA will work to build sustainable partnerships between the MSMEs operating from the Industrial clusters and large firms as well as with financial institutions. Improvement of quality of products will come from support provided by Business Development Service (BDS) providers; the National Technology Business Centre and the Zambia Bureau of Standards, which are established and have the mandate to provide continuous support for MSME development in the country. Under the Project, the Zambia Chamber of Small and Medium Business Associations, which has an existing network of BDS providers, shall be strengthened to ensure they continue providing improved BDS

services to MSMEs beyond the Project duration. MSMEs operating from the Industrial clusters shall pay rents for their business spaces to the private sector estate agent contracted to run the clusters under a PPP agreement with the Government. This will also contribute to ensure the long-term maintenance and sustainability of the industrial clusters.

4.7.2 The cassava value chain development outcomes of the project will be sustained by the gains in productivity that the Project will induce. These gains are expected to result from i) the Project’s improvement of the quality of technical and management skills of cassava value chain MSMEs; the quality of institutions that provide BDS to cassava value chain MSMEs; improved access to finance by cassava value chain MSMEs; reforms in government policies fostering the commercialization of cassava products and the development of markets anchorage for cassava value-added products; the putting in place of a sustainable system for the multiplication and distribution of improved and disease-free cassava stakes (Technical Annex B2) and the development of business to business linkages between large firms and cassava producers; and ii) support to smallholder farmers in increasing cassava yields and reducing post-harvest losses as well as ensuring the availability and the quality (high yielding, disease-resistant and early maturing) cassava stakes as well as good husbandry practices, which are the main binding constraints to the productivity of cassava smallholder farmers. The increased production, commercialization and development of markets for cassava products will enable animal feed producers, glue producers for paper and carton industries and producers of food for human consumption (bread, biscuits, flour etc.) to procure cassava products sustainably and contribute to increased incomes for smallholder farmers and food security in the country.

4.8 Risk management

A number of risks and mitigation measures have been identified and discussed below. The overall fiduciary risk was assessed as “moderate” after taking into account mitigation measures discussed in Annex B4.

Table 4.2 Risk and Mitigation

N°	RISKS	Risk Probability	MITIGATION MEASURES
1.	Low MSME product quality could limit growth in business volumes.	High	Support for product quality control and training shall be provided under the Project by the Zambia Bureau of Standards
2.	Weak regulatory environment could fail to stimulate cassava commercialization	High	Technical Assistance included to conduct policy research and facilitate reforms in the sector, which promote the commercialization of cassava products
3.	Poor management of industrial clusters could reduce occupancy rates of Industrial clusters by MSMEs:	Medium	PPP arrangements shall be used for effective management of the Industrial clusters and provision of technical, marketing and management support for MSMEs operating from the clusters.
4.	Weak organisation of cassava supply-side might fail to stimulate demand	Medium	TA and BDS providers shall be mobilized to strengthen the organization of cassava producers to ensure timely response to demand in the market.
5.	Lack of market anchorage for cassava could stave commercialization	High	TA on market development and linkages to pursue existing markets and new ones to help establish product anchorage for sustained market linkages

4.9 Knowledge building

4.9.1 The project will contribute to generation of relevant data, information and evidence in MSMEs involvement in cassava value chain and industrial clusters. The Project will also generate information on strategies of improving MSMEs business development services. The project will

support the piloting of MSMEs involved in the cassava value chain and industrial clusters operating in the light manufacturing sector. Generating information on commercialisation of cassava, cassava products required by the market and quantities and potential markets. The Project will generate information on effective approaches for organising cassava smallholder farmers for better markets, appropriate varieties of cassava for quality products and production.

4.9.2 The Project will also generate knowledge on MSMEs industrial clustering in Zambia; that is on performance, impact on MSMEs competitiveness and access to markets. The information and knowledge will be captured through research reports, monitoring reports, field supervision and exchange of experience between the Project staff and experts in Zambia. Also the bi-annual forums of BDS providers will provide a platform for sharing of best practices and lesson learnt. Key knowledge generation processes envisaged under the project include a baseline survey, policy research on reforms in the cassava sector, project reviews and the final project evaluation. The knowledge generated through this project will be disseminated through websites of the Ministry of Commerce, Industry and Trade and the African Development Bank. The project Team will also organize interactive sessions with stakeholders to disseminate reports and other knowledge products developed under the Project.

V. LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal instrument

The legal instrument to be used for the Project is the Loan Agreement between the Republic of Zambia (“Borrower”) and the African Development Bank (the “Bank”)

5.2 Conditions associated with Bank’s intervention

5.2.1 Condition Precedent to Entry into Force of the Loan Agreement

- The loan agreement shall enter into force subject to fulfilment by the Borrower of the provisions of section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreement of the African Development Bank.

5.2.2 Conditions Precedent to First Disbursement for the Loan

- The Borrower shall have opened a foreign exchange Special Account in a Bank acceptable to the Fund for the deposit of the proceeds of the Loan; and
- The Borrower shall have established a Project Steering Committee with composition and membership acceptable to the Bank.

5.2.3 Other Conditions

- The Executing Agency will prepare the Project Implementation Manual and update the existing Accounting Manual to include all project activities and implement all agreed Financial Management actions (Technical Annex B4), within six months of the entry into force of the Agreement.
- The Executing Agency will provide title deeds and lease agreements related to land demarcated for all industrial clusters and cassava bulking centres in targeted areas of the Project, within two years of signature of the Loan Agreement.

5.2.4 Undertakings

- The Borrower undertakes to implement the Project in accordance with (A) national legislation, (B) provisions and conditions of any environmental licenses issued in relation to the Project and (C) the Environmental and Social Management Plan (ESMP).

5.3 Compliance with Bank Policies

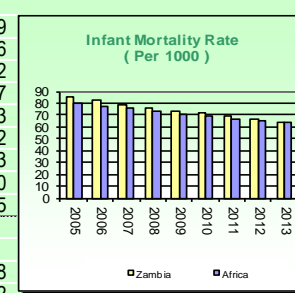
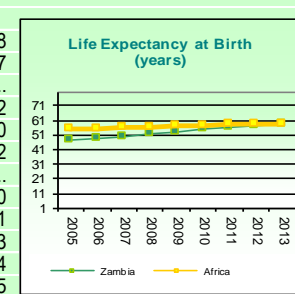
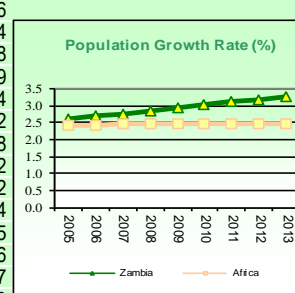
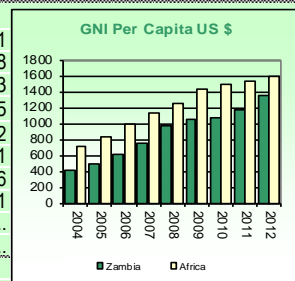
This program complies with all applicable Bank policies, including the 2008 Policy on Expenditure Eligible for Bank Group Financing, where a justification for reduced counterpart funding has been provided in accordance with §4.2.2 of the Policy (Counterpart funding) in § 2.4.2 of this proposal.

VI RECOMMENDATION

Management recommends that the Board of Directors approve the proposal for an ADB loan of USD 30 million to the Republic of Zambia for the purposes and subject to the conditions stipulated in this report.

Appendix I. Country's comparative socio-economic indicators

	Year	Zambia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)	2011	753	30,323	98,458	35,811
Total Population (millions)	2013	14.5	1,109.0	5,909.3	1,252.8
Urban Population (% of Total)	2013	40.0	40.2	47.7	78.3
Population Density (per Km²)	2013	17.7	46.9	70.7	23.5
GNI per Capita (US \$)	2012	1 350	1 719	3 815	38 412
Labor Force Participation - Total (%)	2012-2013	39.2	37.4	67.9	72.1
Labor Force Participation - Female (%)	2012-2013	45.6	42.5	38.6	44.6
Gender -Related Development Index Value	2007-2011	0.473	0.502	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2012	163
Popul. Living Below \$ 1.25 a Day (% of Population)	2008-2011	74.5	40.0	20.6	...
Demographic Indicators					
Population Growth Rate - Total (%)	2013	3.2	2.5	1.3	0.3
Population Growth Rate - Urban (%)	2013	4.3	3.4	2.5	0.6
Population < 15 years (%)	2013	46.6	40.9	28.3	16.4
Population >= 65 years (%)	2013	2.6	3.5	6.1	16.8
Dependency Ratio (%)	2013	99.6	77.9	52.4	49.9
Sex Ratio (per 100 female)	2013	99.5	100.0	103.3	94.4
Female Population 15-49 years (% of total populatic	2013	22.9	24.0	53.1	45.2
Life Expectancy at Birth - Total (years)	2013	58.1	59.2	68.4	77.8
Life Expectancy at Birth - Female (years)	2013	60.0	60.3	70.3	81.2
Crude Birth Rate (per 1,000)	2013	42.8	34.8	21.2	11.2
Crude Death Rate (per 1,000)	2013	10.2	10.4	7.6	10.4
Infant Mortality Rate (per 1,000)	2013	64.4	61.9	39.8	5.5
Child Mortality Rate (per 1,000)	2013	99.8	97.4	56.3	6.6
Total Fertility Rate (per woman)	2013	5.7	4.6	2.6	1.7
Maternal Mortality Rate (per 100,000)	2010	440.0	415.3	240.0	16.0
Women Using Contraception (%)	2013	47.1	34.9	62.6	71.3
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-2011	6.6	47.1	117.8	297.8
Nurses (per 100,000 people)*	2004-2011	78.4	132.6	202.7	842.7
Births attended by Trained Health Personnel (%)	2006-2011	46.5	52.6	66.3	...
Access to Safe Water (% of Population)	2012	63.3	68.8	87.2	99.2
Access to Health Services (% of Population)	2004	90.2	65.2	80.0	100.0
Access to Sanitation (% of Population)	2012	42.8	39.4	56.9	96.2
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2012	12.7	3.9	1.2	...
Incidence of Tuberculosis (per 100,000)	2012	427.0	223.6	144.0	23.0
Child Immunization Against Tuberculosis (%)	2012	83.0	83.0	81.5	96.1
Child Immunization Against Measles (%)	2012	83.0	74.0	83.0	94.3
Underweight Children (% of children under 5 years)	2005-2012	14.9	19.7	17.0	1.4
Daily Calorie Supply per Capita	2009	1 879	2 481	2 675	3 285
Public Expenditure on Health (as % of GDP)	2011-2012	3.7	2.9	3.0	7.5
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2012	113.6	101.9	109.4	100.9
Primary School - Female	2012	113.3	97.9	107.6	100.6
Secondary School - Total	2012	20.5	47.4	69.1	100.2
Secondary School - Female	2012	15.2	44.0	67.8	99.7
Primary School Female Teaching Staff (% of Total)	2012	53.1	46.6	58.0	84.3
Adult literacy Rate - Total (%)	2012	...	62.0	80.3	99.2
Adult literacy Rate - Male (%)	2012	...	70.7	85.9	99.3
Adult literacy Rate - Female (%)	2012	...	53.7	74.9	99.0
Percentage of GDP Spent on Education	2008-2012	1.3	5.3	4.3	5.5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2011	4.6	7.6	10.7	10.8
Annual Rate of Deforestation (%)	2000-2009	2.4	0.6	0.4	-0.2
Forest (As % of Land Area)	2011	66.3	23.0	28.2	35.0
Per Capita CO2 Emissions (metric tons)	2010	0.2	1.2	3.0	11.6



Sources: AfDB Statistics Department Databases;

last update :

May 2014

United Nations Population Division, World Population Prospects: The 2012 Revision;

World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

For any given interval, the value refers to the most recent year available during the period

Note : n.a. : Not Applicable ; ... : Data Not Available.

Appendix II: Table of ADB's portfolio in the Zambia

#	Division	Long name	ApprovalDte	ComplDate	Fin.project	Loan Number	Source of Finance	Status	Sector Name	Approved Amount	Amt Disb	Disb.Ratio
1	OSAN3	LAKE TANGANYIKA DEVELOPMENT SUPPORT PROJ	18-Dec-14	30-Jun-20	P-ZM-AA0-021	2000130012932	African Development Bank	APVD	Agriculture	16,018,664	-	0.00
2	OSAN1	LIVESTOCK INFRASTRUCTURE SUPPORT PROJECT (LISP)	19-Jun-13	31-Dec-18	P-ZM-AAE-001	2100150029293	African Development Fund	OnGo	Agriculture	12,000,000	1,066,307	8.89
3	OSAN1	PROJECT PREPARATION FACILITY - ZAMBIA LISP	29-Mar-13	31-Aug-15	P-ZM-AAE-002	2100150028843	African Development Fund	OnGo	Agriculture	300,000	299,914	99.97
4	OSAN1	GAFSP-AGRICULTURE PRODUCTIVITY AND MARKET ENHANCEMENT PROJEC	26-Mar-14	30-Jun-20	P-ZM-AA0-019	5570155000501	GAFSP Trust Fund	OnGo	Agriculture	22,168,400	456,355	2.06
5	OSAN3	LAKE TANGANYIKA DEVELOPMENT SUPPORT PROJ	18-Dec-14	30-Jun-20	P-ZM-AA0-021	5550155000501	Global Environmental Faci	APVD	Agriculture	4,986,465	-	0.00
Sub-Total for Agriculture										55,473,529		
6	OSAN3	STRENGTHENING CLIMATE RESILIENCE IN THE KAFUE BASIN	18-Oct-13	30-Jun-19	P-ZM-CZ0-001	5565130000151	Strategic Climate Fund	OnGo	Environment	12,466,163	-	0.00
			18-Oct-13	30-Jun-19	P-ZM-CZ0-001	5565155000501	Strategic Climate Fund	OnGo	Environment	14,603,220	785,454	5.38
Sub-Total for Environment										27,069,383		
7	OFSD1	MADISON FINANCE COMPANY LTD (MFINANCE)	2-Mar-15	3-Oct-18	P-ZM-HAB-003	2000130013584	African Development Bank	APVD	Finance	2,137,057	-	0.00
8	OFSD1	LINE OF CREDIT TO FRB SUBSIDIARY, FIRST NATIONAL BANK OF ZAM	12-Dec-12	21-May-22	P-ZM-HAB-022	2000130012980	African Development Bank	OnGo	Finance	31,320,701	31,320,701	100.00
9	OFSD1	AFRICA SME PROGRAM LOC - CETZAM FINANCIAL SERVICES PLC ZA	21-Oct-13	27-Mar-20	P-ZM-HB0-003	2000130012230	African Development Bank	OnGo	Finance	1,068,528	1,068,528	100.00
Sub-Total for Finance										34,526,286		
10	OPSD3	ITEZHI-TEZHI HYDROPOWER PROJECT	13-Jun-12	31-Dec-18	P-ZM-FAB-004	2000130008981	African Development Bank	APVD	Power	24,932,327	7,504,226	30.10
11	ONEC2	KARIBA DAM REHABILITATION	15-Dec-14	31-Dec-21	P-Z1-FA0-075	2100150032548	African Development Fund	APVD	Power	25,200,000	-	0.00
12	ONEC2	POWER TRANSMISSION PROJECT	13-Jun-12	31-Dec-18	P-ZM-FA0-003	2100150027396	African Development Fund	OnGo	Power	30,000,000	18,137,373	60.46
			13-Jun-12	31-Dec-18	P-ZM-FA0-003	2200160000989	Nigerian Trust Fund	OnGo	Power	6,400,000	-	0.00
Sub-Total for Power/Energy										86,532,327		
13	OSHD2	SUPPORT FOR SCIENCE AND TECHNOLOGY EDUCATION PROJECT (SSTEP/	20-Nov-13	31-Dec-19	P-ZM-IA0-005	2100150030194	African Development Fund	OnGo	Social	22,220,000	767,359	3.45
Sub-Total for Social Sector										22,220,000		
14	OITC2	CHINSALI - NAKONDE ROAD REHABILITATION PROJECT (NORTH-SOUTH	10-Jul-15	31-Dec-20	P-ZM-DB0-003	5050130000051	AfricaGrowingTogetherFund	APVD	Transport	35,617,609	-	0.00
			10-Jul-15	31-Dec-20	P-ZM-DB0-003	2000130013830	African Development Bank	APVD	Transport	137,483,972	-	0.00
15	OITC2	BOTSWANA/ZAMBIA-KAZUNGULA BRIDGE PROJECT	7-Dec-11	31-Dec-19	P-Z1-DB0-031	2100150025694	African Development Fund	OnGo	Transport	51,000,000	695,161	1.36
16	OITC2	MULTI-NACALA CORRIDOR PROJECT-PHASE II (ZAMBIA)	27-Sep-10	1-Dec-16	P-Z1-DB0-063	2100150022945	African Development Fund	OnGo	Transport	69,369,000	25,658,824	36.99
Sub-Total for Transport										293,470,581		
17	OWAS2	LUSAKA SANITATION PROGRAM	24-Jun-15	31-May-20	P-ZM-E00-010	2000130013680	African Development Bank	APVD	Water Sup/Sanit	35,617,609	-	0.00
18	OWAS2	TRANSFORMING RURAL LIVELIHOODS IN WESTERN ZAMBIA - NATIONAL	10-Sep-14	31-Dec-19	P-ZM-E00-028	2000130012430	African Development Bank	APVD	Water Sup/Sanit	11,041,459	-	0.00
			10-Sep-14	31-Dec-19	P-ZM-E00-028	5800155001401	Rural Water Supply & Sani	APVD	Water Sup/Sanit	2,796,152	-	0.00
19	AWTF	MULTIPURPOSE SMALL DAMS	4-Sep-12	28-May-16	P-ZM-EAZ-002	5600155002951	AfricaWater Facility Fund	OnGo	Water Sup/Sanit	758,956	227,687	30.00
Sub-Total for Water and Sanitation										50,214,176		

Appendix III. Key related projects financed by the Bank and other development partners in the country

Intervention by Development Partner	Expected impact	Project/Programme objectives	Alignment to growth areas in R-SNDP
AfDB			
Agriculture Productivity and Market Enhancement Project	<ul style="list-style-type: none"> contribute to economic growth and poverty reduction by ensuring food, income and nutrition security, among beneficiaries 	<ul style="list-style-type: none"> Development of irrigation, aquaculture and livestock, crop diversification and intensification; Value Chain Development and Market Linkages to promote agro-processing, value chain development, agriculture service centres, and market linkages 	Agriculture
DFID			
Private Enterprise Programme Zambia (PEP Z)	<ul style="list-style-type: none"> A private sector capable of delivering inclusive growth. 	<ul style="list-style-type: none"> tackle low levels of productivity and increase the competitiveness of Zambia's private sector by strengthening the capacity of micro, small and medium enterprises (MSMEs) 	Manufacturing; private sector development; financial sector development
Rural markets Programme	<ul style="list-style-type: none"> To reduce rural poverty through integrating farming households in well-functioning agricultural markets. 	<ul style="list-style-type: none"> develop sustainable agricultural markets in Zambia in which poor people and enterprises can actively participate 	Agriculture
IFAD			
Smallholder Agribusiness Promotion Programme	<ul style="list-style-type: none"> Reduced rural poverty among small-scale farming households. 	<ul style="list-style-type: none"> Develop agricultural value chains that will add value to products and connect farmers with input suppliers and markets 	Agriculture; Manufacturing; Private sector development
Embassy of Norway			
PLARD II	<ul style="list-style-type: none"> To achieve an efficient, competitive and sustainable agricultural and fisheries sector, ensuring increased income and food security for the people of Luapula Province 	<ul style="list-style-type: none"> Promote agribusiness to raise farm incomes and enhance household wealth 	<ul style="list-style-type: none"> Private sector development; agriculture

Appendix IV: Zambia – Justification for Financing 85% of the Program Cost through an ADB Loan

1. **Zambia is committed to implementing its overall development program, which is the Revised – Sixth National Development Plan (R-SNDP) 2013-2016.** The plan aims to make Zambia a prosperous middle income country by 2030 with an economic program leading to inclusive growth and poverty reduction to under 40% by 2020. The Plan focuses on public capital investments and emphasizes rural development and job creation as pre-requisites for building a sustained trajectory toward inclusive growth. The main investment areas prioritized by the plan are in Skills Development, Science and Technology, Agriculture, Livestock and Fisheries, Energy and Infrastructure Development particularly transport infrastructure while enhancing human development related Sectors of Water and Sanitation, Education and Health. Government has prioritized Agriculture, Manufacturing, Energy, Construction, Tourism and Mining, as growth Sectors in the R-SNDP with a key focus on job creation among other strategic focus areas. Recognizing the challenges in creating formal sector employment, the Government appointed a Technical Committee in February, 2012 to develop a ‘Strategy on Industrialization and Job Creation’ through Foreign and Local Investment. This realization draws from lessons on large scale investments made in mining, manufacturing, wholesale and retail trade which despite the strong growth in FDI flows, have created few formal sector jobs. Such investment has taken place in technology intensive sectors with less interventions in more labour intensive sectors given policy constraints, low productivity, poor human capital development, and significant infrastructure deficits.

2. **In spite of the country’s lower middle income status, Zambia still faces many of the development challenges faced by low-income countries and allocates a significant percentage of the national budget in addressing these challenges in the social sector.** Poverty rates are stubbornly high at 68% (using Purchasing Power Parity at US\$1.25 per day), as is inequality. Key measures of human development are worse than many low-income countries—such as under 5 mortality per 1000 live births of 119 (compared to low income average of 108) and life expectancy of 49 (compared to a low income average of 59), and malnutrition (stunting) in children under five of 45%, which closely tracks poor sanitation –resulting in Zambia being ranked 141 out of 187 countries in the UN’s Human Development Index in 2014. The economy remains largely undiversified (mainly dependent on copper) and economic activity is mostly concentrated in urban areas. Zambia is lagging on various Millennium Development Goal targets, including those for water and sanitation. In the Government’s continued determination to address these challenges, Zambia has allocated almost one-third (32.5%) of the 2015 National Budget to the Social Sector (Health, Education and Social Protection).

3. Due to the current weak budget situation in Zambia, the counterpart funding for this Skills Development and Entrepreneurship proposal is estimated at 15.06% of the total cost of the Project. This is less than the 50% stipulated in the 2008 Policy on Expenditure Eligible for Bank Group Financing (§2.1.2 Counterpart funding). The reduced percentage is based on a request from the GoZ (next page) justifying the Government’s inability to meet the 50% requirement, by the current economic outlook as regards lower than budgeted revenues resulting from falls in copper prices. Copper exports remain the main stay of the Zambian economy. However, Zambia has maintained a low risk of sovereign debt distress since 2006 when debt relief was implemented and debt stocks reduced to about USD 500 million. The most recent estimates from the MoF and IMF indicate that total public debt is USD 8 billion or around 32% of GDP. More than USD 4 billion of the outstanding public debt is classified as external debt, half of which is in form of debt securities owed to the private sector, mainly from two Eurobond issuances in 2012 and 2014. The further justification, provided in this appendix, for the reduced percentage of counterpart funding is in accordance with §4.2.2 of the Policy.

Appendix V. Map of the Zambia



Disclaimer

This map was provided by the African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.

ⁱ Central Statistics Office; 2010; Living Conditions Monitoring survey

ⁱⁱ World Bank;2015;Mapping Subnational Poverty in Zambia

ⁱⁱⁱ The World Bank; 2013; Zambia's Job Challenge- Realities on the ground

^{iv} Unemployment continues as a major urban youth and female challenge and high masses of working poor, a rural phenomenon. Unemployment rate was 7.9% in 2012^{iv} and higher for urban areas- 15.3% than the 3.1% in rural areas. Female unemployment in urban areas was also significantly higher at 18.7% in comparison to 12.7% for males. Youth unemployment was estimated at 25% for same period, a trend that has prevailed for almost a decade. Economic growth has not been able to create enough jobs for the growing labour force, which will stay young for a long time. Jobs grew by 13% spanning 2008-12, as unemployment rose by 19% in the same period. This dictates the need to diversify sources of growth and job creation sectors. There is need for improving earning from work to foster transitioning of working poor from poverty particularly in rural areas where the working poor (concentrated in farming) upsurge to 81%^{iv}. This necessitates increased government interventions, whilst ensuring independence through productive jobs.

^v <http://www.theigc.org/wp-content/uploads/2014/09/Kedia-Shah-2012-Working-Paper.pdf>

^{vi} Include reference to cassava value chain study

^{vii} *Zambian Cassava Markets*, Steven Hagglade and Misheck Nyembe, pg. 16.