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Report No: PAD5397

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

FROM THE

SCALE UP WINDOW SHORTER MATURITY LOAN

IN THE AMOUNT OF US$170 MILLION

TO THE

REPUBLIC OF ZAMBIA

FOR AN

AGRIBUSINESS AND TRADE PROJECT-II

May 23, 2023

Finance, Competitiveness and Innovation Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2023)

Currency Unit =	Zambian Kwacha
US$1 =	ZMW 17.78

FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

8NDP	Eighth National Development Plan
AfCFTA	African Continental Free Trade Agreement
AM	Accountability Mechanism
ASA	Advisory Services and Analytics
ASYCUDA	UNCTAD Automated System for Customs Data
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
BoZ	Bank of Zambia
BR	Business Regulations
BRRA	Business Regulatory Review Agency
CBM	Coordinated Border Management
COMESA	Common Market for Eastern and Southern Africa
CPF	Country Partnership Framework
DA	Designated Account
DP	Development Partner
DPI	Department of Planning and Information
DPO	Development Policy Operation
EAC	East African Community
EIRR	Economic Internal Rate of Return
ESCP	Environment and Social Commitment Plan
ESF	Environmental and Social Framework
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
EU	European Union
FDI	Foreign Direct Investment
FM	Financial Management
GAP	Good Agricultural Practices
GCRF	Global Crises Response Framework
GDP	Gross Domestic Product
GFSI	Global Food Safety Initiative
GHG	Greenhouse Gas
GRID	Green, Resilient and Inclusive Development
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GRZ	Government of Republic of Zambia
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation

IPF	Investment Project Financing
IPP	Investment Policy and Promotion
IRR	Internal Rate of Return
IS	Implementation Support
JET	Jobs and Economic Transformation
LMP	Labor Management Procedures
LoC	Line of Credit
M&E	Monitoring and Evaluation
MBS	Malawi Bureau of Standards
MCTI	Ministry of Commerce, Trade, and Industry
MG	Matching Grant
MIS	Management Information System(s)
MoH	Ministry of Health
MoU	Memorandum of Understanding
MSMEs	Micro, Small, and Medium Enterprises
MTR	Midterm Review
NALEIC	National Livestock and Epidemiological Information Center
NDCTC	Nacala Development Corridor Tripartite Committee
NPV	Net Present Value
NQI	National Quality Infrastructure
NTBC	National Technology Business Centre
NTFC	National Trade Facilitation Committee
PA/PAZ	Productive Alliance
PASA	Programmatic Advisory Services and Analytics
PDO	Project Development Objective
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PO	Producer Organization
PP	Procurement Plan
PPAAC	Provincial Productive Alliances Advisory Committees
PPDF	Public-Private Dialogue Forum
PPSD	Project Procurement Strategy for Development
PQPS	Plant Quarantine and Phyto Sanitary
PSC	Project Steering Committee
PSD	Private Sector Development
SADC	Southern African Development Community
SAFER	Supporting Access to Finance and Enterprise Recovery
SATCP	Southern Africa Trade and Connectivity Project
SDA	Strategic Development Area
SEA	Sexual Exploitation and Abuse

SEP	Stakeholder Engagement Plan
SH	Sexual Harassment
SMEs	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary Agencies
STC	Short-Term Consultant
STEP	Systematic Tracking of Exchanges in Procurement
SUW/SML	Scale-Up Window/Shorter-Maturity Loan
TA	Technical Advisory/Assistance
TOR	Terms of Reference
TSA	Treasury Single Account
TSP	Technical Service Provider
TTL	Task Team Leader
TWG	Technical Working Group
UNDB	United Nations Development Business
VfM	Value for Money
WBG	World Bank Group
WTO	World Trade Organization
ZABS	Zambia Bureau of Standards
ZATP	Zambia Agribusiness and Trade Project
ZCSA	Zambia Compulsory Standards Agency
ZDA	Zambia Development Agency
ZEMA	Zambia Environment Management Agency
ZMA	Zambia Metrology Agency
ZMMSA	Zambia Medicines and Medical Supplies Agency
ZMRA	Zambia Medicines Regulatory Authority
ZRA	Zambia Revenue Authority

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Zambia	Zambia Agribusiness and Trade Project-II (ZATP-II)	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P179507	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
16-Jun-2023	15-Dec-2028
Bank/IFC Collaboration	**Joint Level**
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)

Support Access to Markets and Finance	102.00
Promote Trade and Agribusiness Competitiveness	54.00
Project Management	14.00

Organizations

Borrower:	Republic of Zambia
Implementing Agency:	Ministry of Commerce, Trade and Industry

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	170.00
Total Financing	170.00
of which IBRD/IDA	170.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	170.00
IDA Shorter Maturity Loan (SML)	170.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Zambia	0.00	0.00	170.00	0.00	170.00
Scale-Up Window (SUW)	0.00	0.00	170.00	0.00	170.00
Total	**0.00**	**0.00**	**170.00**	**0.00**	**170.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2023	2024	2025	2026	2027	2028	2029

Annual	0.00	4.00	20.00	36.00	48.00	44.00	18.00
Cumulative	0.00	4.00	24.00	60.00	108.00	152.00	170.00

INSTITUTIONAL DATA

Practice Area (Lead)
Finance, Competitiveness and Innovation

Contributing Practice Areas
Agriculture and Food

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Low
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
10. Overall	Moderate

COMPLIANCE

Policy
Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description
The Recipient shall, not later than one (1) month after the Effective Date, update the terms of reference of the Project Implementation Unit ("PIU") and maintain throughout Project implementation the PIU, with resources, with competent staff in adequate numbers and with terms of reference, qualifications, and experience satisfactory to the Association.

Sections and Description
The Recipient shall not later than three (3) month(s) after the Effective Date establish and throughout Project implementation maintain a provincial productive alliances advisory committees in each province of Zambia chaired

by a member of the private sector, as set forth in the PIM, and comprised of, inter alia, members of Chambers of Commerce and Zambia National Farmers Union, members of local leadership, representatives from the Ministry of Agriculture, Ministry of SME Development, Ministry of Livestock and Fisheries and Provincial Planning Office ("Provincial Productive Alliances Advisory Committee" or "PPAAC").

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	The Recipient has updated, as required, the mandate, terms of reference, composition and resources of the Project Steering Committee ("PSC") in form and manner satisfactory to the Association, and in accordance with Section I.A.2 of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	IBRD/IDA	The Recipient has updated, as required, the terms of reference, resources and staff of the Technical Working Group ("TWG") in form, and manner satisfactory to the Association, and in accordance with Section I.A.3 of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	IBRD/IDA	The Recipient has prepared and adopted a Project Implementation Manual ("PIM"), including a Matching Grant Manual and an LoC Subproject Manual, in form and manner satisfactory to the Association, and in accordance with Section I.C of Schedule 2 to this Agreement.
Type	Financing source	Description
Effectiveness	IBRD/IDA	The Recipient has prepared and adopted an Environmental and Social Management Framework, in form and manner satisfactory to the Association.
Type	Financing source	Description
Effectiveness	IBRD/IDA	The Recipient has recruited for the Project Implementation Unit, a social specialist, under terms of reference and with qualifications and experience acceptable to the Association.
Type	Financing source	Description
Disbursement	IBRD/IDA	No withdrawal shall be made under Category (3), unless: (i) the Recipient has entered into a Subsidiary Agreement with an Eligible AFI; and (ii) the Eligible AFI has adopted the PIM, including the LoC Subproject Manual, in form and substance satisfactory to the Association."

I. STRATEGIC CONTEXT

A. Country Context

1. **Despite a previous high growth trajectory, Zambia recently succumbed to unsustainable debt accumulation and fiscal deficits, leading to being reclassified as a low-income country in 2022.** Between 2000 and 2010, gross domestic product (GDP) growth averaged 7.4 percent per year, but in the next decade declined to an average of 3.6 percent over the 2011–2021 period. Its lower-middle income classification was finally reversed in 2022. The recent reclassification can be attributed to the collapse of global copper prices, fiscal deficits averaging an unprecedented 9 percent (versus budgeted targets of 5.4 percent of GDP), excessive public borrowing, power shortages and the 2019 drought, all of which led to per capita income declining to US$1,040.[1]

2. **In November 2020, Zambia encountered its first recession since 1998 and became the first country in the region to default on its sovereign debt as the COVID-19 pandemic reduced Zambia's growth prospects.** The COVID-19 pandemic resulted in a multidimensional crisis - a health, social, and economic crisis. Lower domestic demand, global market shutdowns, pandemic-related restrictions, a drop in commodity prices, and supply chain disruptions decreased economic activity and caused a significant drop in mining and services, Zambia's main export generators.[2] These factors, coupled with the aforementioned long-term challenges, have placed considerable strain on Zambia's macroeconomic environment. Inflation grew from 7.6 percent in 2019 to 13.7 percent in 2020 and 27.6 percent in 2021. In 2020, the Zambian Kwacha depreciated by over 50 percent against the U.S. dollar, and the fiscal deficit grew to 14.2 percent of GDP (compared to a target deficit of 5.5 percent). Total expenditures also increased from 32.2 percent of GDP in 2019 to 37.2 percent of GDP in 2021, largely from COVID-19-related expenditures, fuel and agriculture subsidies, and grain marketing interventions.

3. **Given current macroeconomic conditions, Zambia faces continued challenges to generate high-quality employment and economic opportunities, especially for vulnerable groups such as women and youth.** Even during the period of rapid growth from 2000–2014, employment grew by only 2.8 percent per year, and unemployment has increased from 8 percent in 2012 to 13 percent as of 2021. The youth and female unemployment rates are even higher at 26 and 14 percent, respectively. Demographic trends amplify the challenge of generating sufficient jobs, with 65.1 percent of the population under the age of 25, making Zambia one of Africa's youngest countries based on median age. The population is also estimated to reach 27 million by 2035 from 19.6 million in 2021.[3] This demographic dividend can be a boon via decreased dependency ratios, but only if the economy can generate enough high-paying and high-productivity jobs. Zambia needs to generate an average of at least 375,000 jobs each year by 2030 to maintain its already-low labor force participation rate and employment levels; this requirement almost doubles to 747,000 per year between 2030 and

[1] Fiscal deficits averaged 9.0 percent in 2013–19, compared to an average of 1.7 percent between 2007 and 2012, and exceeded annual budget targets by an average of 3.6 percentage points of GDP.
[2] Tshuma, E. 2020. 'Coronavirus and Freight Forwarding in SADC'. tralacBlog, 9 April 2020. Stellenbosch: Tralac Trade Law Centre. Available at: www.tralac.org/blog/article/14502-coronavirus-and-freightforwarding-in-sadc.html (accessed 23 august 2022).
[3] Zamstats.gov.zm

2050. The current fiscal pressures faced by Zambia have further underscored the imperative that crowding in private investments at scale is needed to achieve development outcomes.

4. **Inequality and poverty have both increased alongside widening gaps in productivity and earnings.** Earnings gaps have widened between formal and informal workers, rural and urban workers, and between unskilled and skilled workers. A significant gender divide also exists in terms of incomes, with women earning about 20 percent less than men. The 2021 poverty rate is estimated at 62 percent, with the rural poverty rate three times that of urban areas. Eighty-two percent of the country's poor live in rural areas, stemming largely from low levels of economic growth and agricultural productivity, lack of value addition, and limited employment opportunities, especially for youth. In rural Zambia, the incidence of poverty is three times that of urban areas and especially high among women.

5. **Economic inequalities are glaring in Zambia and skewed against women**. As per 2020 labor force survey, male labor force participation was at 43.7 percent, compared to 27.2 percent among women. Also, women are predominantly employed in the informal sector at 44 percent when compared to the formal sector which employs only 30 percent.[4] The World Bank's recent Zambia gender assessment report points to only 7.8 percent women participating in the mining sector compared to 92.2 percent for men. In case of manufacturing, only 29.4 percent of women participate compared to 70.6 percent of men. The gender gap in case of access to credit, specifically for women-led/owned firms is significant. Only 9 percent women-led firms report access to credit compared to 17 percent of male-led firms.[5] Women-led firms in Zambia tend to be smaller, lying more in the micro, small, and medium enterprise (MSME) segment, which implies increasing credit constraints. According to the Enterprise Survey, women-managed firms have a higher rate of loan rejection, a much lower rate of access to basic financial instruments like checking/savings accounts and a greater proportion of the loans accessed by these firms require collateral. Also, the lack of access to land and assets, input markets (good quality seeds, fertilizers, and so on) and output markets, as well as access to good quality business development services (BDS) is a key constraint. These critical aspects have multiple linkages to the overall economic development of women and needs to be tackled urgently.

6. **Zambia's economy and population are highly vulnerable to climate change.** While the country experiences lower exposure to natural disaster risks in general, resilience is hindered by social vulnerability. Adverse impacts of climate change include increased frequency and severity of seasonal droughts, higher temperatures, flash floods, occasional dry spells, and changes in the growing season. This vulnerability is exacerbated by heavy dependence on rain-fed agriculture and hydropower.[6] While the total greenhouse gas (GHG) emissions and CO_2 emissions from production/consumption are far below Lower Middle Income (LMI) countries average and GHG emissions per capita have declined by 1.4 percent during 2008–2017, which is better than LMI average, in the absence of mitigation/adaptation policies, climate change is expected to reduce Zambian GDP by about 6 percent by 2050.[7] One study[8] showed that the country lost US$5 billion in GDP between 1991 and 2011 due to the negative economic impacts of climate-related disasters such as floods and droughts,

[4] 2020 Labour Force Survey, https://www.mlss.gov.zm/wp-content/uploads/2022/03/2020-Labour-Force-Survey.pdf
[5] World Bank, Zambia Gender Assessment Report, 2023
[6] Phiri, 2019; Monitoring Land Cover Dynamics for Zambia Using Remote Sensing: 1972–2016
[7] Zambia GRID Report, 2022
[8] Tembo et al, September 2020, Economic Implications of climate change in Zambia, SA-TIED Working Paper #137

estimating that climate variability reduces Zambia's annual GDP growth rate by 0.4 percent, equivalent to US$4.3 billion over a 10-year period.

B. Sectoral and Institutional Context

7. **Zambia's dependence on the cyclical and capital-intensive copper industry presents a challenge to structural transformation, economic diversification, and employment generation.**[9] Zambia's sector contribution to GDP has transformed, with the relative growth of the services sector and decline of agriculture as a share of GDP**.** Agriculture's share of GDP has shrunk from 10 percent in 2011 to 3 percent in 2021, while services account for nearly 48 percent of GDP.[10] The tertiary sector includes a large wholesale and retail industry. Industry's share of GDP has increased since 2012, and accounts for 46 percent of GDP. Mining, quarrying, and construction activities constitute the bulk of the industrial sector. While the mining sector only employs 2.3 percent of the total labor force, it generates 70 percent of Zambia's export revenues. In contrast, the manufacturing sector, which employs around 4 percent of the labor force, contributed only 8.8 percent of GDP in 2021.[11] It is worth noting that the recent growth in manufacturing has largely been driven by agro-processing and to a lesser extent by the textiles and leather subsectors.

8. **The agriculture sector is the largest source of employment but is characterized by low labor productivity, which translates to low worker incomes and contribution to GDP and exports.** As of 2019, agriculture still accounts for 50 percent of employment, of which women constitute approximately 76 percent.[12] Also, agricultural labor productivity remained essentially stagnant during 2000–2014. The main factors contributing to agriculture's low contribution to GDP include poor rural infrastructure, limited technology adoption, lack of innovation, low productivity, and extreme vulnerability to climate change-related shocks. Nevertheless, the agriculture sector has huge potential for poverty reduction and export diversification, particularly given that it accounts for close to 50 percent of non-copper exports. However, this would entail addressing value added per worker in agriculture that is well below that in industry and services.[13] This is especially true among youth and women in rural areas where about 55 percent of Zambian women earn their livelihoods in agriculture, compared to 45 percent of men.

9. **Opportunities in food processing, agribusinesses, and commercial farming can boost jobs, incomes, economic diversification, and inclusion**. Growth in agriculture-linked food systems also creates significant indirect jobs (supplier jobs and induced jobs[14]) by generating demand for aggregation, storage, processing, logistics, and other related services. Together, this creates an employment multiplier that is even higher for the food processing, agribusinesses, and commercial farming subsectors. In developed economies, every 100 direct jobs in agriculture leads to an additional 130 indirect jobs. In food processing and manufacturing, the multiplier is anywhere between 3 times to 15 times. The ongoing Zambia Agribusiness and Trade Project (ZATP, P156492) contributes to firm growth and market

[9] https://www.brookings.edu/wp-content/uploads/2022/04/IWOSS-42-Zambia.pdf
[10] https://afdb.org/en/documents/zambia-combined-country-strategy-paper-2017-2021-update-and-extension-december-2022-and-2021-country-portfolio-performance-review
[11] https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZM
[12] Notably, while this represents a decline from 70 percent in 2012, the decline has been far lower in relative terms than the agriculture sector's decline in terms of GDP share
[13] Zambia Jobs Diagnostic, 2019 and the Zambian Labor Force Survey, 2020.
[14] Supplier jobs defines the backward linkages of an industry while the induced jobs define forward linkages.

linkages which lead to value addition, diversification, income, and jobs in the agribusiness sector. An overview of ZATP is described in the box below.

Box 1. ZATP Overview

Basic Data	
Project name:	Zambia Agribusiness and Trade Project (ZATP)
Financing amount:	US$40 million
Financing Instrument:	IPF
Project Period:	July 19, 2017 to May 30, 2024
Implementing Ministry:	Ministry of Commerce, Trade and Industry (MCTI)
Closing Date:	May 30, 2024

The project's development objective is to contribute to increased market linkages and firm growth in agribusiness. The project is operational in 20 districts across five provinces in Zambia. Project beneficiaries are agribusinesses as well as small and emerging farmers in Zambia.

Project Components: (1) Market Linkages in Agribusiness; (2) Strengthening the Regulatory and Institutional Framework for Agribusiness and Trade. Key interventions include (a) building farmer Productive Alliances (PAs) and linkages between MSMEs that both facilitate productivity-enhancing investments and connect farmers and firms with buyers; (b) building capacity in regulatory institutions to create a business environment conducive to agribusiness and trade; and (c) developing the quality infrastructure necessary to enable agribusiness.

Project impact as of March 31, 2023: (a) 101,136 beneficiaries supported so far directly; (b) US$7.09 million of private capital mobilized; (c) 48 percent of project beneficiaries are women; (d) 57 percent of producer organizations (POs) have been able to meet their commercialization agreements with anchor buyers; (e) 3,350 full time equivalent "new jobs created" and indirect or direct jobs supported estimated at 20,000; (f) firms and farmers demonstrated nearly 50 percent year-on-year increase in average gross sales; (g) demonstrated 'build back better' and post COVID resilience model of private sector led growth in Zambia.

10. **To realize the potential of the agribusiness sector, agribusiness firms, POs, and farmers must improve their business, agronomic, and climate resilience capabilities.** Zambia is ranked 105 out of 138 countries in terms of business sophistication and 125 in terms of training in the World Economic Forum Global Competitiveness Index (2016–2017 edition). Agribusinesses and POs in Zambia lack avenues for training on business planning, strategy, marketing, and supply chain management, operations, financial management (FM), and digital skills. Zambian businesses (especially MSMEs) often lack both awareness and access to available technological solutions, incubation/ acceleration services as well as last mile service delivery of advisory services that can be availed on the site. On the production side, most agricultural producers in Zambia continue to operate at a subsistence level (that is, no downstream linkages), with limited knowledge of good agricultural practices (GAP) including adapting and mitigating climate risks, standards for agricultural outputs, and market requirements which could improve productivity and commercial market access. This underscores two current market failures: a lack of available business development and advisory services and coordination failures across various key actors within the private sector.

11. **Even where firms and farmers possess the requisite capabilities, lack of access to finance especially in this sector, often prevents them from scaling up and making productivity enhancing investments.** Per the 2019 Economic Survey, over 30 percent of firms reported access to finance as their primary business environment constraint, more than for any other potential constraint.[15] Domestic credit to the private sector declined from 19.8

[15] Zambia Enterprise Survey 2019; Enterprise Analysis Unit - World Bank Group https://www.enterprisesurveys.org

percent of GDP in 2015 to 15.2 percent in 2020, as compared to more than 25 percent in peer countries like Rwanda and Kenya.[16] Access to finance for agribusiness firms is constrained by the lack of adequate formal financing options, crowding out due to public sector borrowing, insufficient sector-specific products, high cost and collateral requirements, and inappropriate risk assessment frameworks. In 2021, loans and advances accounted for only 27 percent of bank assets while investment in government securities accounted for nearly 27 percent. As of February 2023, commercial banks' average published nominal lending rates were as high as 25 percent[17]. Rural businesses (that is, most agribusinesses) are also often far from bank branches. Women entrepreneurs face additional challenges in accessing loans, including socio-cultural norms and more limited access to infrastructure and technology. Firms also lack access to alternative funding sources such as venture capital, private equity, crowdfunding, and capital markets, which remain underdeveloped in Zambia.

12. **Digital technologies have not been fully exploited to reduce cost of finance and improve access to formal financing.** The Finscope 2020 survey indicated that 58.4 percent of adults used mobile money, which accounts for 55 percent of total banking transactions in terms of volume, a marked improvement from 3 percent in 2019. Only 20.7 percent of adults used physical banks. While the exponential growth of mobile money accounts has been a major contributor to expanding financial access and usage in Zambia, several challenges remain. These include lack of sufficient credit infrastructure, lack of digitization of largest payment streams in the country (business-to-government and person-to-government or vice-versa), lack of financial awareness among beneficiaries, and lack of adequate customer protection principles.

13. **Better continental and regional integration and cooperation is also critically important since Zambia is a landlocked country that borders eight countries.** Regional approaches to trade facilitation, rather than disjointed national reforms, have the potential to deliver greater benefits to individual countries and the regional community.[18] Zambia did not benefit from the Tripartite East African Community (EAC) - Common Market for Eastern and Southern Africa (COMESA) - Southern African Development Community (SADC) despite its ambitious tariff liberalization schedule due to its slow pace of ratification and failure to enter into force. The African Continental Free Trade Agreement (AfCFTA) implementation on the other hand offers the opportunity to remove non-tariff barriers, issues on rules of origin, and trade remedies continentally. What makes the AfCFTA stands out is the depth of political will, the geographical and policy coverage, and the articulation of all existing region economic communities under a single normative umbrella with a dispute settlement mechanism to ensure compliance and enforcement of commitments undertaken. This is a momentous commitment, signalling that each member state is indeed ready to embrace an international rules-based trade and investment system.[19] AfCFTA can help Zambia achieve 4 out of 5 goals outlined in the 2012–2030 National Agriculture Policy by increasing productivity, reducing marketing costs of agribusinesses, increasing agricultural exports to preferential markets and improving access to productive resources for small-scale farmers. Zambia's output, exports, imports, and income would increase under an FTA that reduces trade facilitation measures

[16] Compiled from World Bank Data
[17] Bank of Zambia, Monetary Policy Committee Statement for Fourth Quarter of 2022, February 15, 2023
[18] ITC, 2017, Charting a Roadmap to Regional Integration with the WTO Trade Facilitation Agreement. Geneva: International Trade Centre.
[19] "The World Bank, 2022. Making the Most of the African Continental Free Trade Area: Leveraging Trade and Foreign Direct Investment to Boost Growth and Reduce Poverty. © Washington, DC: World Bank. http://hdl.handle.net/10986/37623 License: *CC BY 3.0 IGO*."

and deeper integration with several welfare benefits related to income and poverty (see Annex 2).

14. **For a landlocked country like Zambia, boosting the trade agenda also largely depends on efficiencies at its borders. Currently, border clearance documentation and procedures are still largely manual beyond customs, duplicative, and cumbersome with little coordination among agencies.** While Zambia has recently invested in modernizing key border posts, they still lack automation, for example, all government agencies are not linked to a single window system. To increase the impact, trade-related agencies need to invest in complementary information and communication technology (ICT) systems. Modern trade transaction systems enable domestic resource mobilization, improved governance, and platforms for reducing corruption while facilitating trade and climate resilience. The lack of inter-agency coordination and delegation is another constraint that has led to more agencies than required at border posts. Ideally, the introduction of streamlined procedures, risk management principles to reduce inspections, and automation would accompany infrastructure to create a modernized border. However, where border posts are being rehabilitated often as one stop border posts, the infrastructure is developed in advance leading to mismatches that impact operational efficiency, and particularly agricultural trade.

15. **The limited capacity of the food and sanitary and phytosanitary (SPS) agencies and their inability to collectively provide confidence in exported commodities in international markets is a critical hurdle faced by Zambian agribusinesses.** These agencies need to develop a policy environment that removes overlaps, simplifies, and streamlines trade services. They need to invest in their capabilities and capacity to provide services demanded by Zambian firms and farmers that will enable them to promote higher-quality production within Zambia and access regional and global markets. These capacities include certifications, appropriate infrastructure that is climate-resilient including those accessible nationally, automation, improved laboratory services to support trade, surveillance systems, access to data to support risk analysis and accredited laboratories. Conversely, Zambian agribusinesses will be disadvantaged against both imports and in export markets without accredited food safety and quality standards.

16. **Lastly, catalyzing private investment (both domestic and foreign) is crucial and urgent for Zambia to spring back with a strong recovery; however, Zambia has not been able to attract significant investments beyond mining sector, especially when compared to its peers.** As of 2023, Zambia's foreign direct investment (FDI) net inflows as percentage of GDP is -3.2 percent. While Africa's share of global FDI inflows hit a record US$83 billion in 2021[20], investment flows to Zambia remained negative at -US$457 million, a steep fall from -US$173 million in 2020. On business operations, the regulatory environment, despite recent Government of Republic of Zambia (GRZ) initiatives remains complex, unpredictable, and costly. This is further validated by the 2019 Enterprise Survey, which points to cumbersome business regulations being identified among the top three constraints for Doing Business in Zambia. Information gaps, inadequate transparency, and weaker institutional conditions further add to costs and hamper business formalization and growth. Supporting business regulatory agencies and investment promotion agencies to design and implement strategies to promote predictable business regulations as well as attract, retain and service investors will be crucial. On the Business Regulations (BR) agenda, this can also reduce time and costs of business entry and operations. In case of Investment Policy and Promotion, this would result

[20] UNCTAD, World Investment Report 2022

in updated information on investment incentives, investor protection, and so on. Such efforts would go a long way in promoting business formalization, growth as well as attracting FDI that has potential for revenue diversification, job creation, and sustainable growth which remain a key priority.

17. **It is in this context that the GRZ is proposing the Zambia Agribusiness and Trade Project-II (ZATP-II). The project builds on ZATP via expanded geographic coverage, an increased role for the private sector in the provision of financing, and further improvements to the business enabling environment and trade.** The project retains core ZATP concepts related to BDS and provision of financing to agribusinesses and POs. However, it will cover all districts in all ten provinces in Zambia (whereas ZATP only focused on twenty districts in five provinces). It will also shift the financing model for agribusinesses from matching grants (MGs) to a financial institution-managed line of credit (LoC) to better involve the private sector in allocation of financing. It will also finance further improvements to the enabling environment for businesses as well as trade on top of the areas targeted by ZATP via investments in trade facilitation (for example, ICT investments at border posts, process automation, improved coordinated border management [CBM]) and support on implementing AfCFTA. Below is a comparison of the project ZATP-II with ZATP.

Table 1. Comparison between ZATP and ZATP-II

	ZATP	ZATP-II
Provinces covered	Five	Ten
Technical assistance (TA) model	Separate subcomponents for farmers/POs and agribusinesses	Combined subcomponent for farmers/POs and agribusinesses for knowledge spillovers and value chain integration
Beneficiary financing model	Matching Grants to both high growth agribusinesses and POs eligible	Line of Credit for agribusinesses; Matching Grants for select eligible POs
Enabling environment support	Performance-based conditions for select regulatory results around regulation, competition, and national quality infrastructure (NQI)	TA for Business Enabling Environment and direct investment support for trade facilitation (for example, automation, CBM) and AfCFTA implementation

C. Relevance to Higher Level Objectives

18. **ZATP-II is aligned with the three focus areas of the World Bank Group (WBG) Country Partnership Framework (CPF) for Zambia (FY19–23, Report No.128467-ZA), which aims "to expand employment opportunities and develop alternative sources of growth that contribute to economic diversification".** The project fits well with the CPF objectives to assist the GRZ in its efforts to chart a high-growth path that is more diversified, inclusive, and sustainable. Under Focus Area 1 (opportunities and jobs for rural poor), ZATP-II will specifically target Objective 1.1 ("agri-food sector [that is] less maize-centric, more productive, and better connected to domestic and external markets") and Objective 1.2 ("selected rural communities become more resilient to climate and environmental shocks"). In line with Focus Area 2 (public services and social protection for job participation), the project will specifically target women's access to economic opportunities by improving women's and youth's access to jobs and finance in the agribusiness sector. Finally, under Focus Area 3 (institutions for resilience),

the project will specifically target Objective 3.2 ("Trade and infrastructure for economic integration and shared natural resources management with the broader region increases") by investing in trade facilitation systems.

19. **The project is also aligned with the World Bank's IDA-20 special theme of Jobs and Economic Transformation (JET) as well as Africa Strategy (2019–2023).** The project is fully aligned with the twin goals of the World Bank Group (WBG) and IDA20 overarching theme of 'Building Back Better from the Crisis -Towards a Green, Resilient and Inclusive Future'. The project directly supports achievement of five out of the eight IDA-20 JET Policy Commitments (PCs)[21], through a comprehensive approach of deepening access to sustainable sources of finance and markets, while rendering private sector competitive. Also, the IDA 20 priority around ensuring women's economic inclusion is mainstreamed. This is detailed in Annex 4 on operationalizing the JET Framework through ZATP-II. The project is well aligned to World Bank Africa Strategy for 2019–2023 in relation to: (i) creating jobs and transforming economies; and (ii) making institutions more efficient and accountable. The project is aligned with the WBG's Global Crises Response Framework (GCRF) especially on Pillars 1,2 and 4. While the project activities supporting production and producers as well as trade facilitation are aligned with Pillar 1 on 'Responding to Food Insecurity', financial market stability, supply chain or sector competitiveness and gender equality dimensions of ZATP-II are well aligned with Pillar 2 on 'Protecting People and Preserving Jobs'. ZATP-II supports institutional strengthening and capacity building across all the three project components and is well aligned to Pillar 4 on 'Strengthening Policies, Institutions and Investments for Rebuilding Better'.

20. **ZATP-II is also in line with the Eighth National Development Plan, 2022–2026 (8NDP), which recognizes the critical need for economic transformation and job creation, while emphasizing the role of the private sector.** By supporting agricultural productivity and value addition, facilitating trade, and improving access to finance, the project will contribute to Strategic Development Area (SDA) 1 on Economic Transformation and Jobs. Additionally, the project interventions will be designed to better support poor and vulnerable groups (SDA 2) and contribute to enhanced climate change mitigation and adaptation (SDA 3).

21. **The project furthers private sector development (PSD) agenda and complements ongoing initiatives like Public-Private Dialogue Forum (PPDF) that were established to foster real-time dialogue and reform actions to mainstream private sector led growth in Zambia**. This International Finance Corporation (IFC) initiative that pivots on structured dialogue between government and private sector as well as research and market analysis, will be further leveraged by ZATP-II, given the synergies to identify sectoral market failures and resolve sectoral policy challenges. Reform momentum on Trade and Agribusiness sector competitiveness aspects can be achieved through PPDF whose steering committee is chaired by the President of Zambia. Further, the project will explore synergies with IFC's Manufacturing, Agribusiness and Services and Financial Institutions Group teams to leverage existing knowledge products from advisory as well as leverage small and medium enterprise (SME) targeted agribusiness investment funds from investment streams. In doing so, the project will further the 'one world bank' approach to support GRZ with holistic solutions.

[21] IDA20 special theme on JET is measured through eight Policy Commitments (PCs). Out of these, ZATP-II supports five PCs directly. These are: PC 1: Supporting resilient financial systems for recovery; PC 2: Leveraging One WBG to increase private investments; PC; PC 4: Creating better jobs and sustainable, inclusive economic transformation in high potential sectors; PC 5: Boosting agriculture productivity, value chains and food security and PC 7: Positioning more firms for recovery, including through the adoption of digital technology.

II. PROJECT DESCRIPTION

A. Project Development Objective

22. The PDO is to increase access to markets and finance and promote firm growth in Zambia's agribusiness sector.

PDO Level Indicators

23. The achievement of PDO will be measured through the following key indicators:

- Percentage of beneficiaries with increased average sales
- Private capital mobilized
- Percentage of beneficiaries with increase in exports

B. Project Components

24. ZATP-II aims to support Zambia's aspirations on economic diversification, regional integration as well as private sector-led growth. The project centers on inclusion and impact at scale by targeting growth for the bottom 40 percent of earners, most of whom are employed in Zambia's agriculture or agribusiness sectors in micro, small, and medium segment. While doing so, the project will also improve resilience of Zambia's agribusiness sector and render it more competitive, with an impetus on (a) leveraging private capital, thus amplifying the impact of public financing; (b) strengthening the regulatory and institutional capacities to improve business enabling environment and to ensure sustainability beyond project interventions; (c) capitalizing on opportunities presented by regional integration and specifically through the AfCFTA; (d) climate resilience through adaptation and mitigation measures at beneficiary level; and (e) mainstreaming the role of the private sector especially women and rural youth as Zambia transitions to an inclusive and greener economy.

Component 1: Support Access to Markets and Finance (US$102 million)

25. **This component supports capacity building of firms and POs within a value chain as well as fostering linkages. It addresses key constraints related to limited access to finance, inadequate integration, weak export orientation, and climate resilience of value chains.** This will be achieved through an integrated approach, including TA or BDS and structured financing through an LoC and MG facility. The focus will be at the farmer and firm levels to support upskilling, increasing investments in value addition, product, and process upgrades, that are climate resilient. The interventions planned under this component directly support two sets of beneficiaries: growth-oriented agribusinesses and small and marginal farmers who are associated through cooperatives or POs, with a focus on women, rural youth, and persons with disability. This is aligned with Pillar 1 (Responding to food insecurity- through reduced food losses, increased market access) and Pillar 2 (Protecting people and preserving jobs) of the GCRF. Accordingly, this component has the following three subcomponents.

Subcomponent 1.1. MarketConnect (US$20 million)

26. **The objective of this subcomponent is to provide tailored TA to growth-oriented agribusiness firms and to POs to 'upgrade' and improve market linkages, as well as foster**

partnerships with off takers and buyers. This will be done through (1.1a) Provision of BDS that are holistic, demand driven and address above challenges. These well-structured training and capacity building programs aim to enhance operational efficiencies, financial skills, technical know-how, managerial skills, usage of digital technologies or platforms, adoption of climate-smart technologies and management practices.[22] Value chain integration will be promoted by supporting commercialization arrangements between project-supported POs, agribusinesses and/or off-takers brought under partnership; (1.1b) financing new product certification, food safety standards and applications for new/ renewal of export licensing for eligible agribusinesses and POs by facilitating group and company level certifications that can enhance marketability of commodities/products and also reduce post-harvest losses in food systems; (1.1c) provision of business incubation and acceleration support to early stage businesses to enable them to better leverage digital technologies to enhance productivity and profitability. This would be achieved by fostering partnerships with business incubators for enabling digital platforms including e-commerce (1.1d) development of "centers of excellence" for demonstration and knowledge spillovers from the project or training youth (with a focus on women) as agriculture entrepreneurs (referred to as "Agriprenuers") who may serve as last mile BDS providers for "bundling" services (access to climate-resilient inputs, digital solutions, advisory for climate adaptation and mitigation measures, financial services and market linkages).

27. **Agribusinesses and POs will be eligible to participate in MarketConnect based on their commitment to growth, alignment with project objectives as well as financial viability and technical feasibility of their business models.** All activities under MarketConnect are open for both Agribusinesses and POs except provision of incubation and acceleration support, which is specific to early-stage agribusinesses. While specific selection criteria for each activity will be defined and described in the Project Implementation Manual (PIM), key selection criteria for all activities under this subcomponent will broadly include (a) current financial, operational and market positions; (b) potential demand for products or services; (c) market competitiveness and potential for advancing business growth; (d) financial viability and technical feasibility of business models; (e) willingness to take up climate adaptation and mitigation measures;[23] and (f) additional preferences for women and youth-owned or -led businesses.

28. **MarketConnect beneficiaries will be categorized into two segments (Tier 1 and Tier 2) based on their eligibility criteria and score achieved.** The details of scoring scale and evaluation panels are described in PIM. The beneficiaries in Tier 1 will belong to cohort of well performing firms and farmers. They will receive tailor-made/site-specific coaching and mentoring and will be upskilled to access either MGs (for POs) or LoC (for Agribusinesses). Tier 2 beneficiaries will be categorized as 'referral group' and will receive TA and capacity building

[22] Climate-smart technologies and management practices include adaptation measures such as improved practices for soil conservation, mulching, residue management, carbon sequestration and nutrient management (land management), water harvesting, inter cropping with legumes, and crop-livestock integration. In case of MSMEs these will involve energy efficient production systems, market advisory through digital to improve adaptation, and so on.

[23] In case of TA to POs, climate-smart measures would include among others, usage of high yielding seeds (crops) and breeds (livestock) that are climate resilient, GHG emission mitigation strategies like balanced use of fertilizers, reduced tillage in cropland and grassland, use of cover crops, crop rotation, promotion of agroforestry, soil and water management practices for building resilience against droughts and practices around sustainable bio energy. On the livestock side, these include access to veterinary services to increase resilience to climate change risks. It will also include animal health practices that reduce methane or other GHG emissions. Both for MSMEs and POs training and investments on food safety measures will be provided.

services alone to improve business capabilities. Upon successful completion of TA these beneficiaries may reapply to the Project to graduate to Tier 1 and further upgrade and/or access MGs or LoC.

Subcomponent 1b. Productive Alliances (US$52 million)

29. **The objective of this subcomponent is to support transition of small and marginal farmers to market-centric approaches by improving their capacity to finance and execute productivity enhancing investments.** This will be done through MG financing to farmer POs who cannot otherwise access commercial credit for productive investments. The project will support productive investments at the PO level to enable primary and secondary value addition as well as adoption of climate-resilient production technologies for stronger market participation. These investments will be identified and cleared for support through the project on a case-by-case basis.

30. **The project will finance technical and infrastructure enhancements that are productive and climate-resilient in nature for the POs to meet commercialization agreements with off takers as part of 'Productive Alliances' (PAs).** For the purposes of the project, these are defined as 'subprojects.' MGs would cover up to 60 percent of the total subproject costs. The POs can match the remaining 40 percent of the total cost of the subproject through a mix of their own resources and commercial loans, with a minimum 20 percent provided through their own cash resources. To promote sustainability, inclusivity and better leverage of funds, the MGs to POs would be executed through rotation of funds among members of POs where feasible. The MGs will be provided through a competitive allocation to the winning business plans coproduced by the POs, buyers (PA), and brokerage services financed by the project. Business plans will be evaluated and selected by an independent group based on their technical and financial feasibility (in line with terms and conditions further detailed in the MG Manual and PIM). Any partnership is expected to include at least 10 smallholders, of which at least 90 percent need to meet the project's definition of a small and marginal farmer.[24] The grant financing is strictly to be used for purchase of productive assets or investment expenditures, TA, climate adaptation and mitigation measures, certifications, and so on, as defined in the MG Manual and PIM. This subcomponent will operationalize at least 900 PAZ partnerships across the ten provinces by the project closing date, having reached approximately 63,000 producers directly through MGs with 50 percent women beneficiaries.

31. **In addition to the above, both MarketConnect and Productive Alliance subcomponents will support awareness building, training, and promotion of a range of climate mitigation and adaptive practices.** These include trainings and purchase of equipment that is climate resilient. For example, utilization of energy efficient processes in production and storage options such as solar driers, solar pumps, and low energy cooling chambers will be given a priority. In case of POs or agribusinesses operating in livestock value chains, training on GHG emission reduction measures would include manure management with biodigesters, wastewater management/effluent treatment, improved feeding practices, and feed production with reduced GHG emissions. Additional support for livestock value chains includes investments to reduce feed losses, sourcing lower-emission feeds or forage to increase feed conversion efficiency and reduce methane emissions, and efficiency

[24] This definition will be as per GRZ classification and elaborated in the PIM and will be based on hectares under cultivation (or number of livestock), total assets, and annual income where available.

improvement measures to reduce the herd size. Finally, POs will be supported to negotiate weather index insurance services and weather advisory services toward climate adaptation, for members at better terms.

Subcomponent 1c. Line of credit (LoC) to support agribusinesses (US$30 million)

32. **This subcomponent will enhance access to finance by galvanizing financial intermediaries to work with growth-oriented agribusiness firms and enterprises.** The project will provide a dedicated LoC and TA to financial intermediaries to ensure better assessment of agribusiness credit risk. The LoC will provide targeted bank financing to support growth-oriented agribusinesses to enable them to invest in new technologies, climate adaptation and mitigation measures, and sustainable practices. Such investments are expected to raise their productivity, access export markets, diversification, ensure climate resilience and scale-up incomes —often for longer tenors than those that are currently available in the Zambian market. This subcomponent will facilitate the flow of credit to small agri-businesses, with strong emphasis on accommodating disadvantaged/ vulnerable populations as well as climate-resilient investments.

33. **A credit line of US$27 million will be provided to an apex financial institution[25] for a period of five years.** The apex bank will be competitively selected based on its financial strength and efficient delivery. Some of the eligibility criteria will include the quality of portfolio, management capacity, audited financial statements for 3 years, compliance with regulatory minimum capital requirement of Bank of Zambia (BoZ) and licensed by it. Similar criteria will be set for the selection of the participating financial institutions (PFIs). The apex will extend financing to PFIs to provide longer term sources of funding to underserved high-growth agribusinesses and POs at risk-adjusted market rates. The sub loan size will be dependent on size of the firm and POs.[26] Climate resilient standards [both adaptation and mitigation measures depending on the profile of agribusiness] would be applied as one of the preferred criteria for provision of loans to agribusinesses

34. **TA of US$3 million is planned to complement the lending component and will focus on capacity building of the apex financial institution and other PFIs as well as key stakeholders.** The objective of the TA is to ensure robust delivery of the LoC (including but not limited to dimensioning risk, developing relevant financial products especially those targeted toward women, climate mitigation/adaptation actions including energy efficient systems, enhancing reporting and the monitoring and evaluation (M&E) framework, and special considerations for reaching women, youth, and persons with disabilities in supported value chains). The details of the model and eligibility criteria for the apex bank as well as the beneficiaries based on viable subsectors, ownership, size, geography, and gender of beneficiary as well as specific consideration to feasibility for climate adaptation/mitigations measures are elaborated in the PIM.

35. Overall, through a combination of BDS, MGs to jumpstart PAs, and provision of a credit facility, Component 1 will address demand-side constraints of high-growth agribusinesses and commercially oriented POs in Zambia. Overall, this component responds

[25] There are three such institutions that can retail and also have the capacity to wholesale funds to other financial institutions. The conflict of interest will be mitigated by capping the amount of funding that can be accessed through their retail functions. The credit line apex functions are awarded on a competitive basis.

[26] Support to POs will depend on the outcomes of the TA assessments and the PIM will include eligibility criteria acceptable to the World Bank.

to Pillar 1 (Responding to food insecurity- through reduced food losses, increased market access) and Pillar 2 (Protecting people and preserving jobs) of the GCRF.

Component 2: Promote Trade and Agribusiness Competitiveness (US$54 million)

36. **The objective of this component is to enable the key stakeholders in Zambia's agribusiness sector and those benefitting from Component 1 to take advantage of improved business enabling environment, trade facilitation, and opportunities emerging from AfCFTA**. This component will seek to improve trade pathways, quality infrastructure, and the business enabling environment, that is, meso-level sectoral activities that are critical for firms and farmers and in line with the AfCFTA. This component aims to modernize border procedures, systems, and policies that will ensure systems integrity during climate shocks, pandemics, and other emergencies and build resilience. Interventions would focus on MSMEs and women traders and on streamlining procedures that reduce post-harvest losses for perishables thereby fostering climate adaptation. Component 2 is aligned to Pillar 1 (Responding to food insecurity- through reduced food losses, increased market access) and Pillar 2 (Protecting people and preserving jobs) of the GCRF and will comprise of the following activities:

i. **Implementing trade commitments**. ZATP-II will support implementation of global (World Trade Organization [WTO]), continental (AfCFTA), and regional (corridor specific) commitments and domestic regulations. Three specific focus areas are: (a) implementing Zambia's AfCFTA strategy and action plan including developing capacities required within MCTI; (b) supporting the National Trade Facilitation Committee and Corridor committees[27] to ensure Zambia's commitments are implemented and interests represented; and (c) improving the technical regulations regime by strengthening the recently established Technical Regulations Department within MCTI.

ii. **Improving trade efficiency:** Support would be provided through MCTI to Zambia's trade agencies to implement an automated, coordinated and risk-based approach to trade in goods. This would include (a) CBM, a key reform that seeks to reduce the number of agencies operating at the border to improve efficiency and reduce cost; and (b) Risk management, which requires a coordinated approach across the key trade agencies. Such an approach entails harmonization of requirements across agencies, joint inspections, and related modifications in the Customs ASYCUDA[28] World system; and (c) trade agency automation that would include (i) ICT systems for Zambia's key trade related agencies[29] aiming to connect to the single window for back-end processing for approvals, registrations, licensing, inspection, sampling, fee collection, tracking and tracing, lab sampling and ePhyto. Systems deployed would utilize climate-friendly equipment to the extent possible; and (ii) wide area network connectivity at HQ for connection to the national single window and at selected borders to connect to ASYCUDA World.

[27] Corridor committees would include the Nacala Development Corridor Tripartite Committee (NDCTC).
[28] UNCTAD Automated System for Customs Data.
[29] Zambia Revenue Authority (ZRA), Zambia Compulsory Standards Agency (ZCSA), Plant Quarantine and Phyto Sanitary (PQPS), Ministry of Health (MoH), National Livestock Epidemiological and Information Centre (NALEIC), Zambia Medicines Regulatory Authority (ZMRA), Zambia Metrology Agency (ZMA), Zambia Bureau of Standards (ZABS), and Zambia Environment Management Agency (ZEMA) and other institutions.

iii. **Strengthen Business regulation, Investment Promotion, NQI and SPS capacities and facilities**: The project will enhance the capacities and facilities for Zambia's key business regulations, investment promotion institutions, as well as trade related institutions involved in agricultural trade[30] to reduce the burden of business compliance, to attract, retain and service investments, to increase exports, and to strengthen the development of agribusiness value chains. Specifically, it would support (a) capacity building of business regulatory and investment policy and promotion institutions; (b) re-purposing or refurbishing or constructing diagnostic facilities in Lusaka and rendering them efficient and climate-resilient; (c) setting up of a national accreditation body and laboratory accreditation for selected testing at selected agencies; (d) equipment and supplies to support inspection and sampling that are energy efficient and climate resilient; and (e) enabling Zambia's trade agencies to expand stakeholder engagement, consultation and awareness including for women and MSMEs that would include the establishment of joint resource centers.

Component 3: Project Management (US$14 million)

37. This component will ensure effective implementation of project activities, including M&E of project implementation progress. It will primarily build on the implementation experience of ZATP. The existing ZATP Project Implementation Unit (PIU) and MCTI Department of Planning and Information (DPI) will be leveraged for project administration and coordination, respectively. Component 3 will support (a) project operations; (b) implementation of the stakeholder engagement plan (SEP) and feedback mechanism to inform project implementation; (c) implementation of the project's grievance redress mechanism (GRM); and (d) an M&E system to account for the national-level project implementation and additional subcomponents being introduced on top of existing ZATP interventions. An indicative list of activities financed under this component includes dedicated staffing of the project at the PIU including provincial level, accompanying costs to ensure fiduciary compliance and adherence to safeguards, consultancies, training and related material, project communications, office equipment (including project ICT systems), and incremental operational costs. Given the cross-cutting nature of this component, it contributes to Pillar 4 (Strengthening Policies, Institutions and Investments for Rebuilding Better) of the GCRF.

Table 2. Project Budget by Components and Subcomponents

Component	Total (US$, millions)
Component 1: Support Access to Markets and Finance	**102.00**
Subcomponent 1a. MarketConnect	20.00
Subcomponent 1b. Productive Alliances	52.00
Subcomponent 1c. Line of Credit to Support Agribusinesses	30.00
Component 2: Promote Trade and Agribusiness Competitiveness	**54.00**
Component 3: Project Management	**14.00**
Total	**170.00**

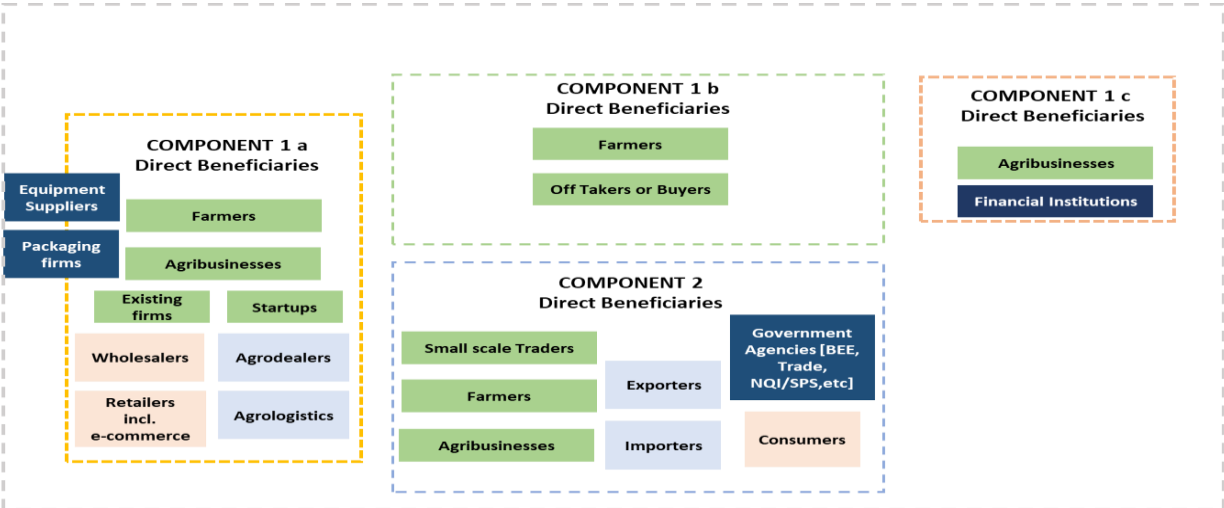
[30] Business Regulatory Review Agency (BRRA), Zambia Development Agency (ZDA), ZCSA, PQPS, MoH, NALEIC, ZMRA, ZMA, ZABS, Zambia Medicines and Medical Supplies Agency (ZMMSA) and ZEMA and other institutions.

C. Project Beneficiaries

38. Overall, the project is expected to support 133,500 beneficiaries (nearly 10 percent of eligible population) through its interventions. The project will support small and marginal farmers engaged in Agriculture value chains and allied activities.[31] Component 2 of the project will support small scale traders as well as all businesses trading through Zambia's border posts. BDS provision under MarketConnect is expected to support a total of 3,150 beneficiaries: 1,750 growth-oriented agribusinesses and 1,400 POs. Of these 1,400 POs, 900 are expected to graduate to the Productive Alliance subcomponent. It is expected that 12,550 new full time equivalent jobs will be created through multiple pathways including creation, scale-up and diversification of business operations of Agribusinesses, Agripreneurs, POs, and expansion of agribusiness linkages, as well as access to new channels of finance. More than 15 government agencies or institutions are expected to benefit from the project's interventions.

39. It is envisaged that the project will help improve access to economic opportunities, enhance business environment, build climate adaptive capacities, and improve trade pathways. The project aims to create impact in all ten provinces of Zambia within districts identified. Furthermore, the project will benefit value chain actors at various levels including farmers, farm and off-farm workers, input manufacturers, distributors, equipment suppliers, agro-dealers, aggregators, off takers, agro-processors, manufacturers, logistics and warehousing service providers, AgriTech firms including start-ups, wholesalers, retailers, distributors, e-commerce firms, and exporters, operating along the value chains. In addition to criteria specific to each activity, the overarching framework for beneficiary identification as well as approaches to value chains considers the three pillars of Climate-smart agriculture of increased productivity and incomes, adaptation to climate change, and mitigation of GHG emissions. Below illustration indicates specific beneficiaries per project component.

Figure 1. Overview of Project Beneficiaries

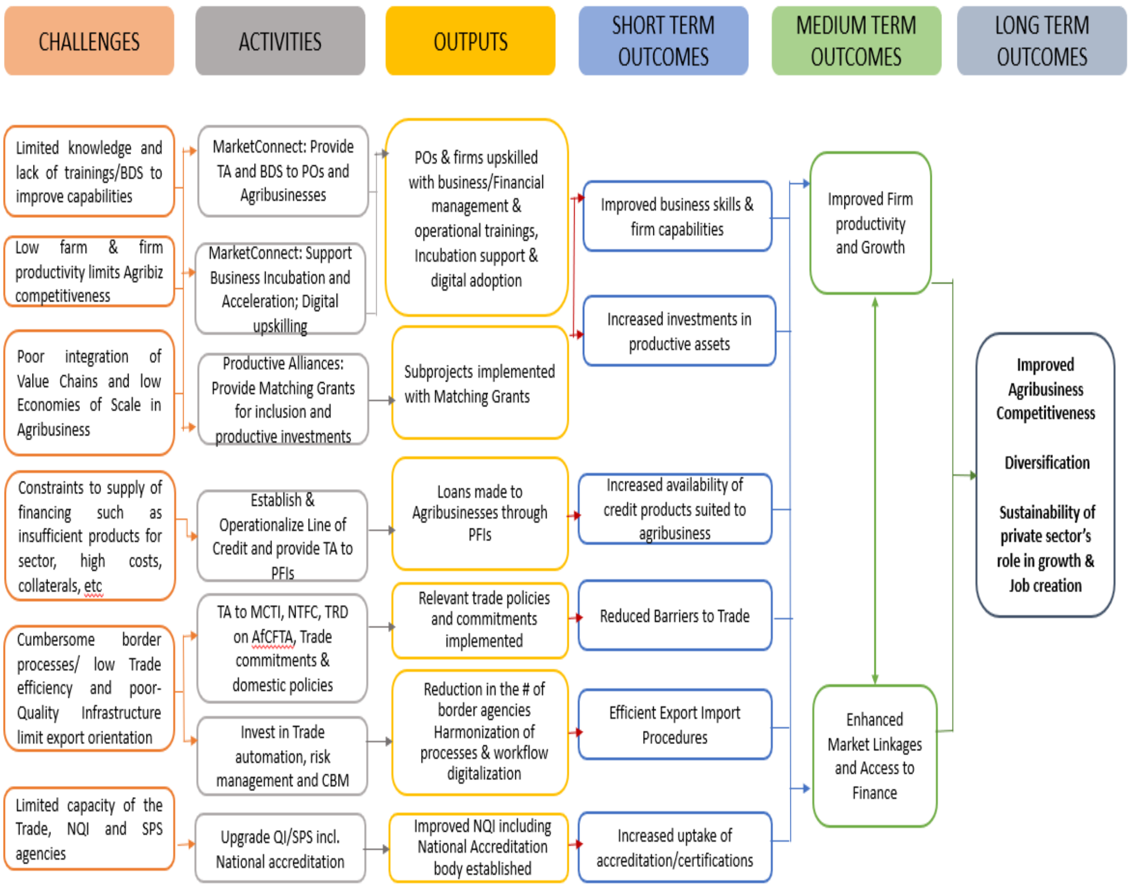


[31] Agriculture Value Chains supported will include Cereals; Pulses, Tuber crops, Horticulture (Fruits, Vegetables, Plantations, Spices, Floriculture, and so on); Other cash crops and Plantation; Animal Husbandry, Apiculture, Food processing/value addition and allied services (Agro-logistics, Agri advisory services, and so on) will be supported under MarketConnect

D. Results Chain

40. **Agribusinesses and smallholder farmers in Zambia often lack a confirmed market for their produce at the time of production.** They often lack the capacity and know-how to produce products that meet the quality of most off-takers or maintain consistency in meeting the demand. ZATP-II addresses key challenges of the agribusiness and food processing sectors in Zambia: (a) lack of market access or weak value chain linkages, (b) farmer and firm-level constraints in accessing finance, (c) cumbersome business processes especially on trade. Key interventions include: (i) provision of BDS for firm growth, productivity, and climate resilience; building farmer PAs through MG financing; and supporting productivity-enhancing investments through credit lines, and (ii) capacitating regulatory institutions for a conducive business environment for agribusiness and trade in the country. Medium term outcomes would reflect in productivity enhancement and growth as well as enhanced access to finance, climate-resilient value chains and improved market linkages. In the long term beyond the scope of project operation, impact will include private sector's role in job creation and growth, sector competitiveness, and diversification. The results chain for ZATP-II is outlined below.

Figure 2. ZATP-II Results Chain



E. Rationale for Bank Involvement and Role of Partners

41. **The World Bank is uniquely positioned to support Zambia's efforts to mainstream private sector led economic transformation and growth.** The World Bank's program in Zambia has been supporting private sector development through TA, IPFs, PforR and Development Policy Operation (DPO) that provide the World Bank with unique experience in

the design and implementation of such projects. The project also builds on Pillar 4 of the Zambia Macroeconomic Stability, Growth and Competitiveness DPO (P174911) which helps to promote private sector-led growth by addressing Zambia's fiscal and debt sustainability. The Country Economic Memorandum (P178103) also underscores the importance of JET interventions. The deep dives on firm productivity and agricultural productivity will provide analytical underpinnings to the proposed project. The ongoing Zambia Country Private Sector Diagnostic as well as IFC advisory projects supporting PPDF, together with ZATP-II will enable the World Bank to propose a 'one WBG' approach to PSD priorities. Also, the ongoing Zambia Growth Opportunities Program-for-Results (P178372) supports interventions and policies for agricultural production; to complement those efforts, ZATP-II will address downstream market-related constraints. Similarly, the project builds on analytical insights derived from: (i) the Trade Facilitation Support Program (Advisory Services and Analytics [ASA] component under ZATP) to identify interventions for Component 2; and (ii) from the Zambia We-Fi (P168398) and Financial Sector Programmatic Advisory Services and Analytics (PASA, P179395) supporting the growth of Women-led MSMEs in identifying interventions for Component 1.

42. **ZATP-II draws significantly on the World Bank's years of experience working in African and low-income economies as well as globally on similar issues.** The World Bank has extensive experience with respect to firm capabilities including entrepreneurship enhancing enabling environment for businesses, industry specific solutions including agribusiness and value chain competitiveness, trade and regional integration, SME and Agriculture Finance and greening the private and financial sectors through both analytical work and investment projects. This includes ZATP and similar Finance, Competitiveness and Innovation projects (for example, Private Sector Jobs and Economic Transformation in Haiti (P173743), Economic Transformation for Inclusive Growth Project in Madagascar (P174684), State Action on Business Enabling Reforms (SABER) (P177442), and Competitive Value Chains for Jobs and Economic Transformation Project in Cote d' Ivoire (P172425) among others). The proposed activities on AfCFTA are also linked to the overall work with the Secretariat under the proposed Building Institutions and Systems to Harness and Realize Agenda 2063 (P180117) pipeline project. ZATP-II supplements and takes rich lessons from other World Bank projects such as Zambia ACP Business Friendly Project (P176090), advisory supporting business regulations, attracting, and retaining FDI and making Zambian products more competitive and export oriented, and Supporting Women Led MSMEs in Zambia: Access to Finance and Capacity Building Pilot (P168398). As such, the World Bank is uniquely placed in its understanding of the PSD with a focus on agribusiness ecosystem in Zambia.

43. **In addition, the recovery from COVID-19 offers a unique opportunity to rebuild Zambia's economy more in line with the World Bank's Green, Resilient and Inclusive Development (GRID) framework, including better provisions for climate change adaptation and mitigation.** As such, the World Bank involvement in this project could accelerate post-COVID-19 recovery and support improved resiliency to future climate shocks. This is especially critical given that Zambia is already beginning to feel the adverse impacts of climate change.

44. **The World Bank will leverage and complement existing and upcoming development partner programs.** The project will use the established and active PPDF to coordinate activities with other development partners and draw on lessons for implementation. Partner interventions include European Union (EU) programs to enhance MSME competitiveness,

facilitate business linkages, develop investment environment and improve market access.[32] MSMEs are also supported extensively by other donors[33] through increased commercialization, and added jobs in agri-businesses, the food processing industry, with some specifically targeting youth and women.[34] Partner programs also provide support to strengthen regulatory bodies, licensing system, public-private dialogue, digital financial services, market systems, specific value chains, and farmer and community-led learning.

F. Lessons Learned and Reflected in the Project Design

45. **Based on experience from ZATP and related World Bank business support interventions (for example, SAFER: Supporting Access to Finance and Enterprise Recovery Project in Kenya – P175017), the project has reduced the role of MGs and introduced a dedicated subcomponent that incorporates an LoC to enable access to finance for both enterprises and POs:** MGs were the main funding element of ZATP, helping address a key market failure of limited access to finance for the project beneficiaries. However, instruments like MGs can also create dependency among beneficiaries and hesitation to access formal financing even when potential borrowers/investees are otherwise market ready. The funding model of the project will move beyond an MG driven framework to segregate beneficiaries between those that can access commercial financing (through the project-supported LoC) and those that may still require MGs (but can be graduated to commercial financing later). The LoC intervention draws upon similar LoC components in projects such as SAFER. The intervention is also expected to improve sustainability by improving the financial sector's ability to serve agribusinesses after closure.

46. **Viability of agribusinesses and POs as well as strengthened capacities of institutions to deliver effective policies and Government to Business (G2B) services are crucial for project sustainability beyond World Bank assistance.** The TA support provided to beneficiaries under the MarketConnect and Productive Alliances subcomponents of the ZATP model, proved to be a crucial element to ensure that the most well prepared and ready firms and POs received the MGs; as such, ZATP-II will continue to provide TA alongside financing support. ZATP encountered difficulties with initial procurement of firms and later with international BDS vendors being unable to deliver due to the pandemic; as such, the team helped build local BDS capacity thereby addressing the issue while supporting long-term sustainability and skilling of local Zambians. ZATP-II will ensure that procurement is initiated in the first year of project implementation and will adopt a similar approach in terms of being flexible to a wide range of international and local vendors (including consortia) to ensure adequate coverage of beneficiaries. In Component 2 of ZATP, while DLIs were instrumental in achieving targeted outcomes, TA was crucial throughout project cycle. ZATP-II's design and delivery will allow for addressing institutional capacity needs through TA for various Business Enabling Environment and Trade agencies. From a project management perspective, ZATP-II will draw upon lessons from ZATP and other Zambian IPFs to ensure ownership amongst key

[32] EU programs include Regional Enterprise Competitiveness & Access to Markets (RECAMP), Support to Business Friendly and Inclusive National and Regional Policies and Strengthening Productive Capabilities and Value Chains (intra-ACP Facility) – Zambia, Sustainable Intensification of Smallholder Farming Systems in Zambia.

[33] Other donors include Foreign, Commonwealth & Development Office, Swedish International Development Cooperation Agency, Swiss Agency for Development and Cooperation and United States Agency for International development.

[34] Private Enterprise Programme Zambia 2; Women and Youth in Financial Inclusion; TechnoServe Agroprocessing; We Effect Women's Economic Empowerment; Scaling Up Youth Employment in Agriculture; Enterprise Development and Growth Enhanced; Emerging Farmers Partnership; Technical Assistance and Financial Instrument support for Zambia Agriculture Value Chain Facility.

participating stakeholders (implementing agency, trade agencies, Apex Financial Institution and PFIs, PIU, other partner ministries and private sector), coordination, and collaboration from the outset. The implementation of ZATP and TA on trade facilitation (under Trade Facilitation Support Project ASA) as well as BEE reforms (under Africa Caribbean Pacific Business Friendly Project, P176090) currently being provided have followed this model with several areas of business reforms (Business Regulations, Investment Policy and Promotion) and trade facilitation reforms (such as agency support, border function, and technology and rules development) being mutually complementary and being embedded into ZATP-II.

47. **The trade component of the project draws upon lessons from similar trade facilitation-focused lending projects globally and in the region.** Trade facilitation evaluation of the Independent Evaluation Group (IEG)[35] highlights the importance of promoting an approach of complementary (simultaneous and/or sequential) interventions, substantiated by consistent diagnostics. Therefore, better outcomes are generally achieved when countries are supported through an integrated approach which combines advisory with lending. The TA on trade facilitation has followed this model with several areas of trade facilitation reform (such as agency support, border function, and technology and rules development) being mutually complementary and being embedded into ZATP-II. The ongoing Southern Africa Trade and Connectivity Project (SATCP) also applies a similar design. Trade, SPS, and standards interventions, are discussed at the national level through the national trade facilitation committee (NTFC) as well as on the regional level through a corridor development committee such as the NDCTC between Mozambique, Malawi, and Zambia. Results of active regional coordination is an approved memorandum of understanding (MoU) between Malawi Bureau of Standards (MBS) and ZABS on harmonization of standards. Lessons in implementation so far include harmonizing of standards in phases, target improving coordination and regulatory policy, and creating peer-to-peer learning that will be applied to ZATP-II.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

48. **The project will be implemented by the MCTI with the DPI serving in a coordination role**. A dedicated PIU structure will be leveraged for day-to-day management of ZATP-II. The ongoing implementation arrangements (overall project coordination with MCTI and implementation through the PIU) under ZATP will be utilized for ZATP-II. However, few additional functions will be added to the PIU structure both at the national as well as provincial level. The PIU for ZATP-II will comprise of dedicated staff - Project Manager, Agribusiness Specialists, FM Specialist, Procurement Specialist, Environmental and Social Safeguards Specialists, Infrastructure Specialist, Access to Finance specialist, M&E Specialist, and Communications Specialist apart from staff at provincial level. The PIU will develop annual performance targets, in consultation with the Project Coordinator and approved by the Controlling Officer (MCTI) and the World Bank.

49. **To support the project implementation, ZATP-II will have a two-tier governance structure including a Project Steering Committee (PSC) and Technical Working Group (TWG) supported by the PIU as Secretariat.** The Project Steering Committee (PSC), chaired by the Permanent Secretary for Commerce, Trade, and Industry responsible for the investments

[35] https://documents1.worldbank.org/curated/en/264211508921411734/pdf/Grow-with-the-flow-IEG-evaluation-of-World-Bank-Group-support-to-facilitating-trade-2006-17-Approach-Paper.pdf

portfolio will provide oversight and will include Permanent Secretaries from partner ministries as well as private sector among others. The steering committee will (a) oversee overall implementation of the project; (b) provide policy guidance to the project; (c) ensure inter-agency coordination of the project; and (d) review and approve annual work plans and budgets (AWPBs). The project manager will serve as the secretary of the PSC. The Committee will meet at least once per quarter particularly during the early phases of the project but shall have a minimum of two meetings in a year as stated in the financing agreement.

50. **MCTI will set up a TWG that will be chaired by the Director of Planning and Information in the MCTI (Project Focal Point and coordinator).** The TWG will provide technical oversight to the implementation of the project (while the PSC will be responsible for general policy and guidance). It will include representatives from relevant departments/ agencies, nominee from Attorney General's office, select PIU team members, head of MCTI Accounting. The TWG will meet at least once per quarter.

51. **Provincial Productive Alliances Advisory Committees (PPAACs) will be set up to enhance outreach, ensure local-level ownership and provide guidance and feedback for project implementation at a regional level for the MarketConnect and Productive Alliance subcomponents of the project**. A member from the private sector will chair the committee. PPAAC will include members of local businesses such as Chambers of Commerce, and Zambia National Farmers Union, members of local leadership, and representatives from the Ministries of Agriculture, Livestock and Fisheries, SME Development and Provincial Planning Office. A provincial facilitator will be recruited by the MCTI from the market in each province where the project is active. Project implementation arrangements are outlined in Annex 1 and will be elaborated in the PIM. The ZATP-II PIM will leverage the existing ZATP PIM in developing processes, selection criteria, and so on.

B. Results Monitoring and Evaluation Arrangements

52. **The project will be supported by a comprehensive and rigorous M&E plan that will measure the progress of project interventions and assess the outcomes and achievement of the PDO and intermediate indicators.** The M&E system will feature a Management Information System (MIS), baseline and endline evaluations, and beneficiary assessments. The primary objective will be to enforce the culture of results-based project M&E and provide the foundation for an evidence-based decision-making process. These systems will be designed for data collection and provide concurrent feedback to stakeholders about the project's progress toward achieving the key results.

53. **The M&E system will be managed by dedicated M&E staff within the PIU.** These staff will be tasked with coordination, timely collection of data, and preparation of regular reports on the project's implementation progress. This includes reporting of key performance indicators in accordance with World Bank requirements. The PIU M&E staff will also draw upon technology service providers or consultants to support the project M&E plan and accompany project implementation; this will be funded under Components 1 and 3 depending on the nature and source of data collection. The project will ensure that these consultants are well trained and supervised to enable better consistency and quality of data collection, especially to facilitate participatory financial evaluations with PO members.

54. **Citizen engagement and social accountability would be promoted throughout the project cycle.** As part of the project and following the Environmental and Social Framework

(ESF), an SEP has been prepared and disclosed. It identifies project stakeholders, means to ensure effective project communication and consultation with each stakeholder group, and indicators to monitor its implementation. As part of the SEP implementation, the project would also support the establishment of a dedicated project website which would include a description of project activities, key project documents, periodic updates on progress and results, and a grievance mechanism. **Citizen engagement will be measured through beneficiary assessments,** which will include (a) participatory focus groups; (b) semi-structured interviews with agribusinesses, producer households, PO leaders, and buyers; and (c) life stories of beneficiaries and producer households. These beneficiary assessments will help to assess the relevance and impact of project interventions on producer alliances, BDS, grants, LoC, trade promotion and facilitation, AfCFTA implementation, and so on. Each of the interventions will be assessed with respect to capacity, market access, productivity, climate resilience, jobs, and incomes, and so on. Staff surveys among regulatory agencies under Component 2 will be conducted to assess relevance and satisfaction with interventions undertaken.

55. **The project's M&E system will include an explicit focus on disaggregating results by gender and youth wherever possible.** This will ensure that differential impacts on vulnerable groups are adequately recorded. This will also allow the project to monitor its efforts to explicitly target vulnerable groups (for example, the effectiveness of targeted outreach efforts and preferential selection criteria for MarketConnect, PAZ, LoC and Component 2 and the effectiveness of interventions in improving impacts on women and youth beneficiaries).

C. Sustainability

56. **Given the strong alignment of the project with 8NDP and Vision 2030, there is a clear commitment from the GRZ to provide continued support to PSD, especially in the agribusiness sector, even after closure of the project.** Government institutions to be supported by the project include MCTI and its agencies, other ministries like the Ministry of Agriculture and its agencies like Plant Quarantine and Phytosanitary Service (PQPS) , Ministry of SMED, Ministry of Livestock and Fisheries, provincial level staff of GRZ, other ministries and their agencies relevant to trade and overall private sector development agenda including Ministry of Finance and National Planning (MoFNP), Ministry of Transport and Logistics, and Ministry of Infrastructure. The implementation capacity of these institutions will be strengthened by the project, all of which will continue to operate after project closure. Further, the reforms supported under Component 2 will have a lasting impact on Zambian businesses, especially those in the agribusiness sector; these reforms will enable enhancements to the business enabling environment (business regulations and investment policy and promotion) and trade (for example, permanently streamlined customs and inspection procedures, and ICT investments at border posts)

57. **At the beneficiary level, the support provided to firms and POs under MarketConnect and PAZ will improve beneficiary capacity and the viability of their businesses, allowing for sustainability of impact after project closure.** By design, BDS/TA provided under MarketConnect, and financing provided via PAZ and the LoC are explicitly designed to improve beneficiaries' market orientation and capacity to profitably serve market demand. The managerial and technical skills gained, and investments made by beneficiaries will be applicable to further endeavours (or generate cash flows to finance future investments) by the supported agribusinesses, POs and farmers. This will allow interventions to have a sustained impact on market access and access to finance for rural communities well

beyond the life of the project. The supplier-off taker linkage model is also expected to engender a virtuous cycle wherein off takers have incentives to invest in supplier capabilities even after project interventions have ended.

58. **Finally, the project's private sector-led modalities will help to ensure long-term sustainability.** PFIs will gain additional capabilities with respect to profitably serving rural agribusinesses through their experience with the LoC and TA provided by the project. These capabilities—coupled with the demonstration effect of the loans enabled by the LoC—will facilitate continued lending to Zambian agribusinesses even after the project conclusion. Similarly, in line with the experience of ZATP, the project is expected to enhance the capabilities of TA and BDS service providers in Zambia. An enhanced ecosystem of such providers can in turn provide improved services to beneficiaries in Zambia—either on a commercial basis or in conjunction with other development partners (DPs)—after project closure.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

59. **A detailed economic analysis based on direct and indirect costs and benefits was conducted.** The costs and benefits of each component were estimated separately. Separate estimates of the component impacts should provide a lower bound of the overall benefits as total project benefits are deemed to exceed those of individual components through their interdependencies and spillovers (for example, reduction in trade costs flowing into improved profit margins for agribusiness beneficiaries who gain access to export markets through Component 1).

60. **The analysis accounts for the following benefits:**

- Increased revenues (and by extension profit margins) and jobs created by MSMEs, POs, and smallholder farmers due to improved skills and access to capital.
- Reduction in trade costs due to improvements in trade facilitation and regional coordination, including investments in automation, improved CBM, and streamlined trade procedures and inspection regimes.

61. **In line with the approach of the economic analyses drawn from prior agribusiness and trade corridor projects (for example, ZATP and the SATCP), the analysis accounts for the following as cash flows to the project:** (a) incremental cash flows to beneficiary firms, POs and farmers resulting from project-driven revenue; (b) incremental wages from direct jobs created due to the project; and (c) reduction in trade costs due to Component 2. The cost-benefit analysis was carried out over 20 years and at the World Bank-recommended discount rate of 12 percent, with sensitivity analyses conducted for each component.

62. **Under base case assumptions the project's expected internal rate of return (IRR) is 22.1 percent, and the project generates a net present economic value of US$114.78 million over 20 years at a 12 percent discount rate (see Table 3).** Component 1 is projected to generate an economic net present value (NPV) of US$52.30 million with an IRR of 17.8 percent. This is roughly in line with the projected economic internal rate of return (EIRR) for

similar components for ZATP (17 and 22 percent for support to agribusinesses and POs, respectively). These figures come from base case assumptions of 105,000 farmers reached and beneficiary revenue growth uplift from project contact of 3 percentage points, 6 percentage points, and 3 percentage points, respectively, for beneficiaries receiving TA only, TA plus financing (either grants or loans), and financing only, which are conservative relative to ZATP experience (uplift rates above 10 percentage points achieved on average for TA plus financing beneficiaries).[36] Component 2 is projected to generate an economic NPV of US$73.10 million and an EIRR of 55.7 percent, roughly in line with projected values from similar projects such as the SATCP (P164847) (EIRR of 30 percent and 65 percent for Malawi, and Mozambique, respectively). These figures come from base case assumptions of a 1.45 percent full potential savings on trade costs.[37] Analysis of the Potential Impact of Trade Facilitation on Developing Countries' Trade indicates that trade facilitation automation measures similar to the project's interventions can save up to 2.9 percent of trade costs in Sub-Saharan Africa, and this figure is scaled down by 50 percent as the project is unlikely to address all potentially automatable processes).

Table 3. Summary of NPV and EIRR for all Project Components over 20 Years at a 12 Percent Discount Rate

	Component 1	Component 2	Overall Project
Present value benefits (US$, millions)	144.28	110.02	254.30
Present value costs (US$, millions)	91.98	36.85	139.52
NPV (US$, millions)	52.30	73.17	114.78
EIRR (%)	17.80	55.70	22.1

Note: Individual figures for Components 1–2 do not account for project management costs (Component 3), but Component 3 costs are factored into the overall project calculations.

63. **The project remains viable under a wide range of parameters in sensitivity analyses, demonstrating the robustness of its rationale.** The largest sources of project benefit for Component 1 comes from uplift of farmer earnings given the scale of farmer beneficiary numbers. Sensitivity analyses were thus run to analyze the impact of reduced farmer reach relative to base case assumptions and differing values of beneficiary revenue growth uplift relative to base case assumptions. The project retains a positive NPV and EIRR above 15 percent even when the number of farmers reached is scaled down by 40 percent and the growth uplift to beneficiaries is reduced by 2 percentage points (that is, to 1, 4, and 1 percentage points, respectively, for beneficiaries receiving TA only, TA plus financing, and financing only). Project benefits for Component 2 are primarily driven by the full potential savings ratio and portion of benefits that are applicable to exports. Sensitivity analyses were thus run to analyze the impact of reducing the full potential savings ratio and discount rate. The component has a positive NPV and EIRR above 20 percent even when full potential trade cost savings are scaled down to 1.45 percent and the benefit applicable to exports is only 10 percent (versus 50 percent in the base case) (see Table 5).

[36] In line with M&E data from ZATP, revenue growth uplift is expected for years 2–5 after program onboarding for POs and underlying farmers and years 2–3 after program onboarding for agribusinesses.
[37] Evdokia Moïsé & Silvia Sorescu, 2013. "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade," OECD Trade Policy Papers 144, OECD Publishing.

Table 4. Sensitivity Analysis: Component 1 EIRR

Growth rate uplift relative to base assumption (p.p. difference)		Number farmers reached relative to base assumption (% difference)								
	17.8%	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%
	-2.0%	12.5%	13.1%	13.6%	14.1%	14.6%	15.1%	15.6%	16.1%	16.6%
	-1.5%	13.1%	13.7%	14.3%	14.9%	15.5%	16.0%	16.6%	17.1%	17.6%
	-1.0%	13.6%	14.3%	15.0%	15.6%	16.3%	16.9%	17.5%	18.1%	18.6%
	-0.5%	14.1%	14.9%	15.6%	16.3%	17.0%	17.7%	18.4%	19.0%	19.6%
	0.0%	14.7%	15.5%	16.3%	17.1%	**17.8%**	18.5%	19.2%	19.9%	20.5%
	0.5%	15.2%	16.1%	16.9%	17.7%	18.5%	19.3%	20.0%	20.8%	21.5%
	1.0%	15.7%	16.6%	17.6%	18.4%	19.3%	20.1%	20.9%	21.6%	22.4%
	1.5%	16.2%	17.2%	18.2%	19.1%	20.0%	20.8%	21.7%	22.5%	23.3%
	2.0%	16.7%	17.8%	18.8%	19.8%	20.7%	21.6%	22.5%	23.3%	24.1%

Table 5. Sensitivity Analysis: Component 2 EIRR

Savings adjustment factor for exports		Full potential trade cost savings								
	55.7%	0.33%	0.43%	0.53%	0.63%	0.73%	0.83%	0.93%	1.03%	1.13%
	10.0%	-0.5%	3.4%	6.9%	10.3%	13.5%	16.7%	19.9%	23.1%	26.2%
	20.0%	0.8%	4.9%	8.7%	12.3%	15.8%	19.3%	22.8%	26.3%	29.8%
	30.0%	2.0%	6.4%	10.4%	14.3%	18.1%	21.9%	25.7%	29.5%	33.3%
	40.0%	3.2%	7.8%	12.1%	16.3%	20.4%	24.5%	28.6%	32.7%	36.9%
	50.0%	4.4%	9.2%	13.8%	18.2%	**22.6%**	27.0%	31.5%	36.0%	40.5%
	60.0%	5.5%	10.6%	15.4%	20.2%	24.9%	29.6%	34.4%	39.2%	44.1%
	70.0%	6.7%	12.0%	17.1%	22.1%	27.1%	32.2%	37.3%	42.5%	47.8%
	80.0%	7.8%	13.3%	18.7%	24.1%	29.4%	34.8%	40.3%	45.8%	51.4%
	90.0%	8.9%	14.7%	20.4%	26.0%	31.7%	37.4%	43.2%	49.1%	55.1%

B. Fiduciary

(i) Financial Management

64. **According to the World Bank's FM capacity assessment of the proposed implementing entity, the overall FM risk is considered 'Moderate'**. The FM assessment carried out revealed that the proposed implementing entity of ZATP-II (currently ZATP), under the MCTI has adequate fiduciary measures in place to implement the project. The assessment indicates that the FM arrangement satisfies the World Bank's minimum requirements under the World Bank Directive: Financial Management in World Bank Financed Operations and other Operational Matters issued on September 7, 2021. Therefore, the PIU can adequately provide, with reasonable assurance, accurate and timely information about the status of the project, as required by the World Bank.

65. **Budget:** Project budgeting will be done in accordance with existing GRZ procedures. The budget shall be based on the AWPB and Procurement Plan (PP) developed by MCTI and PIU. The project planning and budgetary process shall be implemented in accordance with the standard government fiscal year which begins on January 1 of each financial year. This will form the basis for defining the Project activities and ensuring that sufficient funds are allocated to achieve the agreed results. The PIU will submit the AWPB to MCTI for approval by the Permanent Secretary. A no-objection will be required from the World Bank throughout project implementation. Any expenditures incurred that are not included in the work plan and budget not cleared by the World Bank will be deemed to be ineligible.

66. **Disbursement arrangements:** For disbursements, the project will use the Statement of Expenditure (SOE) method of disbursement with variable allocation. Funds will be disbursed through two Designated Accounts (DA-A and DA-B)~~,~~ denominated in United States Dollars (US$) at the BoZ. DA-A will be for normal project operations and DA-B will be for the LoC. The PIU will transfer funds from the DA-A through control 99 Treasury Single Account (TSA) to the

ZMW project operational account held at the BoZ and to the US$ Project Operational Account held at the commercial bank. From the ZMW project operational account, all local payments would be made through the Mirror account (zero balance) held at a commercial bank. However, for US$ denominated payments, transfers or cheques will be processed from the US$ account opened at the commercial bank. For LoC, the PIU will transfer funds from DA-B, held at the BoZ through control 99 TSA to the Project Apex FI account denominated in ZMW. The Apex FI will transfer funds to PFIs based on requests consolidated and received from the PFIs. Repayments pertaining to LoC will be reconciled by PFIs and payments made to Apex FI and deposited back into Apex FI revolving account, denominated in ZMW. All the bank accounts that will be involved in the flow of funds will be reconciled monthly. All costs relating to programs will be managed centrally from the PIU. No program costs will be managed at the regional level. In addition to the advance through the DAs, other methods of disbursements, that is, reimbursement, direct payment, and special commitment will be available to the project.

67. **External and internal audit:** The annual financial statements for the project will be audited by the Office of the Auditor General (OAG). The OAG is constitutionally mandated to carry out audit of government institutions and World Bank/donor-financed project. As part of the annual audit, the OAG will provide an audit opinion on the financial statements of the project and will highlight the control issues and the audit recommendations in the management letter. The audit report and the management letter will be submitted to the World Bank within six months after the close of the financial year. Audit terms of reference (TORs) will be prepared and cleared with the World Bank and shared with the auditors. The project will also be subject to audit by the internal audit unit of the MCTI, who will undertake the internal audit of the project at least twice per year.

68. **Detailed FM arrangements** are provided in **Annex 1:** Implementation Arrangements and Support Plan.

(ii) Procurement

69. The implementation arrangements for ZATP-II will borrow from the experience and lessons learned from ZATP. The design of the procurement arrangements will be informed largely by the existence and functionality of the following elements: (a) adequacy and application of procurement regulatory framework and management capability, including number and competencies of procurement staffs; (b) the adequacy of internal and external oversight and integrity; (c) strength and effectiveness of procurement organizational systems and processes; and (d) the low complexity of the procurement and proposed procurement arrangements. It is noted that the PIU has the experience in implementation of World Bank-financed projects and has been implementing ZATP since 2017. Procurement staff with the required qualifications and experience will be recruited in the PIU.

70. **Procurement under the project will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers'**, dated July 2016 and revised November 2020 (fourth edition), hereafter referred to as 'Procurement Regulations'; the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 revised in January 2011 and July 1, 2016, and other provisions stipulated in the Financing Agreement will be applied for all procurement activities.

71. Overall Assessment of procurement risk and capacity was conducted, and the overall risk is **rated as "Moderate".** The following mitigation measures will be implemented (a)

Lessons from the implementation of the ZATP will be incorporated to mitigate the risk of any procurement delays and capacity; (b) Advanced training of procurement staff at the PIU on World Bank procurement regulations before the project starts will be undertaken and subsequent regular procurement clinics will be held; (c) Procurement planning will be integrated as part of the budgeting process, and PPs will be used as a management tool for allocating responsibilities and accountability and monitoring procurement performance; (d) Contracts will be monitored regularly and effectively and post-evaluations will be undertaken to strengthen systems, enhance performance, and measure improvement.

72. **The PIU with the support of the World Bank has prepared a Project Procurement Strategy for Development (PPSD)** to address how procurement activities supports the development objectives of the project to deliver the best value for money (VfM) under a risk-based approach. It provides adequate justification for selection methods in the PP. The PPSD includes 18-month PP, which will set out the procurement profile of the project and selection methods to be followed by the recipient during project implementation in the procurement of goods, works, non-consulting and consulting services financed by the project. The PP will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The PPSD will be updated during the project implementation phase as needed. A procurement management manual has been prepared in line with the World Bank Procurement and Consultant Guidelines.

73. The project will use the **Systematic Tracking of Exchanges in Procurement (STEP) system during implementation.** It is a planning and tracking system which enables automatic publication of the approved PP, publication of notices and contract award information in the World Bank's external website and United Nations Development Business (UNDB). The system has clear implementation road maps with activity start and end dates. It is a tool used for monitoring delays, establishing benchmarks, measuring procurement performance; and detecting and flagging any debarred firms when bidder's information is uploaded in the system.

74. **Frequency of procurement supervision**. In addition to the prior review supervision to be carried out by the World Bank, the World Bank will conduct annual missions to the field or virtually through the online STEP system to provide support and carry out post-review of procurement actions.

C. Legal Operational Policies

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

D. Environmental and Social

75. **The environmental risk rating is Moderate because the project anticipates minor construction works such as the laboratory and infrastructure to support digital and automated trade and accreditation on systems.** The project also includes the direct support to growth-oriented agribusinesses and small and marginal farmers associated through POs, which are moderate-risk activities building on the success of ZATP. The subprojects under the agribusinesses, POs, and farmers activities may involve horticulture, aquaculture, animal husbandry, agro-processing and farmer field demonstration for instruction in climate adaptation and mitigation measures in agriculture. These activities may require small infrastructure works such as warehouses, fishponds, bulking centers, mechanized animal feed production and small plots of land for demonstration purposes amongst others. The continuation and the upscale of ZATP activities (as merged into ZATP-II) across a wider geographical area will see: (a) the practice of climate-resilient agriculture introduced to five new provinces supported by the creation of multiple farmer field schools; (b) an expansion of Occupational Health and Safety practices that were introduced into ZATP for construction, farmer and POs activities; and (c) an improved subproject E&S screening and subproject design process perfected from ZATP lessons learned.

76. The environmental risks and impacts of the project could include: (a) the indiscriminate disposal of small amounts of e-waste generated from the proposed digitization activities or solar panels, equipment and batteries used in project activities when irreparable or at end of life; (b) construction related impacts from Component 1 and 2 activities such as elevated dust and noise levels, raw material extraction, natural resource use, the generation and inadequate management of solid, construction and hazardous waste; (c) the uncontrolled use and application of pesticides by small scale farmers and POs; (d) energy generation using old diesel generators for POs, farmers and Agribusiness activities that emit GHGs, Sulphur Oxide (SOx) and Nitrogen oxides (NOx); (e) impacts on biodiversity and habitats through land conversion, pollution to land and waterways, introduction of alien species through farming and agricultural practices and land degradation from natural resource extraction; (f) inadequate implementation, supervision and management of OHS on all sites including the laboratory refurbishment or construction leading to worker and community incidents and accidents; (g) infrastructure designed and built using inadequate building and fire codes resulting in climate susceptible and unsafe buildings; and (h) project road related accidents and incidents caused by unqualified and unlicensed drivers, inadequate driver and operator oversight, poor road infrastructure, poor vehicle maintenance, driving at night, using fatigued drivers, and so on. Environmental risks will be managed using a framework approach because exact locations and activities are not known at this stage.

77. Environmental risks will be managed using a framework approach because exact locations and activities are not known at this stage. The project Environmental and Social Management Framework (ESMF) will provide a rigorous E&S screening process for all subproject activities, an activity exclusion list, a framework for ESMP development, an e-waste management plan, pesticide management plan, Biodiversity Management Plan, TORs, a road safety policy, guidelines on the management of OHS on

project sites, and other related guidelines and plans to manage pollution to air, water and land, conserve and protect natural resources and minimize and adequately manage the generation of all types of waste. The ESMF will be prepared prior to credit effectiveness.

78. **The social risk classification is Moderate at this stage, considering the nature and magnitude of the potential social risks and the impacts of subprojects and that, though the project will be implemented across the entire country, there are no conflict-affected areas that might have an impact on the project's implementation**. Key potential risks include: (a) risk of land acquisition and involuntary resettlement due to activities under subcomponents 1b, 1c and 2a; (b) risk of exclusion of or discrimination against women, youth, and people living with disabilities in the selection of farmers and agribusinesses; (c) labor and working conditions risks due to failure to abide by national legislation on working hours, wages, overtime, compensation, or benefits; (d) sexual exploitation and abuse, and sexual harassment (SEA/SH) among project workers, stakeholders and/or local communities; (e) risk of child labor in the farming activities and agribusinesses; (f) lack of inclusive consultations especially where there may be excluded groups in remote locations or where there are language barriers; (g) challenges in organizing or obtaining access to grievance redress, and referral processes; and (h) the limited capacity of the PIU on ESF. These social risks will be addressed in ESF instruments which will be developed by the Borrower, such as the ESMF, Environment and Social Commitment Plan (ESCP), the SEP, which include the GRM, the Labor Management Procedures (LMP), to be prepared as part of the ESMF. The ESMF will also include a GBV action plan and an accountability and response framework which consist of procedures that detail how to respond to SEA/SH allegations, and guidance on how to screen for any land acquisition and resettlement. Screening criteria will be applied to all investments under subcomponents 1b and 1c. Small infrastructure investments under subcomponent 2a will also be screened to avoid land acquisition and resettlement. To mitigate social risks for Financial Intermediaries (FIs) subprojects, an ESMS, which includes eligibility criteria for accessing grants and loans and will be prepared by the Apex FIs and the PFIs.

79. **The project will integrate climate adaptation and mitigation focused interventions across all technical components and project supported activities.** These include but not limited to development and dissemination of climate smart management practices, subproject investments for PAs which finance demonstration and adoption, financing of climate smart business development plans for POs, facilitating enhanced access to credit through LoC for development of climate resilient productive infrastructure/assets that support value addition and reduced post-harvest losses and wastage , enhanced access to climate information services for small-farmers, and development of climate resilient value chains.

80. **Gender, youth, and persons with disabilities:** The project will increase participation of women, youth and persons with disabilities in economic opportunities and better enable their ownership and control of productive assets by providing technical and financial support to enterprises that are owned or led by these segments. For Component 1, beneficiary selection criteria and formulas will contain preferences in favor of these groups. The project will specifically address the gender gap with respect to access to credit. As discussed in further detail in paragraph 5, women face a higher rate of loan rejection and higher collateral requirements. TA to PFIs will enable development of simplified or tailored 'for women' credit products; this will help to address more stringent credit requirements applied to women (for example, preferential interest rates, and incremental loans) The products will consider constraints to lack of collateralization or wider acceptance of movable collaterals. Simplified loan application procedures and dedicated loan desks for women entrepreneurs would be considered as part of subcomponent 1c. Tailored marketing campaigns will also help to attract more female participation. Similarly, dedicated

trainings, mentoring support and business management tools for women and other target groups. The project will measure the portion of female beneficiaries accessing finance via project support, with a target of 40 percent.

V. GRIEVANCE REDRESS SERVICES

81. Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, because of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

VI. KEY RISKS

82. **The overall risk of the project is rated as Moderate. The main risk to the project is macroeconomic risk, which is substantial, as evidenced by Zambia's sovereign default in 2020.** The project acknowledges the recent reversal of inflation's downward trends, protracted debt restructuring, and persistent high prices of fuel and fertilizers, which may impact implementation of the project. Despite recent signs of recovery, Zambia's macro stability and long-term debt sustainability require significant debt reduction. The adoption of a debt reduction MoU consistent with the Debt Sustainability Analysis (DSA) and subsequent debt relief agreements with official and commercial creditors on comparable terms are critical to mitigate some of the macroeconomic risks. Continued progress on structural reforms to promote economic diversification and private sector participation will also help mitigate these risks. Maximizing use of concessional financing as well as mobilizing private capital would somewhat mitigate the risks.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Zambia
Zambia Agribusiness and Trade Project-II (ZATP-II)

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
To contribute to increased access to markets and finance and promote firm growth in Agribusiness							
% of beneficiaries with increased average sales (of which % female) (Percentage)		0.00	0.00	10.00	30.00	40.00	60.00
% Female (Percentage)		0.00	30.00				50.00
Private Capital mobilized (Amount) (USD) (Number)		0.00	0.00	1,000,000.00	7,000,000.00	14,000,000.00	17,000,000.00
Percentage of beneficiaries with increase in exports (Percentage)		0.00	0.00	0.00	5.00	10.00	20.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Component 1: Access to Markets and Finance							
Total No. of project beneficiaries (of which % female) (Number)		0.00	5,000.00	21,000.00	55,000.00	95,000.00	133,500.00
% females (Number)		0.00					50.00
No. of beneficiaries supported through Business Development Service provision. (Number)		0.00	200.00	800.00	1,500.00	2,400.00	3,150.00
No of subprojects operationalized under Productive Alliance (Number)		0.00	50.00	140.00	270.00	550.00	900.00
No of beneficiaries accessing Lines of Credit (Number)		0.00	30.00	90.00	160.00	230.00	350.00
% of which female (Percentage)		0.00					40.00
% of beneficiaries able to secure additional funding (Percentage)		0.00					30.00
Total new FTE Jobs being created by the project (Number)		0.00	500.00	2,500.00	6,500.00	9,000.00	12,550.00
% of females (Number)		0.00					40.00
Component 2: Promote Trade and Agribusiness Competitiveness							
Percentage reduction of average time to clear a border crossing (Percentage)		0.00	0.00	0.00	10.00	10.00	15.00
Reduction in the no. of agencies physically located at		0.00	0.00	0.00	3.00	5.00	8.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
two selected border posts (Number)							
No. of tests, proficiencies & systems accredited (Number)		0.00	0.00	2.00	4.00	6.00	6.00
Establishment of a Secretariat serving the AfCFTA National Action Committee (Yes/No)		No	No	Yes	Yes	Yes	Yes
Component 3: Project Management							
Percentage of project-related grievances addressed (Percentage)		0.00	100.00	100.00	100.00	100.00	100.00
Satisfaction rating by project beneficiaries on providing feedback/effective engagement during the term of the project (%) (Percentage)		0.00	60.00	60.00	70.00	70.00	70.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
% of beneficiaries with increased average sales (of which % female)	The indicator will measure the proportion of beneficiary firms and producer organizations (POs) from among the total firms and POs that have	Annual	Project Evaluation Surveys	Baseline, Mid Term and End line Surveys. Mid line survey to be conducted after second year of project implementation.	Project Implementing Unit (PIU)

	been supported by the project through Matching grants and/or Line of credit (as applicable) that have reported an increase in average sales since receiving project support.				
% Female	The indicator will measure the proportion of female beneficiary firms and producer organizations (POs) from among the total firms and POs that have been supported by the project through Matching grants and/or Line of credit (as applicable) that have reported an increase in average sales since receiving project support.	Annual	Project Evaluation Surveys	Baseline, Mid line and End line surveys. Midline survey to be conducted at the end of second year of project implementation.	PIU
Private Capital mobilized (Amount) (USD)	The indicator will measure the cumulative amount of commercial credit leveraged by project supported beneficiaries (firms and POs) over the course of the project implementation period.	Annual	Project Evaluation Surveys	Data collected through the Project Management Information System (MIS). Mid Term survey to be conducted at the end of year 2 of implementation after p roject effectiveness.	PIU
Percentage of beneficiaries with increase in exports	The indicator will measure the proportion of	Mid Term (MT) and End	Project Evaluation	Baseline, Mid Term and End line Surveys. Mid	PIU

	beneficiary firms/producer organizations (POs)/off takers/scale cross border traders from among the total beneficiary firms/producer organizations (POs)/off takers/scale cross that have been supported by the project have reported an increase in exports since receiving project support	of Project (EoP)	Surveys	Term survey to be conducted at the end of year 2 of implementation after p roject effectiveness.	

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Total No. of project beneficiaries (of which % female)	The indicator will measure the total number of beneficiaries including firms, producer organizations (POs), off takers, scale cross border traders supported by the project. It will also include individuals that have gained Full Time Equivalent [FTE] jobs due to the project	Quarterly	Project Progress Reports	Data collected through the Project Management Information System (MIS) and National Trade Facilitation Committee reports.	PIU (includes data from MCTI, NTFC)
% females					
No. of beneficiaries supported through Business Development Service provision.	The indicator will measure the total number of POs,	Quarterly	Project Progress	Data collected through the Technical Service	PIU

	firms, start-ups, small traders, etc that have been supported through Business Development Services at least once under the project.		Reports	Providers (TSPs) under MarketConnect, capacity building under Line of Credit and Trade promotion interventions and Project Management Information System (MIS). Light touch advisory and BDS may be provided to larger beneficiary base across components 1 and 2. This will be measured and monitored through Project MIS as well as quarterly reports submitted to the WB task team.	
No of subprojects operationalized under Productive Alliance	The indicator will measure the total number of POs that have received the matching grants under the project.	Quarterly	Project Progress Reports	Data collected through the Project Management Information System (MIS)	PIU
No of beneficiaries accessing Lines of Credit	The indicator will measure the number of project supported beneficiaries (mostly firms and select	Quarterly	Project Progress Reports	Data collected through the Project Management Information System (	PIU

	POs) that are able to access Line of Credit (disaggregated by gender). The sub-indicator will measure also the proportion of beneficiaries who accessed the project's Line of Credit, that were able to secure additional external funding such as commercial credits and loans from other resources.			MIS)	
% of which female					
% of beneficiaries able to secure additional funding					
Total new FTE Jobs being created by the project	The indicator measures the total number of Full-time equivalent jobs created either by the project supported POs or SMEs	Quarterly	Project Progress Reports	Data collected through the Project Management Information System (MIS)	PIU
% of females					
Percentage reduction of average time to clear a border crossing	The indicator will be measured through a time release study to track the percentage reduction of average time for goods to clear the border	Annual	Project Progress Reports	Surveys undertaken by the Project	PIU

Reduction in the no. of agencies physically located at two selected border posts	Measured by the reduction in the number of agencies physically located at two selected border posts. Upon implementation of Coordinated Border Management and other trade facilitation reforms, the total number of agencies at each of the border posts is expected to reduce to 6.	Annual	National Trade Facilitation Committee	Physical location of border agencies	PIU
No. of tests, proficiencies & systems accredited	The total number of accredited tests, proficiencies and systems by the National Quality Infrastructure and Sanitary and Phyto Sanitary (SPS) agencies supported through the project collectively throughout the project period.	Annual	NQI and SPS agencies, PIU	Upon accreditation the respective agency submits confirmation documentation to the PIU of the Project.	PIU
Establishment of a Secretariat serving the AfCFTA National Action Committee	The Ministry of Commerce, Trade and Industry establishes a Secretariat to the AfCFTA national action committee that is defined through a terms of reference.	Annual	Ministry of Commerce, Trade and Industry	The Secretariat is established within the Ministry of Commerce, Trade and Industry through a Ministerial Order and the officers of the Secretariat are recruited.	PIU

Percentage of project-related grievances addressed	Cumulative total number of project-related grievances addressed within the required terms over the cumulative total number of project- related grievances received.	Monthly	Project Progress Reports	Data collected through the Project Management Information System (MIS)	PIU
Satisfaction rating by project beneficiaries on providing feedback/effective engagement during the term of the project (%)	This indicator tracks the proportion of sample project beneficiaries that have rated the project engagement as "satisfactory"	Annual	Project Progress Reports	Surveys undertaken by the Project administered through a survey questionnaire.	PIU

ANNEX 1: Implementation Arrangements and Support Plan

1. **The project will be implemented by the MCTI with the DPI serving in a coordination role**. A dedicated PIU structure will be leveraged for day-to-day management of ZATP-II. The PIU will develop annual performance targets, in consultation with the Project Coordinator and approved by the Controlling Officer (MCTI) and the World Bank. The PIU will also be responsible for the implementation of the ESMF and the Resettlement Policy Framework.

2. **The ongoing implementation arrangements (overall project coordination with MCTI and implementation through the PIU) under ZATP will be utilized for ZATP-II, with some adjustments in the model to reflect ZATP-II's expanded scope relative to ZATP.** For the most part, existing ZATP PIU roles will be transitioned into the ZATP-II PIU structure. However, a few additional functions will be added to the PIU structure at both the national and provincial levels to reflect how ZATP-II covers additional provinces (that is, additional Provincial Officers) and interventions relative to ZATP (that is, specialists focusing on credit and trade). The PIU for ZATP-II will comprise of dedicated staff - Project Manager, Agribusiness Specialists, FM Specialist, Procurement Specialist, Environment Specialist, Social Specialist, Infrastructure Specialist, Access to Finance Specialist, M&E Specialist, Communications Specialist, and provincial-level staff. The PIU will hire technical service providers (TSPs) and individual consultants as per component wise technical needs that may arise during the project implementation. The TORs and the eligibility criteria for each of the above PIU staff are detailed in the PIM. The implementing ministry will use these TORs and the eligibility criteria to recruit and place the above PIU staff.

3. **To provide oversight to the project implementation, ZATP-II will have a two-tier governance structure including a PSC and TWG supported by the PIU as Secretariat.** The PSC will be chaired by the Permanent Secretary for Commerce, Trade, and Industry and will provide general oversight and strategic guidance. It will include Permanent Secretaries from partner ministries as well as private sector among others. For the PSC, if needed, other ministries and agencies will be invited. Detailed description of PSC will be available in the PIM. The steering committee will: (a) oversee overall implementation of the project; (b) provide policy guidance to the project; (c) ensure inter-agency coordination of the project; and (d) review and approve AWPBs. The project manager will serve as the secretary of the PSC. The committee will meet at least once per quarter particularly during the early phases of the project but shall have a minimum of two meetings in a year as per Financing Agreement for the project. The details in terms of the composition of the PSC and TWG and the details of their role are clearly described in the PIM.

4. **MCTI will further set up a TWG that will be chaired by the Director of Planning and Information in the MCTI (Project Focal Point and Coordinator).** The TWG will provide technical oversight to the implementation of the project (while the PSC will be responsible for general policy and guidance). The TWG will include representatives from relevant departments/ agencies, nominee from Attorney General's office, select PIU staff, head of MCTI Accounting, nominee from Technical Regulations Department of MCTI and relevant members of implementing agencies and departments as needed. The TWG will meet at least once per quarter to review the implementation progress of the agreed work plan, address any challenges, and take up with MCTI (or other relevant stakeholders) any issues that may need high-level support or intervention.

5. **At the subnational level, PPAACs will be set-up in each province to enhance outreach, ensure local-level ownership and provide guidance and feedback for project implementation at the provincial level for the MarketConnect and Productive Alliance subcomponents of the project (that is, subcomponents 1a and 1b).** A member from the private sector will chair the committee. PPAACs will include local private sector representatives such as Chambers of Commerce, and local chapters of Zambia National Farmers Union, members of local leadership, and representatives from the Ministries of Agriculture, Livestock and Fisheries, MSMEs and Cooperatives and Provincial Planning Office. As part of the PIU, provincial level staff will be appointed by the MCTI in each province where the project is active. The provincial officer will be recruited from the market.

6. **For specific interventions, project administration and execution of beneficiary-facing interventions will proceed via subcomponent-specific project administration mechanisms.** In most instances, the implementing ministry and PIU will be responsible for contracting appropriate providers and overseeing implementation progress of selected providers.

- **Subcomponent 1a—MarketConnect**: A set of firms or consortium firms and consultants will be contracted by the PIU to deliver BDS to selected private businesses, POs, and farmers. Individual consultants or firms may be hired by the PIU for activities related to Global Food Safety Initiative (GFSI) certifications, GAP, and so on, as well as incubation and acceleration support to early-stage businesses. In case of latter, preference would be given to incubators and accelerators rather than regular consulting firms. The PIU will be in charge of drafting TORs and managing the selection process, with oversight and support from the project coordinator, controller, TWG, PSC, and World Bank. Where feasible the functions of environment and social standards as well as M&E will need to be incorporated into TSP contracts to ensure adherence to safeguards and real time tracking of results while optimizing project management costs.

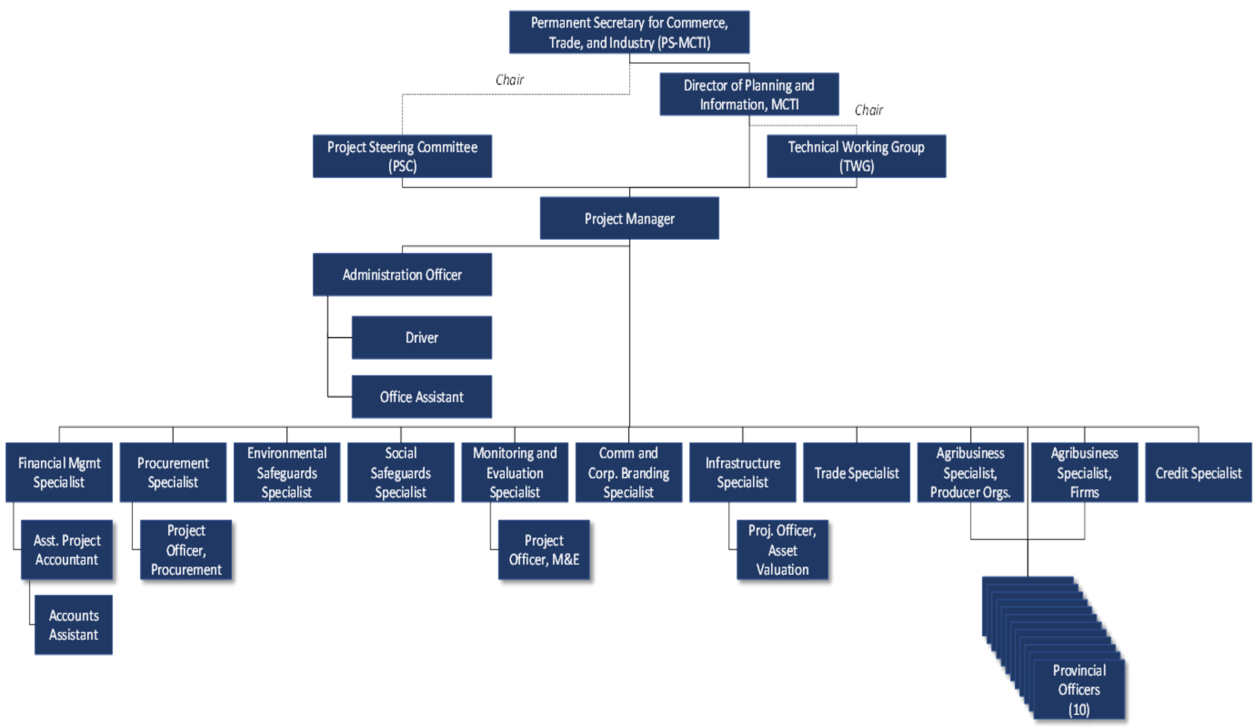
- **Subcomponent 1b—Productive Alliances**: The same firm or consortium firms and consultants contracted by the PIU for BDS provision will also perform a ‘brokerage’ function and support delivery of the product alliances and disbursement of funds. These providers will raise awareness of the program, facilitate linkages between producer associations and off-takers, and assist potentially eligible PAs in applying for MGs under subcomponent 1b. A selection panel comprised of practitioners with private sector experience will then review business cases received relating to PAs and inclusion grant applicants to determine their suitability for grants. PPAACs will be leveraged under this subcomponent. Selection will be based upon a range of standard, transparent criteria as outlined in the PIM. The PIU—with support from the World Bank—will draft TORs for the same while the implementing ministry will oversee the contracting of panel members.

- **Subcomponent 1c—Line of Credit to Support Agribusinesses**: A subloan agreement will be signed between the Ministry of Finance and an AFI which has been identified during project appraisal. The AFI will develop a section in PIM that defines eligibility criteria for PFIs as well as end borrowers that is acceptable to the World Bank and in compliance with fiduciary and safeguards requirements. The AFI will then on-lend to PFIs. TA to the AFI and PFIs will be executed by subject matter experts and overseen by the PIU, who will be in charge of developing TORs, receiving expressions of interest, and selecting TA providers.

- **Component 2—Promote Trade and Agribusiness Competitiveness**: Component 2 activities require coordinated action across all 3 focus areas. Various existing institutional infrastructure, that is, the NTFC, the AfCFTA implementation committee (to be established), committees for SPS and NQI including the risk management working group, and corridor committees (NDCTC) will provide technical input to the PIU. TA will be executed by consultant technical experts who will be procured through the regular procurement procedures by the PIU across all three sub-areas in the component. Additional World Bank support through TA to the PIU and beneficiary agencies may also be provided through the ongoing grant funding for both trade facilitation and AfCFTA as needed.

7. The component and subcomponent specific implementation arrangements are clearly outlined in the PIM.

Figure 1.1. Project Organogram



Financial Management

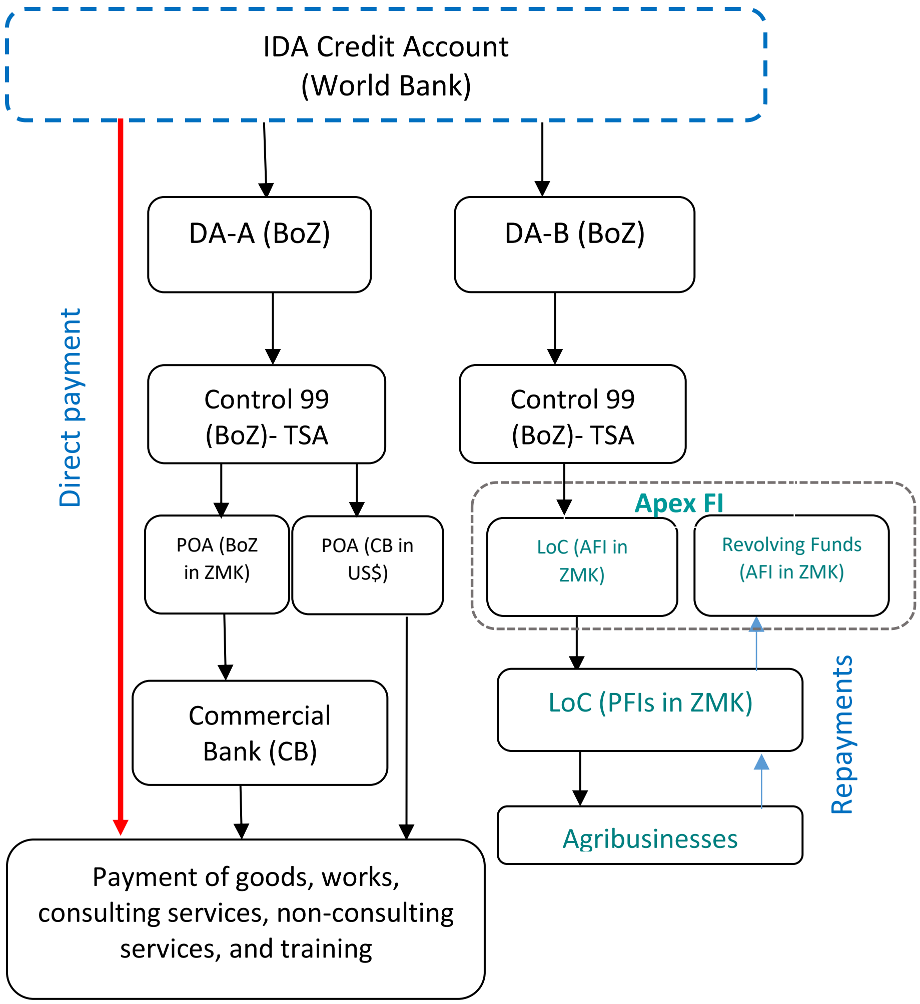
8. An FM assessment was carried out for the project implementing entity. The objective of the assessment was to determine whether the oversight and FM system put in place by the MCTI, the implementing entity for ZATP-II can support the implementation of the project. In particular, the objectives of the assessments were to determine whether the proposed oversight and FM arrangements are capable to: (a) adequately and effectively supervise, coordinate, and partner with other agencies; (b) ensure that project funds will be used for intended purposes only in an economical and efficient way; (c) accurately record all transactions and balances relating to the project; (d) facilitate the preparation of accurate and timely financial reports; (e) safeguard the project's assets; and (f) be subjected to acceptable auditing arrangements. The FM assessment was carried out in accordance with the World

Bank Directive: Financial Management in Bank Financed Operations and other operational matters issued on September 7, 2021. This assessment concluded that MCTI has basic oversight and FM arrangements to satisfy the World Bank's minimum requirements under World Bank Procedures. The overall FM risk rating of the project is moderate.

9. The ZATP PIU, which will transform into ZATP-II PIU, has gained experience in implementing World Bank financed projects. The PIU has been implementing the ZATP for over five years and managed the fiduciary aspects of the project satisfactorily. The detailed FM arrangements under the project are given below:

10. **Accounting system**. The current ZATP's computerized accounting system (QuickBooks) being implemented will be leveraged for ZATP-II. The PIU will ensure that the accounting system is adequate to meet the requirements of ZATP-II which include retention of accounting information for up to five years. It will be robust enough for quick retrieval and analysis of the accounting information at any given point in time. The system is yet to be fully tested. The staffing at the ZATP-II is sufficient as currently there is a full-time project accountant who carries out the day-to-day FM functions supported by an assistant accountant. Both are qualified and experienced and are familiar with World Bank FM procedures. The PIU has updated the FM procedures laid down in the PIM that is currently in use under ZATP for use under ZATP-II.

Figure 1.2. Fund Flow Arrangements



11. **Internal Controls including internal Audit**. Internal audits will be conducted to provide assurance that the project is being undertaken in accordance with the PIM, complies with GRZ regulations and is complying with the financing covenants. The project will be included in the audit plan of the MCTI and will be audited twice a year.

12. **Financial Reporting.** The PIU will prepare and submit to the World Bank on a quarterly basis the unaudited interim financial reports (IFRs) used to monitor the use of funds disbursed to the project. At a minimum, the IFRs will show a statement of sources and uses of funds, with the uses of funds analyzed by eligible category to compare actual expenditures with the budget. The formats and contents of the IFRs will be included in the DFIL. The IFR will be submitted to the World Bank within 45 days after the end of the quarter. The project's annual accounts/financial statements will also be prepared and submitted to the external auditor within three months after the end of the financial year for audit.

13. **World Bank Implementation Support Plan:** Based on the risk assessment of the project, the World Bank FM supervision review will be conducted at least twice every year. The mission's objectives

will include ensuring that strong FM systems are maintained for the project throughout its life. Reviews will be carried out regularly to ensure that expenditures incurred by the project remain eligible for IDA funding.

14. **FM Action Plan:** The plan below indicates the key FM actions to be taken:

#	Significant Weaknesses	Action	Responsible Person	Completion Date
1.	Uses a manual accounting system but has installed quick books accounting software	Input live data and test	PIU/Finance Team	Before effectiveness

Implementation Support Plan

15. The implementation support plan for ZATP-II will comprise several critical review instruments to assess progress toward achieving the PDO and overall implementation progress and to effectively respond to issues and challenges as they arise. Such reviews will include, among others: (a) Implementation support missions conducted semi-annually to include other DPs, as appropriate; (b) Continuous and year round TA from the Task Team to the PIU; (c) a midterm review (MTR) that will include a comprehensive assessment of the progress achieved at the midpoint of project implementation and will serve as a platform for revisiting project design issues and identifying where adjustments might be needed; (d) impact assessment; and (e) implementation completion, where an independent assessment of the project will be undertaken and lessons drawn to inform future or similar operations.

16. The Implementation Strategy, as articulated above, will include a concerted plan of technical, fiduciary, and safeguards support needed to provide TA at the same time ensure due diligence over the course of project implementation.

17. **TA and Support.** At the technical level, the World Bank will assemble the appropriate technical skills and experience needed for ensuring high quality TA and support to the client in the implementation of this project. This team will include the relevant bank staff and a set of experts/short-term consultants (STCs) that have the requisite experience and skills to provide TA. The areas of support include private sector specialists, agribusiness specialists, financial sector specialists, business regulations specialist and trade and SPS Specialists among others.

18. **Fiduciary support**. Given the Substantial fiduciary risk rating, reviews will be further enhanced by the World Bank’s FM and procurement specialists and STCs as and when required to ensure that fiduciary systems and capacities remain adequate during project implementation in accordance with the World Bank’s fiduciary requirements.

19. **Environment and Social Standards implementation support.** The Bank’s safeguard team will consist of social and environmental specialists and STCs as and when required who will guide the project team in applying the agreed safeguard instruments as well as reviewing compliance during implementation support missions.

ANNEX 2: Zambia and AfCFTA

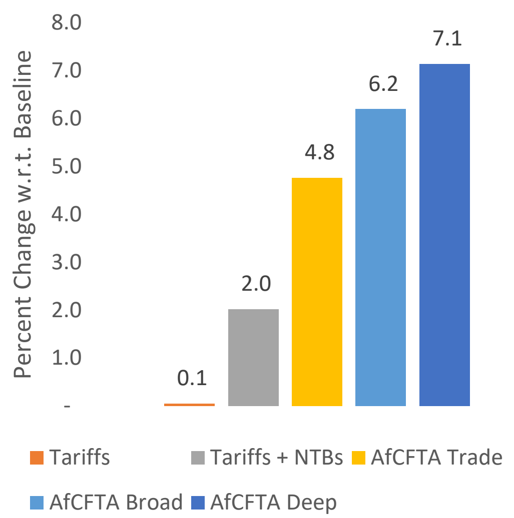
1. **Zambia is well positioned to capture potential gains associated with the AfCFTA.** The AfCFTA will link 54 countries with 1.3 billion people and a combined potential GDP of US$3.4 trillion into one market. It aims to deepen intra-African trade by focusing on the cross-border movement of goods, people and services, as well as investment and increased connectivity.

2. **An analysis of AfCFTA implementation policy scenarios shows the incremental effect that AfCFTA would have on the Zambian economy.** To assess the net effect of AfCFTA, these policy scenarios are compared to a baseline that follows past trends, including trade commitments negotiated before AfCFTA. The first three policy scenarios include a set of trade measures, namely: i) reduction of tariffs according to AfCFTA; ii) reduction of tariffs and (ad valorem equivalent) NTBs; and iii) reduction of trade costs through implementation of trade facilitation measures. The last two scenarios bring gains related to broader and deeper continental integration, respectively. AfCFTA Broad considers the investment flows, by country and sector, that could result from gains in preferential access, while AfCFTA Deep assumes further reductions in trade costs.

3. Zambia's number of PTA partners grow from 25 in 2017 to 32 as per AfCFTA Broad scenario and Zambia's average preferential access grows from 9.8 in 2017 to 18.2 based on the AfCFTA Deep scenario. With deeper integration, Zambia's income would be 7.1 percent higher with respect to baseline (by 2035). This could lift nearly 0.55 million people from extreme poverty and create new jobs for an equivalent of 1.2 percent of the Zambian labor force. These jobs are expected to be concentrated in the construction, other services, and agriculture sectors. Similarly, output would be 1.8 percent higher under AfCFTA Deep, with greater expansion in construction (2.3 percent), other services (1.5 percent), energy intensive manufacturing (0.8 percent), processed foods (0.8 percent), and agriculture (0.7 percent).

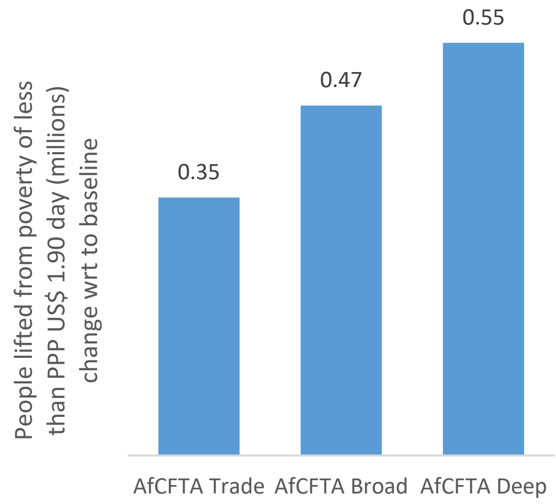
4. Based on estimates from the AfCFTA Deep scenario, exports would increase by 8.4 percent by 2035. Zambia would also increase its export share to Africa from a baseline of 26.6 percent to 32.3 percent. The import share from Africa would increase slightly from 65 to 68.1 percent in the baseline and AfCFTA Deep scenario. In terms of volume, the value of exports going to Africa would increase from US$27.7 billion to US$38 billion—this increase is primarily driven by an increase of exports to the Democratic Republic of Congo of US$6.4 billion. Exports to the SADC are expected to grow slightly faster (+US$1.1 billion) than Zambian imports from the SADC (+US$1.03 billion), while Zambia's exports to the Rest of Africa increase by +US$9.1 billion.

Figure 2.1. Zambia's Income Could Be 7.1 Percent Higher under AfCFTA Deep Integration, with respect to Baseline and by 2035



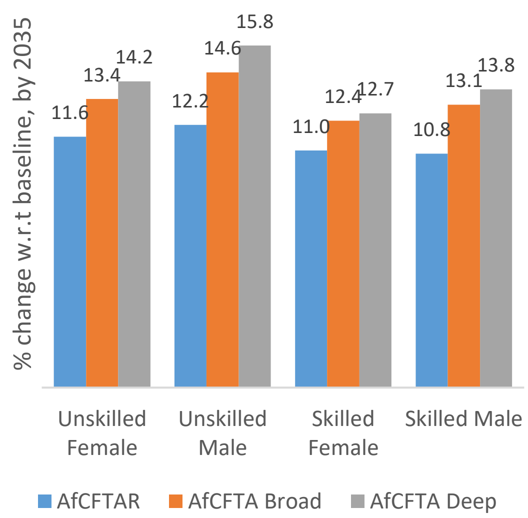
Source: World Bank (2020) and Echandi, et. al. (2022).

Figure 2.2. The AfCFTA Deep Could Help to Lift up 0.55 million Out of Extreme Poverty by 2035



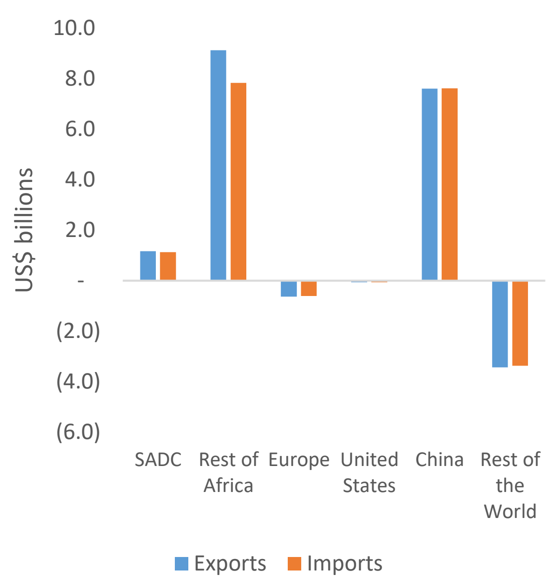
Source: World Bank (2020) and Echandi, et. al. (2022).

Figure 2.3. Wages for Unskilled Male and Female Would Grow Faster under AfCFTA Deep Integration.



Source: World Bank (2020) and Echandi, et. al. (2022).

Figure 2.4. AfCFTA Deep Could Increase Zambia's Trade Linkages with Africa



Source: World Bank (2020) and Echandi, et. al. (2022).

ANNEX 3: World Bank FIF Review for the Zambia Agribusiness and Trade Project-II

Background and Objectives

1. ZATP-II builds on successes of the ZATP (P156492). ZATP-II, through its interventions, aims to support resource diversification and promote economic and structural transformation by engaging the private sector and supporting employment generation for Zambia's fast growing and youthful population. The project does so through three project components: (a) Support Access to Markets and Finance; (b) Promote Trade and Agribusiness Competitiveness by Strengthening Regulatory and Institutional Frameworks; and (c) Project Management that target the agribusiness sector, which employs majority of the population, especially in the rural segment.

2. **Under subcomponent 1c of this project;** Support access to markets and finance, the project includes a US$27 million LoC which aims to increase access to finance for the underserved and high growth agribusinesses and POs. There is an accompanying TA (US$3 million) support which will focus on the capacity building of the Apex Financial Institutions, other PFIs and key stakeholders. The TA is intended to ensure appropriate delivery of the LoC including PFIs ability to dimension credit risk, develop new products; least cost delivery mechanisms (digital platforms, and so on) and enhancing the M&E framework to ensure impact especially when dealing with the women and youth businesses.

3. **FIF Assessment Rationale**; this Financial Intermediary Financing (FIF) assessment, has been done and includes a financial sector performance for Zambia. The aim of this assessment was to confirm that the selected apex financial intermediary is capable of playing this intermediary role and justify the rationale for debt financing through qualified financial institutions to on lend at risk adjusted – near market lending rates to an underbanked – yet possible commercially viable – segment of the targeted agribusinesses along the agriculture value chain. The rationale behind the FIF assessment is to ensure that the project is well aligned with sound financial sector development principles and does not create new or aggravate existing distortions in the financial sector (for example, misallocation of resources, distortions in the financial markets, damage to the solvency of financial institutions, trigger moral hazard and intentional default of financially uneducated borrowers, and magnify the adverse impact on the credit culture in the country).[38]

Macroeconomic Environment in Zambia

4. **Fiscal deficit and economic growth prospects:** The Zambian economy is currently burdened by large fiscal deficits, resulting from years of economic mismanagement, and worsened by economic and environmental shocks. Growth has been too low to reduce the high rates of poverty and growing inequality, that are among the highest in the world. While Zambia witnessed remarkable growth, growing at an average of 7.4 percent a year (2000–2010), it has struggled to sustain its high growth trajectory burdened by unsustainable debt accumulation and fiscal imbalances. GDP growth has been declining – GDP grew at an average of 3.6 percent per year over the 2011–2021 period, as indicated in Figures 3.1 and 3.2 below. The collapse of global copper prices, fiscal deficits averaging an unprecedented 9 percent (versus budgeted targets of 5.4 percent of GDP), excessive public borrowing, power shortages and the

[38] This assessment is performed in accordance with the World Bank's operation's guidance note on 'Investment Project Financing – Financial Intermediary Financing (FIF)' issued in March 2016.

drought in 2019 led to unsustainable macro conditions with the per capita income declining to US$1,040 and Zambia being reclassified as a low-income country in 2022.[39]

5. **Inflation and macroeconomic resilience:** In November 2020, Zambia witnessed its first recession since 1998 and became the first country in the region to default on its sovereign debt as the COVID-19 pandemic exacerbated Zambia's growth prospects. The COVID-19 pandemic resulted in a multidimensional crisis - a health, social and economic crisis. Lower domestic demand, global market shutdowns, COVID-19 related restrictions, drop in commodity prices, and supply chain disruptions decreased economic activity in the country and caused a significant drop in net exports, especially in mining and services-Zambia's main export generators.[40] These factors—coupled with aforementioned long-term challenges—have placed considerable strain on Zambia's macroeconomic environment in recent years: Zambia faced double digit inflation throughout 2020 and 2021, with inflation growing from 7.6 percent in 2019 to 13.7 percent in 2020 and 27.6 percent in 2021 as shown in Figures 3.1 and 3.2 below. Despite all these challenges the new government has instituted strict fiscal management policies and practices with the help of the IMF and the World Bank to restore economic stability including engaging with the IMF on an Extended Credit Facility Program that was endorsed by the IMF board of directors in August 2022.[41]

Figure 3.1. Inflation Rates (Annual)

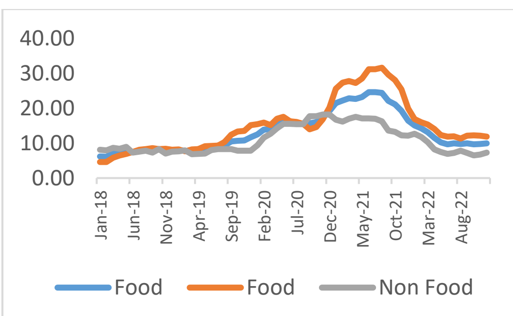
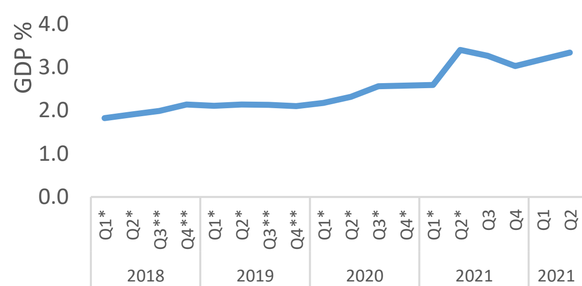


Figure 3.2. Economic Growth (Quarterly)



6. **Interest rates and exchange rate trends:** Commercial Banks lending rates remained high though stable in the period between 2019 to 2022, averaging 26 percent as indicated in Figures 3.3 and 3.4. This was a reflection of the high cost of funds due to deteriorating macroeconomic conditions. However, the interest rates are expected to be stable going forward due to the tight fiscal management adopted by the new government as indicated in the 2023 budget. The successful restructuring of the external debt is further likely to stabilize the interest rates. The exchange rate has seen an erratic movement in the

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[39] Fiscal deficits averaged 9.0 percent in 2013–19, compared to an average of 1.7 percent between 2007 and 2012, and exceeded annual budget targets by an average of 3.6 percentage points of GDP.

[40] Tshuma, E. 2020. 'Coronavirus and Freight Forwarding in SADC'. tralacBlog, April 9, 2020. Stellenbosch: Tralac Trade Law Centre. Available at: www.tralac.org/blog/article/14502-coronavirus-and-freightforwarding-in-sadc.html (accessed 23 august 2022).

[41] The IMF Board approves SDR 978.2 million (about US$1.3 billion) 38-month ECF arrangement for Zambia to help restore macroeconomic stability and foster higher, more resilient, and more inclusive growth. The ECF-supported program will help reestablish sustainability through fiscal adjustment and debt restructuring, create fiscal space for social spending to cushion the burden of adjustment, and strengthen economic governance, including by improving public financial management. The program will also catalyze much needed financial support from DPs. The Executive Board's decision will enable an immediate disbursement equivalent to SDR 139.88 million (about US$185 million). Most recently, an IMF staff mission was concluded on December 7, 2022 and announced that it took stock of the authorities' promising progress in meeting key commitments under the Fund-supported program.

period 2018 to 2022. The exchange rates increased from ZMW 14.05 in December 2019 to ZMW 21.17 as at end of December 2020 and then appreciated to ZMW 16.67 as at December 202, as shown in Figures 3.3 and 3.4. The deterioration from 2018 was caused by increased demand over supply caused by demand for debt service, importation of agriculture inputs and clearance of fuel import arrears. Between May and August 2021, the kwacha strengthened to ZMW 15.95/US$ due to increase in portfolio inflows on the back of the news that Zambia had received an allocation of SDR 937.5 million (equivalent to US$1.33 billion) from the IMF as part of the general SDR allocation to all members. This was supplemented by the positive sentiments regarding the country's macroeconomic outlook following the presidential and general elections of August 2021, peaceful change of government and the anticipated improved prospects to secure an IMF supported program. Going forward the exchange rate is expected to remain stable due to projected good economic management policies and practices as espoused in the national budget and the 8NDP. Overall strict fiscal management and discipline accompanied by a successful restructuring of the country's debt with creditors, which should usher in the full IMF package will further improve the outlook.[42]

7. **Employment and jobs creation:** The stagnant growth trajectory and existing macroeconomic context has also impeded generation of high-quality employment and opportunities, especially for vulnerable groups such as women and youth. Even when Zambia was experiencing rapid economic growth between 2000 and 2014, employment grew by only 2.81 percent per year, and the unemployment rate has since increased steadily from 8 percent in 2012 to 13 percent in 2021. The unemployment rate is even higher amongst youths (26 percent) and women (14 percent). The challenge in generating sufficient jobs is especially urgent given demographic trends (the country's population is estimated to reach 27 million by 2035 (versus 18 million in 2020)): Zambia is one of Africa's youngest countries by median age, with 65.1 percent of the population below 25 years of age. The lack of high-quality jobs has increased vulnerabilities of Zambian households and workers. This project's objective is to provide opportunities for women and youth to operate and grow agribusinesses that will be funded by the proposed credit line.

Figure 3.3. Exchange Rate

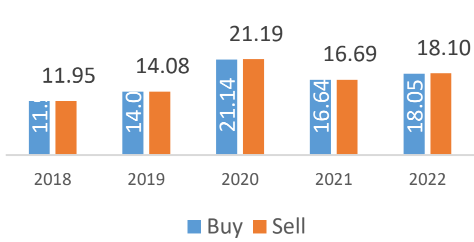
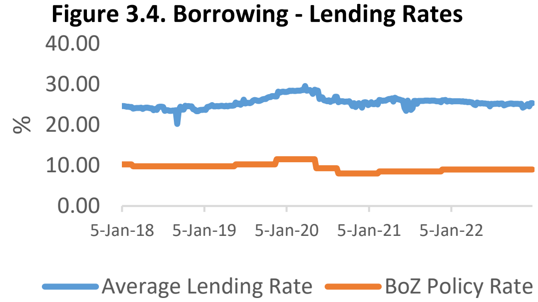


Figure 3.4. Borrowing - Lending Rates



Source: BoZ and Zamstats.

[42] More details are available in the World Bank's Macro Poverty Outlook for Zambia; October 2022; see https://documents1.worldbank.org/curated/en/099532510142233958/pdf/IDU0893222b70ed63046e20b1e10330830937fc6.pdf and IMF's ECF program document for Zambia approved by IMF;s Board on August 31, 2022; see https://www.imf.org/en/News/Articles/2022/08/31/pr22297-imf-executive-board-approves-new-extended-credit-facility-arrangement-for-zambia

Banking Sector Performance

8. **Banking system market structure and financial intermediation:** Financial intermediation – as indicated by the private sector credit as a percent of GDP – is abysmal in Zambia and can barely contribute to economic growth. Financial intermediation plunged from 12.5 percent in 2019 to 8.9 percent in 2021 and is expected to rebound to around 9 percent in 2022 as indicated in Figures 3.5 and 3.6 below. This decline was mainly driven by the foreign subsidiary banks in Zambia[43] as the combined domestic private banks and banks with GRZ stake – share of the banking sector's loans has remarkably grown in 2021 to reach 36 percent up from 28 percent in 2019 – reflecting support to economic recovery efforts.

Figure 3.5. Financial Sector Development

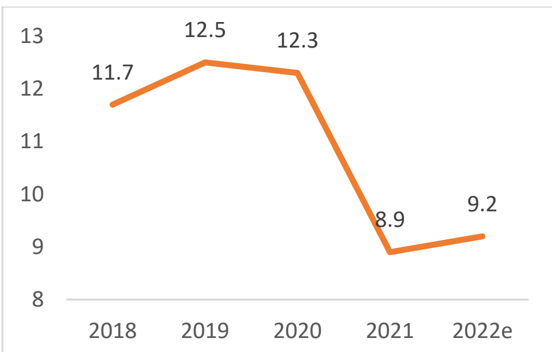
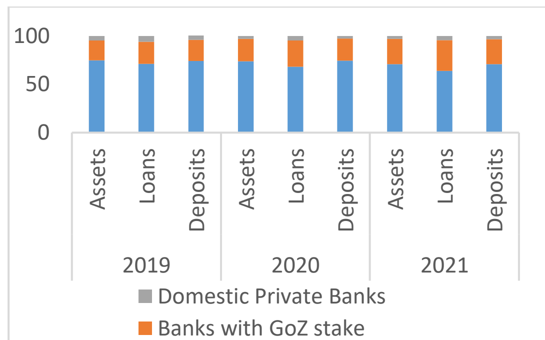


Figure 3.6. Banking Sector Ownership Structure



Source: WDI and BoZ.

9. **Banking system stability and asset quality:** As of December 2021, the banking sector has been stable and fundamentally sound with a few weaknesses, and certain supervisory limitations. The overall performance has been positive with favorable capital adequacy and liquidity conditions, in terms of asset quality and earnings performance. The sector is adequately capitalized with primary and total regulatory Capital Adequacy Ratios (CAR) being well above the minimum regulatory requirement of 5 percent. The primary CAR has increased from 20.1 in 2019 to 23.2 in Dec 2022.[44] Asset quality improved on account of the decline in non-performing loans (NPLs), which dropped by 48.4 percent to ZMW 2.6 billion as some banks wrote off a significant amount of legacy bad loans deemed irrecoverable. Consequently, the Gross Non-performing loans to total assets (GNPL) dropped from 8.9 pre-COVID to 5.8 by December 2021, again below the prudential benchmark, as shown in Figures 3.7 and 3.8 below. Reviewing the loan portfolio reflects that personal loans continue to account for the highest proportion of loans (19.12 percent of total loans as of September 2022) followed by the agriculture, forestry, fishing, as well as the manufacturing sectors. Relatedly, the agriculture, forestry, fishing, and hunting sector contributed the

[43] Foreign subsidiaries heavily dominate the banking sector in Zambia terms of assets, loans, deposits, and profit before tax, see https://www.boz.zm/2021_Bank_of_Zambia_ANNUAL_REPORT.pdf
[44] Bank of Zambia's database, Q4 2022

largest to NPLs followed by personal loans. It is however important to note the downward trend in the NPLs in agriculture, forestry, fishing - dropping from 40.4 percent in 2020 to 24.6 percent in 2021.

Figure 3.7. NPLs (sector wide)

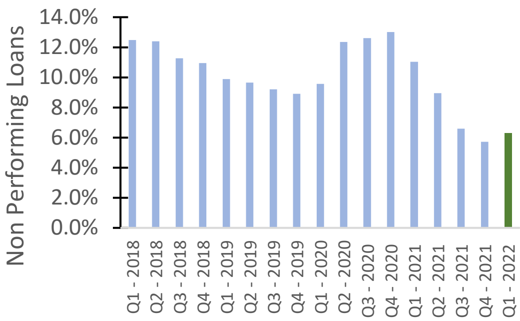
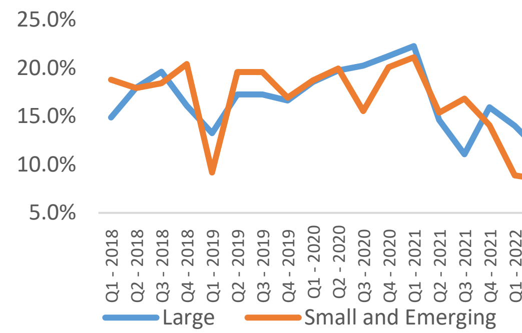


Figure 3.8. NPLs (Agriculture sector by firm size)



Source: BoZ and Zamstats.

Market Failure and Rationale for the Proposed Intervention in Agricultural Value Chain

10. The lack of formal finance for participants in the agricultural value chain which include farmers and associated businesses emanates from lack of knowledge and absence of credit culture on the part of potential borrowers within this value chain, in addition to the inability of the financial service providers to assess risks associated with such required financial support to this class of borrowing clientele. The required information and data that the farming communities and their businesses need regarding potential funding sources and potential markets that would lead to commercialization of these enterprises is not readily available. This is compounded by the logistical constraints associated with serving this diverse and scattered segment of the population. This makes it difficult for financial service providers, who may not have full trust in their capabilities to pay back, but also have no products and delivery systems that can accommodate the peculiar needs of this segment of entrepreneurs. This is exacerbated by the volatile nature of the agricultural income streams, which the service providers find difficult to document in order to provide appropriate risk mitigation measures. The absence of functional readily available insurance products and lack of product innovation on the part of service providers other than offering traditional branch-based products discourages the farming communities and associated businesses from accessing the needed financing from these institutions. The need for design of relevant and appropriate financial products (long-term tenor loans and other structured loans specific to this segment) and least-cost delivery mechanisms (digital platform, and so on) that meet the needs of these entrepreneurs is the objective of the credit line and the accompanying TA. Leveraging on both private and public institutions that have the same mandate and who are trying to resolve some of the above constraints will be part of the implementation of this component of the project.

Eligibility Criteria for the Selection of the Apex Financial Intermediary Institution Shall Be as Follows:

11. Below criteria were used to assess institutions that could fulfill the Apex functions, which was carried out in two stages using different benchmarks. The selection was confirmed with GRZ during project appraisal.

- The Apex organization must be *duly licensed and* must maintain 25v or more Government ownership and being in operation for three years.
- The Apex organization's owners and managers must be considered "*fit and proper*". It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
- The Apex organization must be in "*good standing*" with its supervisory authority (that is, it should meet all pertinent prudential and other applicable laws and regulations) and always remain in compliance.
- The Apex organization must maintain *capital adequacy* prescribed by prudential regulations.
- The Apex organization must have *adequate liquidit*y as required by prudential regulations and the nature of the lending business.
- The Apex organization must have *positive profitability and acceptable risk profile*. It must maintain the value of its capital. The profitability should be calculated at full value (in other words, adjusting income and costs based on the effects of any subsidies and any regulatory special standing)
- The Apex organization must have well defined policies and written procedures for *management of all types of financial risks* (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures) *and legal / operational risk*.
- The Apex organization must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have adequate portfolio quality. The agency should not have more than 10 percent of criticized assets (that is, classified as doubtful and loss). The Net NPL ratio should not be more than 5 percent (Net NPL ratio being the NPL ratio calculated after taking into account the effects of security)
- The Apex organization must have *adequate internal audits and controls*. The latest full year financial audit should be "clean".
- The Apex organization must have adequate MIS and robust M&E framework.
- The Apex organization shall not exposure itself to high risk associated with PEPs and ensure that an enhanced due diligence is performed when dealing with Politically Exposed Persons
- The Apex organization should have adequate capacity to hedge the FX risk.

Eligibility Criteria for PFIs Participation

12. PFIs will also fulfill the same benchmarks indicated above apart from government ownership of 25 percent or more.

On Lending Term

13. A fee will be charged for Apex functions (to be confirmed during appraisal) but the end beneficiary Agribusiness or PO will access the funds at near market interest rates.

Implementation Arrangements and Flow of Funds

14. It is expected that funds will flow from the Ministry of Finance to the Apex Intermediary, which will then disburse the funds to the PFIs after fulfilling the criteria for funds' access. The PFIs will apply for both loan funds and capacity enhancement, including product development, and so on. The Apex will evaluate the funding request according to the laid-out criteria as will be specified in the PIM and the TA application package will be forwarded to the PIU, who will have recruited an expert that will be tasked to evaluate the proposals and the PIU will then recruit the needed individuals and or firms and finance the PFIs' approved proposals from the US$3 million for TA. The Apex Institutions will not participate in either retail or capacity enhancement to avoid conflict of interest. The selected Apex Institution will already have extensive outreach in terms of support of the agribusiness and will have capacity that is needed to support such enterprises. Please refer to project fund flows diagram for LoC fund flow mechanisms.

Coordination between the Bank and the IFC

15. Currently the PPDF that was established and still supported by IFC will be utilized as a forum for coordinating private sector participants in the implementation of the project. Some of the FIs are in conversation with IFC to support their capacity enhancement. The TA of the credit line is intended to facilitate the development of new products and IFC is already involved in the development of some of them like the use of movable assets as collateral, warehouse receipt financing and leasing. There is room for collaboration and support in products and innovative delivery mechanisms.

Monitoring and Evaluation

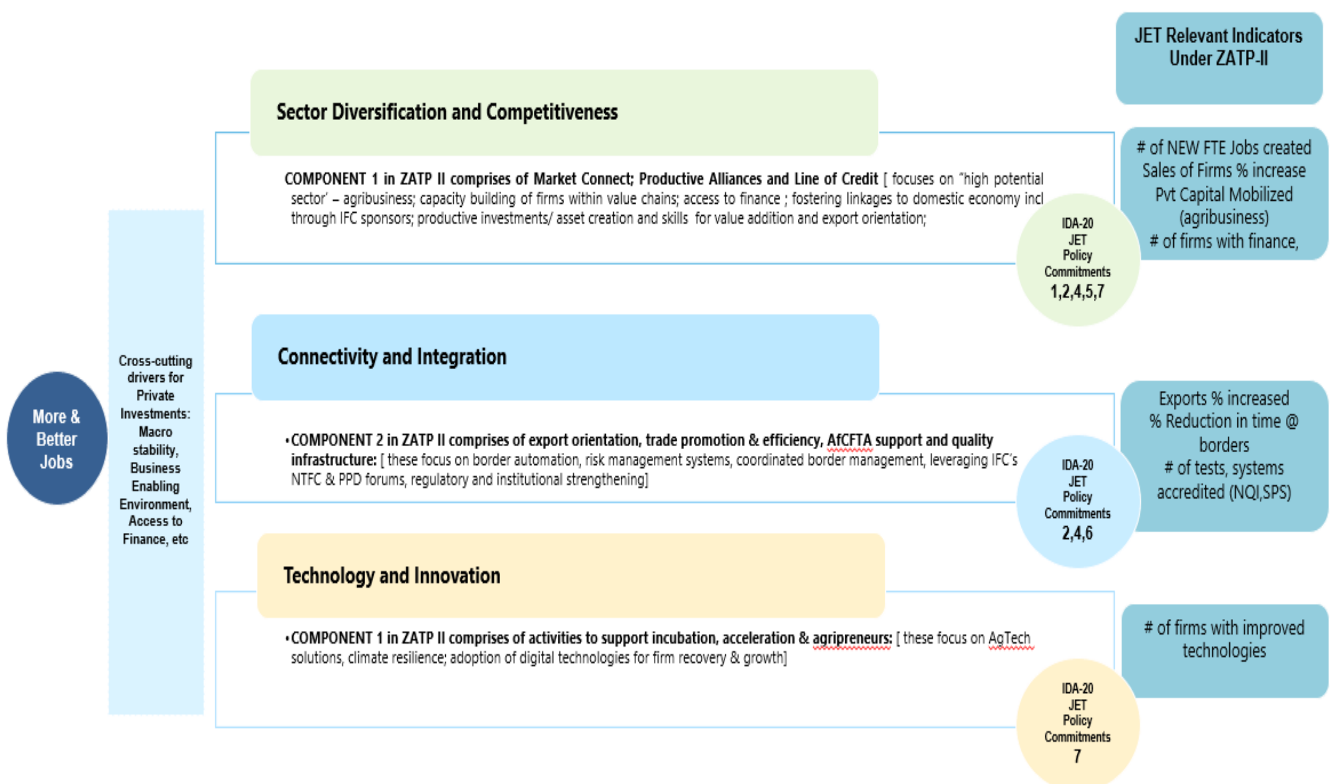
16. Selected PFIs will be required to monitor results related to project beneficiaries and submit M&E reports to the selected Apex Institution. PFIs will be required to include, in their funding applications, the mechanisms that will be used to monitor results related to the project funds, and to submit M&E reports to the Apex Institutions on a semiannual basis. The Apex Institution will be responsible for consolidating the M&E reports received from financial intermediaries as part of its reporting to the World Bank.

ANNEX 4: Operationalizing JET Framework through ZATP-II

1. JET remains more relevant than ever globally. This is magnified in case of Zambia, owing to pre-pandemic macro-economic instability, COVID-19 disruptions, and Russia's invasion of Ukraine.

2. The overarching framework for JET underscores the significance of productivity enhancement through multiple pathways. Below infographic depicts how ZATP-II through its components and planned activities as depicted below.

Figure 4.1. Alignment of ZATP-II Activities with IDA 20 JET Policy Commitments



3. ZATP-II will continue to identify market opportunities in the five new provinces across high potential Value Chains in Agribusiness sector. The objective is to include value chains with high potential for productivity and export growth; potential for large scale new job creation (direct and indirect) – especially for women and youth and feasibility to drive reforms that were impeding the sector. Inclusion dimension will be pivoted through project scale up in low income or lagging geographies where feasible; targeting interventions for women, youth; promoting digital platforms that promote linkages of small businesses and small holders with large off takers. The project through LoC and MGs will aim for private investments in the sector for certain segment of beneficiaries, while for other subset of beneficiaries' investment may be mobilized in the medium term owing to time lag in capacities built and access to productive assets.

Measuring IDA-20 JET Policy Outcomes under ZATP-II:

4. ZATP-II has both PDO and intermediate indicators that are well aligned to measure sectoral interventions as following:

- Number of new Full Time Equivalent jobs created is estimated to be 12,550 (estimates for indirect jobs in agribusinesses sector point to a multiplier of 3 to 15 times depending on the value chains); of which for 50 percent are women
- Percentage of beneficiaries with increased share of exports by 20 percent
- Beneficiary firms with average sales increased- 60 percent
- Private capital mobilized is US$17 million
- Subprojects with new commercial relationships through 'PAs' is 900
- Producers supported under PAs' is 105,000