COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE

Report No.: PIDISDSC16539

Date Prepared/Updated: 12-Apr-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Zambia	**Project ID:**	P156492
		Parent Project ID (if any):	
Project Name:	Zambia Agribusiness and Trade Project (P156492)		
Region:	AFRICA		
Estimated Appraisal Date:	20-Jun-2016	**Estimated Board Date:**	27-Oct-2016
Practice Area (Lead):	Trade & Competitiveness	**Lending Instrument:**	Investment Project Financing
Sector(s):	Agro-industry, marketing, and trade (50%), General industry and trade sector (50%)		
Theme(s):	Regulation and competition policy (10%), Micro, Small and Medium Enterprise support (20%), Export development and competitiveness (4 0%), Trade facilitation and market access (20%), Other trade and integration (10%)		
Borrower(s):	Ministry of Finance		
Implementing Agency:	Ministry of Commerce, Trade and Industry		
Financing (in USD Million)			

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	50.00
Financing Gap	0.00
Total Project Cost	50.00

Environmental Category:	B - Partial Assessment
Concept Review Decision:	Track II - The review did authorize the preparation to continue
Is this a Repeater project?	No

Other Decision (as needed):	

B. Introduction and Context

Country Context

Zambia achieved robust growth and macroeconomic stability over the last decade (averaging 6.4% percent in 2004-2014), aided by strong copper prices, and prudent fiscal, monetary and liberalization policies. Inflation declined from 30 percent in 2000 to single digits (7 percent in 2014), and net FDI doubled to over 2.4 billion since 2007. Zambia also made positive strides in improving its business climate, and in 2010, it was recognized as one of the 10 economies worldwide having improved the most the ease of doing business.

Despite this good performance however, achieving inclusive growth and economic diversification remain key challenges for Zambia. Zambia needs to enhance and diversify sources of growth to offer better economic and social opportunities to its young, fast growing and urbanizing population of 16.5 million people, which is expected to double by 2030. The economy remains mainly dependent on copper (where copper exports represent three quarters of total exports). Conversely, the agricultural sector, which accounts for most of the formal and informal employment (67%), only contribute 12 percent to the GDP. Notwithstanding rising incomes in urban centers, more than 60% of Zambians live below the poverty line, and 42% are considered in extreme poverty. While the economy grew, so did poverty – with a Gini coefficient of 0.52, Zambia is counted amongst the ten most unequal countries in the world.

Increasing sources of growth becomes even more urgent as Zambia may be exiting its fast growth spell. Zambia is facing strong headwinds due to the growing fiscal imbalances, lower copper prices, an ongoing power crisis and sustained policy uncertainties and distortions, especially in agriculture. The current account balance has deteriorated by about 7 percent of GDP between 2012 and 2014, and the currency has been facing downward pressure, having depreciated 6 percent annually 2013-2014, and sharply by 60 percent in 2015. The outlook for 2016 has become more somber following announcements of expected mine closures, and as the severity of the power crisis led to a related policy flip-flopping in tariffs, and more uncertainty. Deteriorating confidence in the economy threatens to put more pressure on kwacha and increase inflation. Lastly, a bad harvest due to poor rains in 2015 may increase food prices and reduce rural and agricultural incomes, with the greatest impact falling on the poorest households. As a result of all this, and as the copper prices continue to decline and its borrowing costs increase, Zambia is likely find its recent sources of growth tapering.

Sectoral and Institutional Context

Zambia’s growth in the last decade was mainly driven by rising FDI into the mining sector and the associated growth in the tertiary sector as household incomes increased. In addition to the copper industry, growth in construction, transport and telecommunications, and more recently financial services, helped spur country’s economic growth into its current lower middle income status. These developments helped Zambia become one of the most dynamic Southern African economies, however the heavy dependence on one engine of growth has created risks and challenges in the sustainability of its development trajectory. Zambia’s growth has not been inclusive with income share of bottom 40% actually falling during period of high GDP growth. According to the Zambia Jobs Diagnostic (World Bank, 2016), Zambia does seem to be creating better jobs on average, but mostly in services.

Public Disclosure Copy

Zambia's performance in job creation and poverty reduction have not been commensurate with its GDP growth. Despite a recent spike in non-copper merchandise exports, its economy remains overly-dependent on copper, and concentrated in urban sectors. Although mining accounts for 77% of total exports, this industry only employs 1.7% of the total labor force (8.3% of total formal sector jobs). Overall, labor participation rates are falling whilst youth unemployment is rising. Moreover, even though mining revenues grew during the commodity price boom, they have gone mostly to consumption instead of human capital investment.

While most of the Zambia's poor is in the agriculture sector, this industry is largely informal and experiences low levels of productivity. The agricultural sector is characterized by small farmers - 57% of Zambian farmers cultivate less than 2 ha, and another 30% cultivate less than 5 ha.. Productivity is low (30-50% of global averages for most crops) due to inadequate and expensive inputs (40% higher than China for agribusiness (World Bank, 2013)), poor extension services, and overall lack of access to technology, and better farming techniques.

High cost of finance, along with policy distortions and uncertainty, further constrain productivity growth and commercial agriculture. Access to affordable long-term credit is insufficient for the majority of producers and businesses. Two-thirds of the population has no access to finance, making it a challenge across sectors. Commercial interest rates were as high as 28% in 2014, and small and medium enterprises in processing industries report paying an average annual interest rate of 21% in Zambia, compared to about 5% in China, and 10% in Ethiopia (Fafchamps and Quinn, 2011) Most rural households are largely reliant on informal providers for finance.

Logistics costs are one of the highest in the region, averaging US$ 2765 per container to export, which is almost 50% higher than the Sub-Saharan African average (Doing Business, 2015). This has a disproportionately high burden on agribusiness supply chains and trade, as these businesses are characterized by cargo that is low value, bulky and perishable. At the same time, high logistics costs constrain SMEs' participation in agribusiness supply chains, as these cannot afford to invest in own fleets and trucking operations, which is common practice among the larger agribusinesses. All these, along with policy uncertainties and distortions, further reinforce information asymmetries and coordination failures across value chains, and result in poor incentives for farmers, agribusinesses, and new investors to allocate resources and capabilities into more

As a result, the current agricultural performance in the country does not provide more and better jobs, and better incomes for the Zambian people. In 2004, 75 percent of small-scale farmers had average annual incomes of about $219 (USAID 2010). About 44,000 medium-scale farmers each cultivate between 5 and 20 hectares of land, and the roughly 2000 commercial farmers each cultivate more than 20 hectares of land (USAID 2010). Commercial farmers are often vertically integrated, while emergent farmers typically supply to the commercial farmers and processors at pre-contracted terms. In the case of maize, the most prominent crop in the country, much of smallholder production is for own consumption, sold through National Food Reserve Agency (NFRA) or informally.

There are however growing prospects for the Zambian agribusiness industry to offer opportunities for economic diversification and job creation. Compared with many African countries, Zambia already has a relatively well-developed agribusiness industry with over 400,000 smallholder households linked to agribusiness firms through vertically integrated out-grower programs primarily for cotton and, to a lesser extent, sugar, tobacco, and soybeans. Entrepreneurs are also investing in agro-processing. Both the incumbent and new entrants in the industry are more spatially diverse than other manufacturing, with some crowding around the growing urban centers of Zambia, where access to services, reliable infrastructure and markets are the greatest. Agribusiness has been identified as the industry with the highest potential for job creation in the next 5 years according to the national and global authorities (550,000 according to the National Strategy for Industrialization and Job Creation (Zambian Ministry of Trade, 2011), and over 200,000 (for 9 value chains studied) according to the Let's Work Program (World Bank, 2015) .

In addition, agribusiness and agricultural exports are expected to enjoy a strong demand market both in Zambia and the region. With steady rising of incomes, food demand per capita is also expected to rise, especially in urban households. At the same time, the growing middle class in Zambia is experiencing a change in diet away from basic staples and grains toward higher value healthier foods (e.g., fruits, vegetables, meat, dairy products). This is expected to increase demand and growth in value added beef, dairy and poultry, as well as horticulture. Strong demand for agribusiness products is also manifested in imports, which almost doubled between 2010 and 2014, to over US$ 433 million (COMTRADE, 2016) . Furthermore, the drop in the value of the Kwacha could potentially offer a greater opportunity for local agro-processing firms to establish themselves. Imports are now much more expensive, and retailers are eager to by local product in a wide range of product categories, as long as quality standards and quantity requirements can be met reliably.

While limited and from a low base, there are also promising signs of export diversification. Copper exports have grown tremendously between 2002 and 2012, at around 29% per year. Interestingly however, non-copper exports also grew during this time at around 22% and their share in GDP increased from 12 to 16%. The number of Zambian exporters increased from 232 firms in 1999 to 1,754 firms in 2011, while the number of products exported by Zambian firms during this time increased fourfold. About third of the non-copper exports however are re-exports, and the size distribution of Zambian exporter firms is highly skewed, indicating that a small share of the firms account for a large volume of the exports in value terms. Among non-copper exports, agriculture is especially important. Agricultural exports grew rapidly in recent years, averaging 27 percent per year since 2000. Milling and cereals for instance registered annual growth in excess of 30 percent. Favorable weather and bumper harvests (in part driven by FISP subsidies) lead to a growing trade surplus. Main export crops include sugar, which accounts for 55 percent of agriculture exports, cotton, maize and tobacco (World Bank 2014b).

Furthermore, agro-processing has grown exponentially and exceeded primary agriculture in export earnings. Jobs in processing are likely to be higher paying jobs with more stability, and the employment multipliers (indirect and induced jobs) will likely be more significant, too. Sales from exports of final products create twice as many jobs as a dollar in sales from domestic demand. Generally, exporting firms pay 9 percent more than jobs in firms that export less, making these jobs “better” jobs” (World Bank, 2015).

Regional trade facilitation accompanied with commercial agriculture and agribusiness growth offers the best prospects for diversification and job creation. Some 73% of Zambia's food and agricultural exports are sold within the region, the largest markets being South Africa, Democratic Republic of Congo, Zimbabwe, and Malawi, all with growing middle income populations and demand for food. Furthermore, the reorientation of South African maize exports to buyers outside of Africa, combined with substantial maize deficits in much of the SADC region, provides an important strategic opportunity for Zambia to assert itself as a grain basket for the region.

Finally, ag ribusiness growth also offers good prospects for job creation among the poor both in rural and urban communities. Agro-processing is more spatially diverse than other manufacturing as shown below. Moreover, agro-processing firms are located in two areas of high poverty density: the Central Corridor and the Eastern Province, meaning that developing agro-processing supply-chains should have a disproportionately high impact on poverty reduction through formal job creation, increased farm incomes and demand for farm products, and backward linkages to input providers.

To unleash Zambia's potential for structural transformation however, a more conducive business enabling environment is needed. Zambian businesses continue to face high costs and barriers to entry and growth. Zambia lost 6 places in the latest "Ease of Doing Business" ranking and came up behind Mauritius, Rwanda, Botswana, South Africa, and Seychelles, but well ahead of other regional economies. Zambia's ranking on the "Trading Across Borders" indicator remains low and also saw a sharp decrease since 2015 (152nd), and is the indicator for which the country fares the worst compared with others (along with "Dealing with Construction Permits" (157th) and "Enforcing Contracts" (151th)).

Cost to doing business and barriers to entry are high in Zambia. Zambian firms are hugely penalized by an underdeveloped infrastructure, a burdensome regulatory and tax regime, limited access to finance, low levels of firm-level capabilities, low level of skilled labor, and the general high cost of doing business . There is space for the government to play a role in setting a policy and regulatory framework that encourages investment, competition and productivity, taking into consideration current economic market failures in the agriculture sector. Stronger institutional capacity to regulate the sector properly could help eliminate regulations that reinforce dominance in certain markets (e.g. import and export bans, non-tariff barriers), facilitate collusion or restrict ability of firms to compete on prices, quality and other product dimensions (e.g. influence on prices of certain crops, influence on the structure of fertilizer market), and allow for wide discretion on enforcement.

Going forward, Zambia needs to more closely align its growth performance with its development goals. Efforts to accelerate structural transformation for economic diversification, create an enabling environment for new jobs and remove barriers to formal sector development are needed. Strategies to support structural transformation and enhance productivity in non-copper sectors need to be accompanied with a view to increase inclusiveness in Zambia's growth trajectory. Improving the investment climate and policy predictability is essential to increasing investor confidence in all sectors of the economy, and unleash trade diversification's potential in job creation.

The composite objective of promoting economic diversification with improvements in inclusive growth will require the Zambian government to effectively implement, monitor and evaluate targeted policies and interventions, and build sustainable and accountable institutions around these targets. Most projects in Zambia have faced delays and have had to be extended, signifying the need to pay much closer attention to the human resource capacity and incentive system in the civil service and the influence of political economy factors during design. The proposed Project will therefore make capacity building and institutional development central to its design and implementation, including a focus on M&E efforts for accountability as well as learning purposes on the effectiveness of interventions.

Relationship to CAS/CPS/CPF

The proposed Project receives its guidance from the Government's Vision 2030, summarized as "a better Zambia for all", and is in line with the World Bank CPS 2013, which aims to contribute to poverty reduction and support the transition to a prosperous MIC. The proposed Project also recognizes concurrent urgencies to on one hand diversify sources of growth, while on the other tackle poverty in Zambia, as highlighted both by the Government and the CPS. In line with the Government's Sixth National Development Plan, the Project aims to support a number of "reforms and measures aimed at reducing the levels of unemployment while facilitating private sector participation in job creation". More specifically, the project is in line with CPS objective one: reducing poverty and vulnerability, where the WBG supports areas such as research, extension, irrigation, rural roads and agribusiness development to help unlock the potential of the agricultural sector, as well as the CPS objective two: improving competiveness and infrastructure for growth and employment. Under this objective, the WBG is providing support for enhancing the enabling environment for private sector development and regional integration through trade.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The development objective of the proposed project is to contribute to increased private sector investments, firm growth and employment in agribusiness.

Key Results (From PCN)

The success in achieving the PDO will be reflected by the following indicators: (i) number of new jobs created by the beneficiary firms; (ii) increase in sales by the beneficiaries supported by the Project, (iii) number of direct beneficiaries of the project (of which women); (iv) new businesses (of which SMEs) created in the Value Chains supported by the project; and (v) increase in exports as a percentage of sales of beneficiary firms.

D. Concept Description

The Project builds on the recommendations and findings of the DTIS (2014), Jobs and Prosperity Program (2009-2013), the ongoing Let's Work initiative, and closely collaborates and builds on the continuing World Bank TA and investment lending (See Annex 3) through the Investment Climate, Trade Facilitation and Agriculture Programs . It is also anchored within the greater World Bank support for regional trade with the forthcoming projects: Great Lakes Trade Facilitation II, and Accelerated Program for Economic Integration (APEI) DPO Series. The Project also leverage trust funds through InfoDev's work on agribusiness entrepreneurship.

The Project will comprise three mutually-reinforcing components: (1) promoting an enabling environment for entrepreneurship and investment; (2) facilitating national and regional trade; and (3) supporting market linkages and firm-level capability in agribusiness. Given the existing level of activity in agribusiness in Zambia, it is necessary to tackle nation-wide policy and governance short-comings in parallel with sector level investments and technical support to help unleash the full private sector potential in this sector.

Thus, components 1 and 2 will support the agencies working under the Ministry of Commerce, Trade and Industry (MCTI), to address policy inconsistencies, advance competition in the markets, and support systems and institutions that enable and promote standardization and quality improvements, especially in markets along agribusiness value chains. These will be achieved through support to capacity building, trade facilitation, a series of regulatory reforms, and the public-private interface with the objective of increasing investor confidence and crowd in private investment .

In parallel, Component 3 of the project will strive to deepen the market linkages between farmers, SMEs, ancillary industries, and large agribusiness off-takers and the lead buyers such as large retailers and the hospitality industry. This will be achieved through targeted technical support to upgrade firm-level capability and investments in critical market and common use infrastructure and technology, to improve productivity and increase participation in those value-chains with high growth, including job growth, potential.

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The Zambia Economic Diversification Project is envisaged to be implemented nationwide in all the 10 provinces of Zambia. In terms of physical characteristics, the topography of Zambia has three main features consisting of mountains, a plateau and lowlands with most areas lying on a flat plateau. The Zambezi (and its tributaries, the Kafue and Luangwa) and the Luapula are the major rivers that flow from north to south respectively. The other major water bodies are the lake Tanganyika, Mweru and Bangweulu located in the north of the country while Lake Kariba is located in the southern part of the country bordering Zimbabwe. Vegetation cover in most parts of Zambia is mainly savannah woodlands in the high rainfall regions and tropical grasslands in the low rainfall regions. Vegetation cover in most areas is the predominately savanna woodlands type in high rainfall regions and tropical grassland in low rainfall regions. The country has distinct Agro – ecological zones that are divided into plateau and Kalahari sands with high and medium rainfall respectively, including valleys. The agro – ecological zones help define what crops and farming adopted in the different areas.

B. Borrower’s Institutional Capacity for Safeguard Policies

The implementing agency of the project will be the Ministry of Commerce, Trade and Industry. While the Ministry has not implemented a World Bank project before, it has implemented project from other cooperating partners such as UNIDO, AfDB and UNDP. The proposed PIU does not have a safeguards department or focal person to ensure bank policies and national requirements on safeguards are incorporated the project lifecycle. This is however, not an area of major concern at the moment as project will mainly focus on TA assistance and is not likely to trigger World Bank safeguards policies. However, scope changes in the project design may prompt the preparation of safeguards instruments. This will require the Bank to assist and guide the PIU on how to proceed in the preparation of the instruments and also build capacity.

C. Environmental and Social Safeguards Specialists on the Team

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The safeguards policy on Environmental Assessment is triggered notwithstanding the project being mainly

		TA. The project is likely to involve some infrastructure works to build or upgrade small markets in selected agro economic zones across Zambia. The TA will focus on promoting an environment for entrepreneurship and investment and facilitating national and regional trade. The component on supporting job creation and growth in agribusiness is likely to involve some small infrastructure works to build or upgrade markets points and associated auxiliary structures in the agri-business value chain. This will require that the following safeguards instruments be prepared namely; an ESMF for the project prior to appraisal and subsequently site-specific ESMP's will be prepared as needed during implementation. The ESMP will guide on the best practices for waste management and any other safeguards concerns that will be identified.
Natural Habitats OP/BP 4.04	No	The Bank policy on Natural habitats is not triggered as the proposed market points will have a small footprint and will not have significant ecological impacts on any natural habitats.
Forests OP/BP 4.36	No	The policy on forests is not triggered as the proposed market points that are likely to be constructed will have a small footprint and the possible forest cover or vegetation losses will be negligible.
Pest Management OP 4.09	No	The policy on Pest Management is not triggered as the project will not promote the use of pesticide but will focus on enhancing agro business value chains
Physical Cultural Resources OP/BP 4.11	No	The policy on Physical Culture Resources (PCR) is not triggered as the construction of market points will cover a small footprints and the unearthing of PCR is highly unlikely. Precautionary, the ESMP will address how to manage chance finds.
Indigenous Peoples OP/BP 4.10	No	The policy is not triggered as the geographical areas in consideration are not likely to have indigenous people as defined by the Bank policy.
Involuntary Resettlement OP/BP 4.12	Yes	Component 3 includes investments in critical market and common use infrastructure. While the exact sites are not known at this time, such construction activities may require land acquisition or require temporary relocation of traders currently occupying the sites while market points are built. An RPF will need to be prepared, and as necessary, site-specific abbreviated RAPs should be prepared during implementation. The project also proposes to

		address agribusiness on a policy level, and such policies may have implications for land tenure.
Safety of Dams OP/BP 4.37	No	The policy is not triggered as it will not involve the construction or maintenance of dams as defined by the Bank policy.
Projects on International Waterways OP/BP 7.50	No	The policy is not triggered as it will not involve financing activates or subprojects lying within riparian areas of international waterways.
Projects in Disputed Areas OP/ BP 7.60	No	The policy is not triggered as it will not finance any activities in disputed areas or territories.

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

20-Jun-2016

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

1. Tentative target date for preparing the Appraisal Stage ISDS: 20-Jun-2016

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal-stage ISDS:

For Preparation of ESMF and RPF (prior to appraisal): Tentatively commence 2 May, 2016 and completed by 31 May, 2016. Site-specific ESMPs and RAPs will be prepared as needed during implementation.

III. Contact point

World Bank

Contact: Brian G. Mtonya
Title: Senior Private Sector Developm

Contact: Tugba Gurcanlar
Title: Trade Specialist

Borrower/Client/Recipient

Name: Ministry of Finance
Contact: Ronald Simwinga
Title:
Email: ronald.simwinga@mofnp.gov.zm

Implementing Agencies

Name: Ministry of Commerce, Trade and Industry
Contact: Kayula Siame
Title: Ms.
Email: kayula2013@gmail.com

IV. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

V. Approval

Task Team Leader(s):	Name: Brian G. Mtonya,Tugba Gurcanlar	
Approved By		
Safeguards Advisor:	Name: Johanna van Tilburg (SA)	Date: 12-Apr-2016
Practice Manager/ Manager:	Name: John Gabriel Goddard (PMGR)	Date: 13-Apr-2016
Country Director:	Name: Chrissie Kamwendo (CD)	Date: 21-Apr-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.