



USAID | **ZAMBIA**
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Assessment of USAID/Zambia's Economic Growth Portfolio Final Report

September 2008

Team Members: Meg Brown, consultant
Ron Stryker, consultant
Charles Mvula, Ministry of Agriculture and Cooperatives

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Acronyms

ACF	Agricultural Consultative Forum
AGCI	African Global Competitiveness Initiative
AGOA	African Growth and Opportunities Act
CAADP	Comprehensive Africa Agriculture Development Plan
CAHW	Community Animal Health Worker
C-FAARM	Consortium for Food Security, Agriculture, AIDS, Resiliency and Markets
CLW	Community Livestock Worker
COMESA	Common Market for Eastern and Southern Africa
COMPETE	Competitive Trade Expansion Program
CRS	Catholic Relief Services
CSP	Country Strategic Plan
CTO	Cognizant Technical Officer
DA	Development Assistance
DAP	Development Assistance Program
DCA	Development Credit Authority
DRC	Democratic Republic of the Congo
EAC	East African Community
EG	Economic Growth
IEHA	Initiative to End Hunger in Africa
FRA	Food Reserve Agency
FNDP	Fifth National Development Plan
FSP	Fertilizer Support Program
FSRP	Food Security Research Project
GRZ	Government of the Republic of Zambia
GTAZ	Grain Trader's Association of Zambia
IFPRI	International Food Policy Research Institute
JICA	Japanese International Cooperation Agency
LOL	Land of Lakes
MATEP	Market Access, Trade and Enabling Policies Project
MIF	MATEP Investment Funds
MTEF	Medium-Term Expenditure Framework
MSU	Michigan State University
MYAP	Multi-Year Assistance Program
NEPAD	New Partnership for Africa's Development
PAF	Performance Assessment Framework
PL 480	Public Law 480 for food aid
PROFIT	Productivity, Finance and Technology Project
RATES	Regional Trade Expansion Support Project
REC	Regional Economic Community
SADC	Southern African Development Community
SAG	Sector Advisory Group
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise

SO	Strategic Objective
USAID	U.S. Agency for International Development
WV	World Vision
ZATAC	Zambia Agribusiness Technical Assistance Center
ZNFU	Zambia National Farmers Union

I. Executive Summary

A. Purpose of the Evaluation

USAID/Zambia's Economic Growth (EG) Team requested an external assessment team to review individual projects and the Economic Growth portfolio. The specific tasks were:

- Assess the performance to date of the projects and the program
- Assess USAID/Zambia/EG's management of the projects and program
- Provide recommendations for future directions of USAID/Zambia/EG investments in agriculture and economic growth.

The evaluation report will provide the EG team with recommendations for short-term adjustments in the current programs, future programming and recommendations for various funding level scenarios.

B. Assessment Approach

The assessment team reviewed project documents, held discussions with the EG team, with each of the five principle projects, Title II program manager and partners and GRZ officials. The team also met with several project clients and the Agricultural Donor Coordination group.

C. Zambian Economic and Political Context

Government of Zambia. The Government of the Republic of Zambia (GRZ) developed its Fifth National Development Plan, which includes a chapter on agriculture, and a National Agricultural Policy to guide its investments. Government budget allocations have not been in line with their own strategies. Government interventions with fertilizer subsidies and procurement of maize distort market signals and budget allocations to other priority programs in agriculture. The recent death of the president and the upcoming by-elections has injected some uncertainty in the Zambian political arena and the future directions of the GRZ's development priorities and approaches.

CAADP. The Comprehensive Africa Agricultural Development Program (CAADP) is the African Union's framework for agriculture growth, food security, and rural development in Africa. CAADP aims to achieve 6% growth, and African leaders have pledged to increase budget allocations to 10% of the national budget. USAID/Washington fully supports the development and roll out CAADP, and has stipulated that the IEHA program, among others, will be used towards achievement of CAADP. Zambia has started the process of developing its Country Compact for CAADP, but this has been delayed due to issues raised by private sector, civil society and donors. In addition, key ministries other than MACO, such as the Ministry of Finance are not yet fully on board.

USAID Agency Priorities and Funding

USAID/Zambia's economic growth portfolio will continue to be influenced by the larger context of USAID/Washington priorities as determined by earmarks, directives and initiatives that dictate funding levels and types of programs. However, the USAID/Zambia Economic Growth portfolio has been implementing program activities that, for the most part, have positioned USAID/Zambia to attract IEHA funding as well as other related AGCI funding. The EG program receives IEHA funds for smallholder productivity and access to markets, and AGCI funds for trade and finance activities. IEHA missions are expected to support CAADP and to harmonize Title II programs with IEHA approaches to "graduate" Title II clients into commercialized agriculture. Regional integration for trade and food security is another priority, and bilateral missions are expected to have strong links to regional programs such as Competitive Trade Expansion (COMPETE), the Competiveness Hub, and new programs such as the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA) and the Global Food Security Response (GFSR). In this context, enhancing regional trade of food staples is a priority.

Donor Coordination

There is substantial donor funding for poverty alleviation activities focused on agriculture. Donor coordination in Zambia's agricultural sector is primarily information sharing, but there is increased alignment, in principle, around CAADP, and they develop unified positions vis-à-vis major policy issues with the GRZ. Donors are also committed to and many fund elements of the FNDP. As the lead donor for the agricultural donor group, the USAID/Zambia EG team as provided excellent leadership with regard to coordination among the various donors on key issues, including CAADP.

Regional Economic Communities (RECs)

Zambia is a member of both COMESA and SADC, and its principle trading partners are within those two RECs. Both RECs are committed to regional integration. COMESA has been tasked to address staple food crop trade and regional fertilizer procurement and distribution. SADC has just launched its FTA. Zambia, with its extensive land and water resources, is well poised to become a major exporter to its deficit neighbors in both COMESA and SADC communities.

D. Assessment of EG Programs and Findings

The EG program for the most part is on track and is meeting or exceeding PMP and OP targets. Both the USAID/Zambia Economic Growth team and partners demonstrate strong commitment to achieving results and effective working relationships have been established.

In terms of the future, there is high potential to achieve "transformational" impacts in the agricultural sector over the next 5-6 years, by scaling up some of the activities that are now gaining impressive traction. The agricultural inputs supply,

private veterinary services, cotton sector interventions and marketing activities are new models of sustainable approaches to service delivery for smallholder producers and small and medium enterprises. They are not only gaining momentum with the private sector entities and smallholders, but also high interest from other donors as possible multi-donor approaches for achieving “transformational” impact in the agricultural sector through expanded markets in a range of agricultural commodities grown by smallholders. Increased market access has been demonstrated, particularly in regional markets for Zambian products; markets are emerging in the DRC, Namibia, Botswana, South Africa, and Angola. . The HIV/AIDS activities funded by PEPFAR and implemented by partners in the USAID/Zambian Economic Growth portfolio have proven highly successful. There has been less than desired progress on moving the banking sector into “non-traditional” lending to SMEs, however, new and innovative approaches now underway, such as Development Credit Authority (DCA) and efforts to develop alternative financing show promise, and continued efforts to achieve broader outcomes is critical. The USAID/Zambia/EG’s policy research and analysis work by USAID/Zambia provides the mission with an excellent base for policy dialogue and policy change, however challenges remain regarding ways to deepen the policy change process; involving the private sector and civil society at large in order to influence decision makers. The USAID/Zambia EG team has been very effective in linking the bilateral program to regional programs, adding significant value to both.

In sum, the USAID/Zambia EG team is managing their program very effectively, and has provided very strong leadership in broader aspects, such as coordination with other donors, other regional USAID programs and staying focused on high potential and innovative solutions that can lead to future transformation impact in the agricultural sector. Other donors are expressing interest in the success of USAID/Zambia/EG’s innovative approaches, by either aligning with or co-funding some activities. More outreach of these innovations and of policy research results is needed in the future.

E. Recommendations - Summary

For remainder of current program

- There should be accelerated implementation of PROFIT projects to significantly scale up certain successful activities. Scaling up of private sector provision of agricultural inputs for food staples and cash crops (such cotton and possibly horticulture), and private sector provision of veterinary services will lay the foundation for building a critical mass for transformational impact in the sector affecting hundreds of thousands of smallholders and SMEs.
- Acceleration of policy work by FSRP will provide fine-tuning of key policy issues related to key food staples and cash crops and underpin the next phase and design of the USAID/Zambia/EG program. FSRP policy focus will also lay the foundation for building ACF capacity and public outreach.

- Other current areas of focus should be put on a track for phasing out, with clear exit strategies. For MATEP and PROFIT, tourism activities should be phased down by the end of the projects. For MATEP, market development and trade efforts should continue, but also focus on identifying ways to build capacity of Zambian entities to take on more of the work now being done by expatriate technical assistance, e.g. how to build Zambian BDS capacity or to strengthen capacity of ongoing work with existing Zambian organizations in the areas of market access, trade enabling environment and finance.
- ZATAC should develop action plan that establishes benchmarks for an orderly close out of COI. In addition, the EG team should evaluate the needs for ensuring ZATAC's future sustainability and its core business plan as it relates to managing funds such as the MIF.
- The EG team should develop a design schedule and identify areas for further research and analysis needed for designing the next phase of the program. There should be no gap between close out of the current program and start up of the new program, particularly for high priority areas that will need to be continued over the long term.

II. Background and Context

A. Purpose of EG Program Evaluation

Evolution of the Economic Growth Program

The current EG program evolved out of the previous strategy “Increased Rural Incomes” which focused on the enabling environment to reduce barriers to trade and investment; built capacity for policy analysis and dialogue in both the private and public sectors; and enhancing the SME sector’s business skills and linkages to markets. The program’s development model was built on a value chain approach to link smallholders to larger scale producers, processors and consumers, and to enhance opportunities all along the value chain. Building on the lessons learned and successes, the current EG program has increased emphasis on sustainable service delivery to smallholders to enhance the sustainability of USAID/Zambia/EG investments. The program also focuses interventions assisting firms to access existing and potential market opportunities in commodities that are produced by smallholders as a way to increase trade and rural incomes.

Purpose of Assessment

USAID/Zambia’s Economic Growth (EG) Team requested an external assessment team to review individual projects and the Economic Growth portfolio as a whole. The specific tasks of this assessment can be categorized into three parts:

- Assess the performance to date of the projects and the program
- Assess USAID/Zambia/EG’s management of the projects and program
- Provide recommendations for future directions of USAID/Zambia/EG investments in agriculture and economic growth.

The evaluation report will provide the EG team with recommendations for short term adjustments in the current programs, and will have a strong focus on future programming and structure. It will also provide recommendations on scaling up of programs in light of possible significant increases in funding levels in FY 2009 and 2010.

B. Assessment Approach

The assessment team reviewed a large number of project documents prior to arrival in Zambia. Once in country, the team held initial discussions with the EG team to review in detail the scope of work and refine and prioritize the work. The team then held in-depth discussions with each of the five principle projects and the Title II program manager and partners. In several cases there were repeat visits to gather additional information and perspectives. Each project was interviewed to answer a series of questions related to current project activities, performance to date, future directions and lessons learned to date. The team probed in detail on project activities that were deemed successful or likely to succeed as well as failed and discontinued activities.

The team then visited selected clients of the EG program to gain their perspective on USAID/Zambia/EG's investments, the impact and particularly the sustainability of the activity beyond the project life. The team also met with the Agricultural Donor Coordination group specifically to discuss the USAID/Zambia EG program and approaches, and Zambia agricultural policies and programs.

C. Zambian Economic and Political Context

The USAID/Zambia EG program operates within the context of Government of the Republic of Zambia's (GRZ) development plans and policies, as well as the political reality of what the government actually does on the ground.

Economic Performance

The GRZ has made substantial progress at the macroeconomic level, but less progress is evident in poverty reduction and agricultural growth that is necessary for broad based economic development.

Some progress was made during the period of the Poverty Reduction Strategy Program (PRSP) between 2002-2005. A few indicators below give a brief picture of mixed success overall:

- GDP averaged 4.8%, up from 2.2% over previous 4 years
- Per capita income increased by 2.3% per year
- 64% of the population is below Zambia's poverty level (down from 68% in 2004) with In rural areas, 80% are poor, with 67% extremely poor¹.
- Agriculture grew only at 2.6%
- Budget allocation percentage increased for agriculture, but was primarily for salaries and subsidies
- Government borrowing from the banking sector eventually was brought down
- Inflation was brought down to single digit until 2008 when it has risen to double digits due to food and fuel price increases.
- Treasury bill rates have decreased from an average of 50% to 12 – 14% currently.

Fifth National Development Plan

In 2006, the Government of the Republic of Zambia, GRZ, developed the Fifth National Development Plan (FNDP) for 2006-2010, building on the PRSP, and for agriculture, the pre-existing National Agriculture Plan (NAP). The NAP objective is to facilitate and support the development of sustainable and competitive agricultural sector" as a way to achieve food security and poverty alleviation. The FNDP recognizes agriculture as a high priority sector, given that 60% of the population lives in rural areas and of those, 70% are involved in agriculture. The International Food Policy Research Institute (IFPRI) work

¹ Central Statistics Office Monthly Bulletin, June 2008.

estimates that the multiplier for agriculture in Zambia is 1.63, so that one dollar of growth in agriculture results in a \$0.63 additional growth in the overall economy due to its strong links into the economy. The FNDP maintains the NAP objective, and proposes nine priority investment areas for agriculture:

- Irrigation
- Infrastructure and land development
- Livestock
- Agricultural services and technology development
- Fisheries
- Policy coordination and management
- Agricultural marketing, trade and agri-business development
- Cooperatives development
- Human resources development

The FNDP document proposes illustrative budgets for each of these nine program areas, and also includes line items for the Fertilizer Support Program (FSP) and the Food Reserve Agency (FRA). The budget for these two subsidy programs is totally phased out of the budget by 2009.

The Performance Assessment Framework (PAF) tracks the GRZ's performance in implementing its budget as part of the Medium-Term Expenditure Review (MTEF) and related to the FNDP. Most of the PAF indicators are macroeconomic, and the GRZ has shown good performance at this level. There are three PAF indicators related to performance in the agricultural sector: budget allocations to the nine FNDP priority agricultural sectors; number of hectares of new or rehabilitated irrigation; and progress towards passing the Agricultural Marketing Act. The GRZ has not met any of these three PAF benchmarks.

Policies and Political Uncertainty

The most problematic issues revolve around the GRZ's policies relating to maize, principally the GRZ's Food Reserve Agency and the Fertilizer Support Program. USAID/Zambia/EG has been the lead voice on the issue of GRZ agricultural investments, with analytical backup from the FSRP. The World Bank commissioned in-depth evaluation of FSP, building on FSRP's work. USAID/Zambia/EG effectively uses FSRP research findings to continue discussions with the GRZ the impact of its interventions in the maize and fertilizer sectors.

The FSRP project provides a wealth of research and empirical evidence that USAID/Zambia/EG and other stakeholders in Zambia have and will continue to present to policy makers in government, including Parliament. FSRP has begun to establish relationships beyond the Ministry of Agriculture to include Finance, and Trade, Commerce and Industry. Occasionally, they have been able to involve the President's Office as well. Increasing the number of pressure points and range of stakeholders will hopefully result in an appreciation of the impact of government's actions and an understanding of alternative choices.

The Performance Assessment Framework tracks the GRZ's performance in implementing the FNDP as measured by its budget allocation and utilization targets set out in the MTEF. Most of the PAF economic indicators are macroeconomic, and the GRZ has shown good performance at this level. There are three PAF indicators related to performance in the agricultural sector: budget allocations to the nine FNDP priority agricultural sectors; number of hectares of new or rehabilitated irrigation; and progress towards passing the Agricultural Marketing Act. The GRZ has not met any of these three PAF benchmarks.

As the time of the EG assessment, Zambia is entering into much political uncertainty going into somewhat uncharted waters with the death of the president and presidential by elections. Like many African countries, it has been the President and his close staff that often determine policy directions for the country, many time dictated by the need to be re-elected rather than adhering to agreed upon development plans. Until the by elections are finished with a clear result, it is difficult to predict if the new president will continue along the same lines as the previous regime, where maize dominates the agricultural policy domain, and social subsidies for maize are considered critical to gain and maintain political power. On the positive side, there could be a great opportunity with the right leadership, to make the necessary policy changes that can result in Zambia realizing its full potential in the agricultural sector, becoming a regional exporter to its deficit neighbors and contributing to improved food security in the region.

D. CAADP

The Comprehensive African Agricultural Development Programme (CAADP) is the African Union-led framework for the restoration of agriculture growth, food security, and rural development in Africa. CAADP aims to achieve 6% growth, and at the Maputo meeting, African leaders pledged to increase budget allocations to 10% of the national budget. CAADP's framework consists of four Pillars that are mutually supporting to improve Africa's agriculture:

Pillar 1: Extending the area under sustainable land management and reliable water control systems;

Pillar 2: Improving rural infrastructure and trade related capacities for market accesses;

Pillar 3: Increasing food supply, reduce hunger, and improve responses to food emergency crises; and

Pillar 4: Improving agriculture research, technology dissemination and adoption.

In addition, there are two crossing cutting issues that are addressed in developing implementation agenda:

1. Capacity strengthening for agriculture and agribusiness.
2. Information for agricultural strategy formulation and implementation.

The African Union (AU) NEPAD has mandated COMESA, as a REC, to lead the CAADP process in its region. At the country level, the Compact is developed in several steps including a stock taking activity that forms the basis for developing the Compact, and Country Round Tables in which partnerships and alliances are formed among key actors that will need to come together to implement the Compact.

USAID/Zambia/EG has fully supported the development and roll out CAADP, and has stipulated that the IEHA program, among others, will be used towards achievement of CAADP objectives.

Zambia has accepted CAADP as a framework for implementing agricultural development, along with its own FNDP and NAP, and the focal point is located in Ministry of Agriculture and Cooperatives (MACO). The CAADP process of developing the Compact is unlike many development plans, in that countries are expected to make strategic investment choices that are underpinned by research to determine best bets to reduce poverty and grow the agricultural and overall economy. CAADP, as part of NEPAD's approach, also has peer review and knowledge management aspects that are often lacking in national strategies. Donors have endorsed the CAADP process and pledged to use their funds within the CAADP framework; this will ideally lead to much more alignment of resources and clearer results towards the MDG 1.

In Zambia, the FNDP and the IFPRI study on investment options for poverty alleviation provided the bulk of the analytical work and formulation of Zambia's CAADP program.

The IFPRI study indicates that the most significant impact on poverty and growth in Zambia will come from investments in a range of agricultural sub-sectors, and particularly cash crops for export and cereals. A strategy focusing solely on maize/cereal crops will not have sufficient impact on poverty. The investments in a range of key commodity value chains need to be accompanied by investments in agriculture research and rural infrastructure. To achieve the CAADP goal of 6% growth, the modeling shows that GRZ must increase its budget allocations to agriculture to 17% of the budget, well beyond the CAADP target 10% to significantly increase growth rates and decrease poverty.

The stock taking activity used the FNDP and IFPRI's analytical work to form the basis of documents presented at the Round Table in March 2008. The Agriculture Consultative Forum in collaboration with MACO and the Common Market for Eastern and Southern Africa (COMESA), brought 50 stakeholders together to review the work done to date on Zambia's CAADP and for bringing and begin the process of building partnerships and alliances. Participants in the Round Table meeting had the following concerns that will need to be rectified before the process can continue:

- lack of consultation with stakeholders during the development of the Compact and its underlying program documents. Key stakeholders, such as Zambia National Farmers Union (ZNFU), the Agricultural Consultative Forum (ACF), key government entities and donors were not involved from the start up of developing CAADP resulting in little buy-in.
- apparent lack of strong analytical base to justify the list of projects proposed under CAADP. The programs' impact on decreasing poverty and stimulating growth was questionable. The IFPRI analysis as well as the stocktaking activity did not sufficiently address the issues and impact of current government investments in agriculture such as FSP and FRA.
- The programs did not articulate roles of government, private sector and development partners. This leaves implementation of CAADP wide open to government continuing to finance activities that are analyses show will result in the highest impact on poverty and economic growth.

There is also an apparent lack of commitment even within government, with the Ministry of Finance raising questions on CAADP, reflecting a lack of communications within government itself. The fact that the CAADP Focal Point is a mid-level official in MACO brings into question whether the broader government is on board enough to give sufficient priority both during the development of the Compact, and to actually implement the Compact. The issues with the CAADP process mirror those of the FNDD – with serious concern about the level of government commitment to carry out its own development agenda. With the recent changes in government, it is not yet clear when the CAADP process will be continued.

With regard to CAADP benchmarks, the GRZ has not reached the 10% budget allocation for agriculture. In 2005 and 2006, GRZ allocated 8% of budget to agriculture, but decreased it to 4% in the last two years. Even more important will be the quality of any level of investment in agriculture. Almost no funds have been allocated to research or extension. The GRZ allocates 50% of the agricultural budget to poverty alleviation programs, of which 80% goes to two large subsidy programs: FSP and the Food Reserve Agency.

E. USAID Agency Initiatives and Programs relevant to EG Program

USAID agricultural and economic growth programs have become increasingly dominated by initiatives, earmarks and unfunded directives. Strategies and programs are now developed within the confines of these parameters, forcing missions to be creative about how to do the necessary development investments while meeting the criteria of each parameter. This limits flexibility to be responsive to country specific needs since there are virtually no unrestricted funds. The EG program receives bits and pieces of funding which the team has creatively used to achieve their objectives, using Dairy Directive funds and water

funds to supplement and fill gaps in their program. However, the SO team lost Biodiversity funds when the definition became very restrictive (for protected areas only), rather than the previous earmark that allowed funding for broader natural resources management.

The following section presents an overview of the principle funding sources the EG team receives to implement their strategy, and provides some detail on the objectives and requirements of these programs. USAID/Zambia/EG is expected to meet these requirements in order to access funds. Without adhering to these requirements, the mission would have very little, if any, funds for Economic Growth or Agriculture activities.

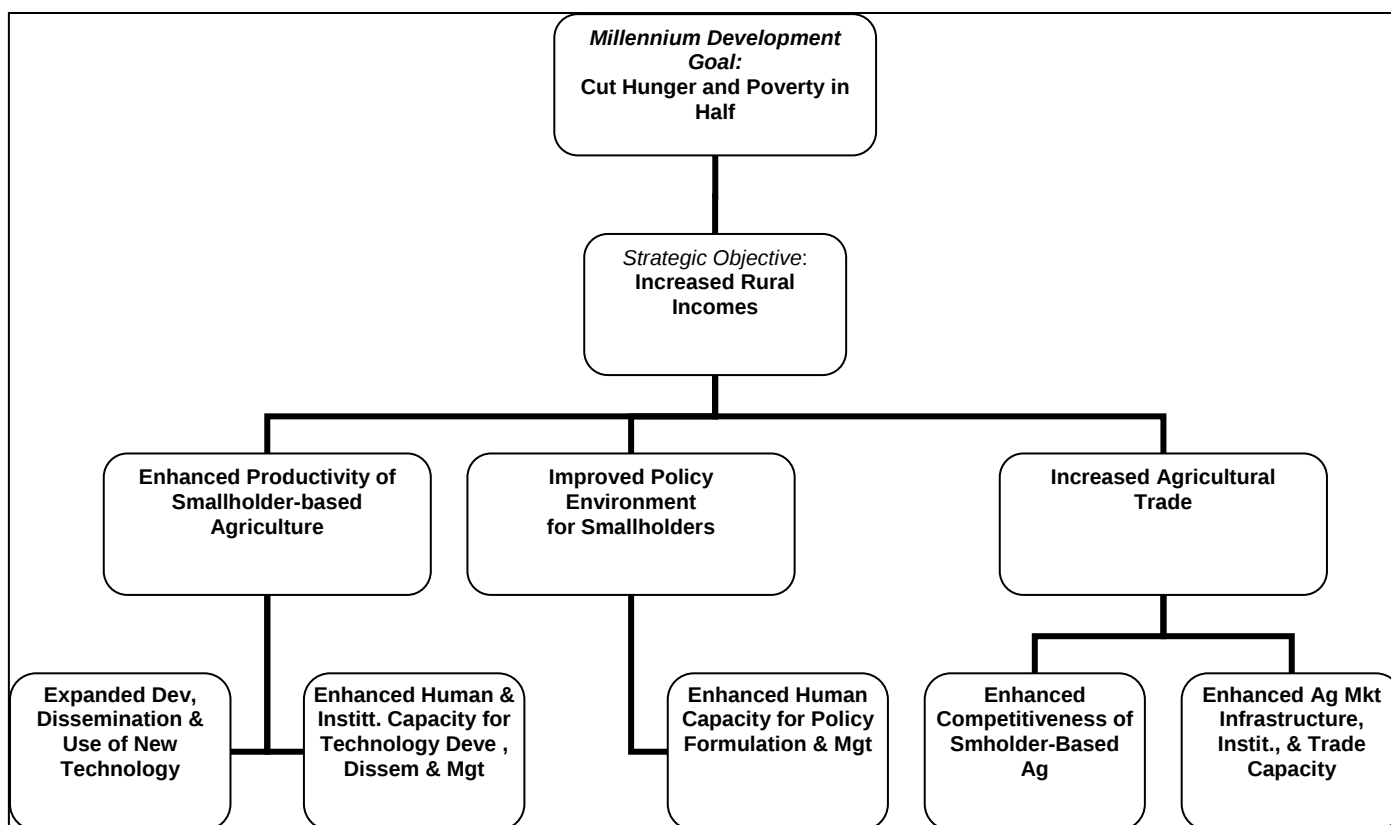
a. Initiative to End Hunger in Africa

The USAID/Zambia Economic Growth program, Strategic Objective 5, (SO 5) is primarily funded by USAID's Presidential Initiative to End Hunger in Africa, IEHA. For the past three years, the mission received \$3.25 m (FY 06 and FY 07), which was reduced to \$2.917 m in FY 08. This initiative was established in 2002 as USAID's primary vehicle to address the U. N. Millennium Development Goal 1 to halve poverty and hunger by 2015 in Africa. In response to the MDGs, African leaders initiated through the African Union (AU) the New Partnership for Africa's Development (NEPAD) to evolve an African-led development process. Agriculture was one of several sectors accorded high priority in the NEPAD strategy, and the Comprehensive Africa Agricultural Development Program (CAADP) was developed as a comprehensive framework for African nations and their development partners to consolidate investments based on African priorities for agricultural development to better achieve the MD Goal 1 on poverty and hunger. USAID has pledged its support for CAADP through IEHA.

IEHA's objective is to *rapidly and sustainably increasing agricultural growth and rural incomes in Sub-Saharan Africa*. The Initiative targets the smallholder agricultural sector and has six pillars:

- Science and Technology Development and Transfer (including Biotechnology)
- Agricultural Trade and Market Systems
- Strong community based and producer organizations
- Capacity Building
- Transition of Vulnerable Groups from disaster to development
- Environmental Management for sustainable agricultural and economic growth

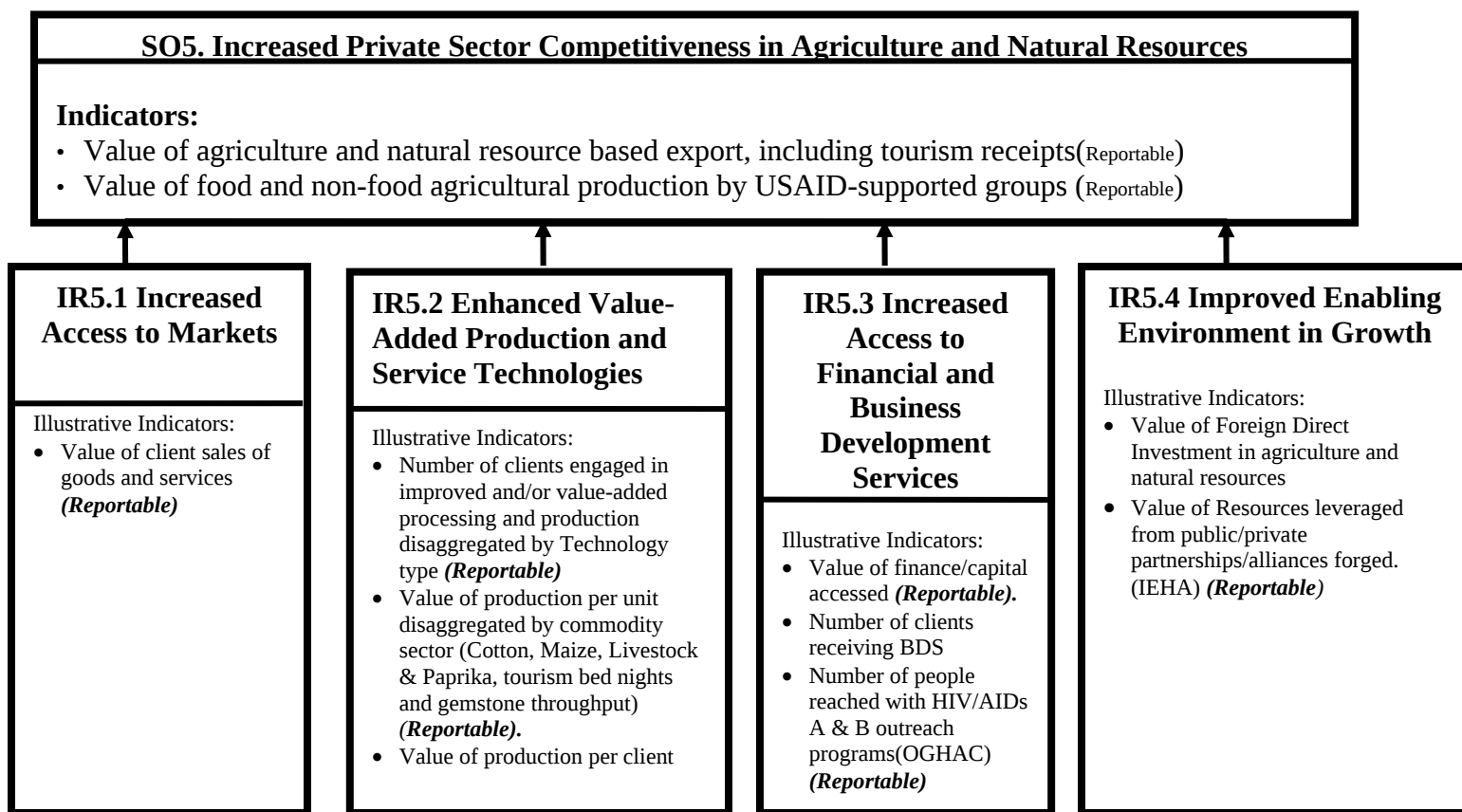
The Results Framework (RF) for IEHA provides a more concrete idea of the objectives and types of activities of the initiative, and provides the overall framework for all participating IEHA countries.



SO 5 was found to be for the most part, very IEHA “compliant” and the Action Plan made only a few additions in order to ensure that the SO 5 was fully in line with IEHA. The Action Plan expanded the smallholder target group to include some 300,000 additional vulnerable smallholders who have potential to eventually move into commercial farming. This doubled the EG program target population. The Action Plan also made explicit, by adding a sub-IR, the need for promoting technology adoption by targeted smallholder producers, including the more vulnerable.

In 2006, an evaluation of the whole IEHA program was undertaken by USAID/Washington which recommended some mid-course corrections for the program. Some of the recommendations relevant to USAID/Zambia/EG’s future directions for programs funded by IEHA include:

- Increase alignment of Title II agricultural programs with the IEHA program,
- Title II agricultural programs should report against the relevant IEHA Common Indicators.
- Ensure program links to regional market opportunities and programs in the region.
- Align with and support the African Union’s New Partnership for Africa’s Development’s (NEPAD) Comprehensive African Agriculture Development Program (CAADP).



The need to align Title II programs with IEHA is driven by the conceptual framework as well as by the substantial resources (\$100 million/year) that Food for Peace is providing IEHA through its Title II program. IEHA also represents the USG's resource commitment and support to the CAADP process in Africa, thus the imperative for IEHA countries to be thoroughly engaged in this process.

b. African Global Competitiveness Initiative

The SO 5 receives some of its funds (\$1 m in FY 08) from the Agricultural Growth and Competitiveness Initiative (AGCI) that focuses on trade, investment and finance. The objective of AGCI is to promote export competitiveness of African enterprises, and expand trade to the U.S., other extra-Africa markets as well as regional (African) markets. The initiative has four components:

- Policy: to identify policy constraints that limit or impede trade
- Capacity building: to improve knowledge and skills of African enterprises to enable them to take advantage of market opportunities
- Finance: to increase access to financial services to enhance trade
- Infrastructure: to facilitate investment in infrastructure to promote trade

AGCI provides funding to the four African Regional Competitiveness Hubs which provide services to African enterprises, with a particular emphasis on helping to achieve the African Growth and Opportunities Act (AGOA) objectives. Zambia is served by the Southern African Competitiveness Hub located in South Africa.

The SO 5 program has received AGCI funds for carrying out activities to support the Initiative's Trade and for Finance components (\$0.5 m each). The SO 5 programs (particularly MATEP) also benefit from AGCI through the Southern Africa Competitiveness Hub (see below).

F. Regional Context

1. Regional Economic Communities (RECs)

Zambia is a member of two regional economic communities: Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa. This gives Zambia, with its potential to produce agricultural surpluses, a vast opportunity to access a large majority of African markets and expand its trade in the region.

a. Southern Africa Development Community (SADC)

Most of Zambia's immediate neighbors – Zimbabwe, Angola, Democratic Republic of Congo (DRC), Malawi, Mozambique, Namibia, Botswana and Tanzania – are all SADC members. Now with the Free Trade Area launched in SADC, there will be fewer trade impediments and more integration in the Community. With Zambia's natural endowment of water resources combined with high potential for agricultural production, it stands to greatly benefit from increasing the ease of trade in SADC.

b. Common Market for Eastern and Southern Africa (COMESA)

COMESA, with significant assistance from donors including USAID, has made major progress towards regional integration, including its Free Trade Area, harmonization of standards to facilitate trade and some progress on transit facilitation. COMESA has also been delegated the responsibility as the REC to coordinate country level CAADP processes.

Regional Integration: One of COMESA's major challenges is to follow through with agreements made in COMESA Heads of State and Ministerial meetings. COMESA member states, through these meetings have strongly supported open borders and enhanced regional trade as the most sustainable approach to achieve regional food security and economic growth. Yet, implementation of the necessary steps at national levels has lagged. Political buy in has not been achieved, and COMESA agrees that much more work is needed at the national levels with Members of Parliament and other branches of governments such as Ministers of Finance.

Fertilizer: Fertilizer has become a priority subject of discussion, with pressure on COMESA from the last Ministerial meeting, to procure fertilizer in bulk and develop a regional distribution network. Fertilizer subsidies are another issue for COMESA to sort out. If some members subsidize their farmers' fertilizer, such as Malawi and Zambia, they are able to market cheaper commodities (maize) than

member states who do not subsidize their producers. COMESA will be doing more analytical work on regional trade implications of subsidies.

COMESA is also quite concerned with the re-emergence of fertilizer and seed subsidy programs in the region. The World Bank, through its regional Africa Agriculture Markets Project (\$3.8 m for 3 years), will carry out a fertilizer market analysis of the COMESA region to gain a better understanding of, *inter alia*, the impact of these subsidy programs.

ACTESA: A major new initiative, sponsored by USAID East Africa, is the Alliance for Commodity Trade in Eastern and Southern Africa, ACTESA and was designed in response to the COMESA Ministerial meeting in March 2008. ACTESA will be the primary vehicle for achieving COMESA's goal of ***“increased regional integration and improved competitiveness of staple food markets, leading to broad based growth and decreased food insecurity.”*** ACTESA will contribute to achieving results under CAADP Pillar III on food security as well as Pillar II, on trade and markets. ACTESA, with its strong focus on facilitating private sector driven regional trade and on benchmarking COMESA member countries against one another presents a marked departure from other programs. ACTESA will add value by working with member state governments through a combination of advocacy and evidence based analysis, which will compare and contrast the benefits both within country and compared to other member countries of their progress towards increased regional trade, reduced trading barriers, developing the FTA, and work towards customs union and broader economic integration. Smaller countries and/or landlocked such as Zambia stand to significantly gain from easily accessing the larger regional integrated market that COMESA strives for.

2. Regional Projects

a. Southern Africa Global Competitiveness Hub

USAID/Zambia EG program partners have taken advantage of the services and expertise housed in the Southern Africa Competitiveness Hub. MATEP has used the Hub to identify organic market requirements for vegetable exports and was assisted by the work APHIS did on Pest Risk Assessments for selected products. The Hub facilitated market linkages by identifying U.S. buyers for some firms assisted by MATEP; organized inward buyer visits from South Africa; conducted seminars on FDA labeling requirements; SPS requirements of South Africa, including assistance on honey eradication requirements; organizing African pavilions at trade shows. MATEP and the Hub collaborated in undertaking a Cargo Time Release study at various Zambian borders points, and the Hub provided funding and expertise for the study and follow up. In the future, EG export activities will likely continue to collaborate with and benefit from the Hub on a similar basis.

b. RATES/COMPETE

The Regional Agricultural Trade Expansion Support (RATES) project ended in 2008, but many elements of RATES have been designed into its successor, the

Competitiveness and Trade Expansion project (COMPETE). These programs are managed by the USAID/East Africa regional mission in Nairobi. RATES aimed to increase trade of African agricultural products, within the COMESA region through a commodity value chain approach. The project worked closely with COMESA to identify trade policy and regulatory issues that act as barriers to regional trade flows, focusing on maize, cotton, coffee and dairy. While the project took regional approaches, it also worked with organizations within countries to bring them into the regional picture. RATES coined the now widely used term of “maize without borders”. The open border approach to food security was endorsed by the COMESA Council of Ministers in 2004.

RATES’ work was highly complementary to the EG portfolio, particularly since both were working on cotton, coffee, maize and dairy. RATES work on harmonization of standards, organizing and strengthening industry organizations, customs clearance, transport bonds, market information systems helped the EG program “reach across the border” in areas that were not the purview of a bilateral mission.

The EG program has done an excellent job to date in taking advantage of opportunities offered by several USAID programs in the region. There was high complementarity between RATES and the EG program, due to sharing a common set of commodities (maize, cotton, coffee, and eventually dairy). The EG program benefited from RATES’ work on linking to and building capacity of some of the private sectors actors such as the Grain Traders Association of Zambia and the Cross Border Traders’ Association. The formation of the Stocks Committee in Zambia has improved information flows between government and private sector and has started to build trust. RATES’ work was complemented by FSRP’s work on policy and data collection and analysis.

COMPETE builds on RATES’ work, especially in maize, cotton and coffee, but the project has the option to select from a set of five additional value chains if/as funding becomes available. These value chains are livestock/leather; horticulture; processed foods; tourism; and transport/logistics (truck transport, storage, coordination of information). In addition to specific value chain work, COMPETE has components on transit facilitation, trade policy, finance (trade and infrastructure) and a small activity on regional energy policy. COMPETE takes over the East and Central Africa Trade Hub and its AGOA responsibilities. As in RATES, there is a strong mandate for COMPETE to leverage its impact by working closely with bilateral USAID missions (and other non- partners) to achieve increased trade. There will be excellent opportunities therefore, for USAID/Zambia/EG to benefit from and contribute to COMPETE.

c. Global Food Security Response

The U.S. President recently announced the U.S. government’s intention to address both the immediate and longer term challenges posed by the world wide increase in food prices. This new program, the Global Food Security Response

(GFSR), is quickly being designed around a framework that initially will aim to increase immediate food supply by large distributions to the food insecure in Africa. GFSR has three broad components:

- Immediate humanitarian response:
 - o Emergency food aid, better targeted, strengthen social safety nets
 - o Non-food aid assistance expanded: assist small farmers to plant and harvest for next season; nutrition support; build productive assets, and local procurement of food for distributions.
- Measures to address root causes of the food crisis:
 - o Increase agricultural productivity with technology development and dissemination, irrigation, agro-processing
 - o Address bottlenecks in distribution and supply chains including trade and transport corridors; developing the value chains, increase access to capital
 - o Promote market-based principles by assisting national and regional institutions; implementing pro-agricultural and pro-food policies; contingency planning
- Address policies and opportunities at the international/global level that will moderate global food prices
 - o Develop biofuels sustainability principles and best practices
 - o Complete an ambitious Doha Round
 - o Ensure access to science and technology
 - o Work with international partners

At this time, funding levels have been estimated to be \$125 million of which the bulk (\$95 m) will be used for the immediate humanitarian needs component. World Food Program will be a key partner for much of this and will likely handle local procurement operations. The program will allocate approximately \$30 m for the second component on smallholder agricultural productivity and market access activities. Many details have yet to be worked out for this very ambitious program including geographic focus within Africa, phasing and implementation modalities.

G. Donor Programs and Coordination

While there are numerous donors and international organizations operating in Zambia, the principal three donors in the agricultural sector are the World Bank, SIDA and USAID/Zambia. These three donors, the Troika, lead the donor group in its deliberations and interaction with the GRZ. Each Troika member becomes Chair of the group for one year and then rotates to the next Troika member. USAID currently holds the chair. The group holds meetings once a month. Donor members exchange information on programs, future planning, present subjects of topical interest, and raise and discuss issues of concern. In several cases, donors hammer out a common position to present to the GRZ on critical issues such as the request from the Minister of Finance to make recommendations on how Zambia should address the opportunity/crisis of rising food prices.

The donors support the GRZ Fifth National Development Plan (FNDP) and some fund specific activities of the FNDP. Budget support is also intended to assist the GRZ to implement the FNDP. The GRZ and donors have set up a mechanism of Sector Advisory Groups (SAGs) that were to meet regularly to discuss FNDP implementation. In the agricultural sector, both government and donors agree that these have not been as useful as they should be.

Donor Programs. In reviewing the list of donors and their current set of programs, it is clear that there is little coordination on the ground, and in some cases, many donors are funding the same organizations with different approaches and objectives. There is a multitude of projects for rural credit, goods and services provision (with varying levels of subsidy) and alternative extension service structures. Most donor programs focus on smallholders as their primary beneficiary, with some targeting the most vulnerable, but little in-depth discussion of successes and failures. There are large sums of donor resources being spent trying to improve Zambia's smallholder agricultural sector, but with little attention to sustainability and conflicting approaches. The Nordic countries tend to coordinate and co-finance many activities with other donors, and recently several have approached USAID to better align their programs, particularly those which target the same Zambian organizations, such as ZNFU.

USAID has been able to interest some donors in the innovative approaches being piloted in the EG program, and this has resulted in increased interest in aligning approaches (Norway with PROFIT) and actual cost sharing of some activities (SIDA co-finances FSRP). USAID/Zambia/EG should increase efforts to share project results and collaborate with other donors.

Budget vs. Project Support. Many European donors are shifting their funding to budget support. Only a few donors (USAID, JICA) provide strictly project support, and there is pressure for project support donors to move to budget support. However, given the current status of the GRZ's implementation of its FNDP, it is highly questionable that budget support is being effectively channeled to the priority sectors outlined in the FNDP.

Policy Dialogue: USAID/Zambia/EG provides proactive and strong intellectual leadership in the donor group, effectively using FSRP analyses that highlight critical issues in Zambia's agricultural sector. It is doubtful that without USAID leadership and the FSRP research that donors would be aware of these issues or have capacity to carry out meaningful policy dialogue with the GRZ. Examples of this include analysis of the GRZ's budget allocations to the Fertilizer Support Program and the Food Reserve Agency, and the work on responses to the food price crisis. Donors have a clear appreciation of this kind of leadership, particularly for those who provide budget support.

III. Assessment of EG Program and Findings

A. Assessment of Projects under the EG Program

The assessment of the following projects aims to identify successful interventions and approaches that have potential for large-scale impact at the sub-sector, sector or industry level. In this context, both short-term (within life of project) and longer-term recommendations are provided, with the objective to help identify priorities and design considerations for the future program. There is also discussion and recommendations on critical issues and areas where potential for large-scale impact is not evident. Our findings indicate that, for the most part, partners and contractors are doing excellent work and are achieving stated objectives, based on the design of their respective projects.

A.1 Production, Finance, and Improved Technologies (PROFIT)

Objectives: PROFIT was designed to increase smallholder productivity by reducing costs of value chain transactions, leading to greater competitiveness and market potential. To achieve this objective, PROFIT works with both private sector and public sector entities to enhance input and output services to smallholder farmers. The approach involves analyzing value chains with market and production potential and providing solutions that are targeted to farmers, small and medium scale businesses (SMEs), and financial and other supporting industries. PROFIT has a national focus but actually works in seven of the nine provinces in Zambia. PROFIT also implements a grant fund targeted at private sector entities that can enhance the overall objectives of the project. PROFIT is a \$17.5 million program of which \$7 million is a grant component. PROFIT began in 2005 and will end in 2010.

Findings and Recommendations:

Commodity or Systems approach: As specified in the original cooperative agreement, the initial PROFIT approach focused on commodity chains and producer organizations. However, it was soon discovered that this approach was not achieving the results or the economies of scale desired. With the exception of the cotton and livestock sectors, the project shifted much of its focus to a more systemic approach focused on improving the delivery of goods and services (agricultural inputs), marketing and knowledge utilizing the private sector. This focus and approach not only addresses a fundamental constraint for increasing staple crop productivity, but also permits a substantial increase in smallholder beneficiaries.

- **Recommendation:** Improving agricultural input supply and distribution to smallholder farmers through the private sector addresses a core problem - low productivity - of a wide range of food staples and cash crops. However, PROFIT is not currently monitoring impact on productivity of selected commodities. PROFIT should incorporate a means to measure

the impact on productivity i.e. yield of the food staples being impacted by this intervention. This should be done within the life of the current project.

Agricultural Input Solutions: The systems approach, as noted above, represents a successful intervention and approach for sustainable delivery of agricultural inputs to smallholders. The approach works with the main private sector input supplier companies (13 companies) and other key players in this value chain. So far, 700 community-based agents, who serve as links between farmers and the input supply firms, have been trained to deliver appropriate and timely agronomic solutions, including provision of inputs and agronomic management practices. The next layer of training will need to integrate enhanced production and management knowledge so that smallholders and field agents become more empowered to take advantage of profit incentives and to catalyze the evolution of agents and/or other entrepreneurs into SME service providers. Lead firms will also need to learn how to manage their network of village agents and to effectively gain and utilize information from their farmer clients. At this stage, it is clear that effective demand for agricultural inputs and information is increasing (over \$1 million in sales of inputs) and that smallholders will pre-pay for services without the need for credit. The PROFIT model has also resulted in a 50% reduction in costs of inputs and a 50% increase in productivity. The fact that this demand is taking place in an environment where government policy is basically undercutting a private sector activity of this nature, is enlightening.

- Recommendation: There is scope for scaling up the training of agents to more than 1,100, which would also expand the targets for smallholder beneficiaries. By the end of the project, it is estimated that 71,500 smallholders will have been reached, but by accelerating the burn rate, this can be increased to 121,000 smallholders by the end of the project. The agricultural inputs activity will require a longer-term investment and should be carried forward into the next USAID/Zambia economic growth strategy.
- Recommendation: Potential sensitivity could emerge from government or other donor supported projects that are targeted at enhancing government extension workers. This does not currently appear to be a problem, and in fact there are MACO extension agents who have become agents. However, if the PROFIT program is scaled up, there could be potential for conflict between private and public service providers unless there are efforts to define policy on roles of each. Thus, USAID/Zambia/EG managers and PROFIT technicians should give increased attention to briefing government at both the national and district levels regarding PROFIT activities and, most importantly, on the success of the private sector approach. This can be done within the life of PROFIT project. There is considerable interest by other donors to better understand how PROFIT works.

- Recommendation: Currently, the approach is mainly focused on delivery of appropriate seed, fertilizer and agricultural chemicals and agronomic practices. As the approach scales up, there will need to be more emphasis on input suppliers' growth strategies, management of inventory, access to finance and agent-based knowledge delivery systems. This will provide the basis for instilling greater confidence by smallholders in the credibility of not only the agents, but of the system "solution" approach. This also could be scaled up during the life of project. Projections by PROFIT indicate that by scaling this activity up and continuing the effort into the future would result in an increase in the number of smallholders accessing agricultural inputs on a commercial basis from 71,000 to 360,000 by 2014.

Cotton Sector: The cotton sector, with roughly 250,000 smallholders supplying cotton to the ginneries, plays a key role in Zambia's agricultural sector. Over the last several years, the number of ginneries has increased from four to eleven. However, the sector has witnessed a serious crisis during 2006 and 2007 due to low world prices, appreciation of the kwacha and predatory practices by some new entrants. There is increased side selling and breaches of contracts by smallholders and ginneries. There is potential for loss of confidence in the industry that could threaten industry competitiveness.

PROFIT has provided a number of promising solutions that could significantly revitalize the sector, and help solve many of the problems encountered over the last two years. These include low input conservation farming management training for farmers, commercial spraying and tillage services, out-grower management systems using ICT and mobile banking services that promote reliable producers, and a new model for providing inputs by developing alliances between ginneries and input supplier companies. PROFIT has also helping the industry to address corporate governance.

Traditionally, ginneries have been the primary agricultural input suppliers and distributors to cotton producers. However, the ginneries are not well positioned to provide the extension function to small holders, such as conducting on-farm trials, providing agronomic management information, tillage services, etc. The model being tested by PROFIT demonstrates a new way of doing business, which has potential for revitalizing the industry. A key component of the model rests with the potential to develop stronger relationships (alliances) between input supply firms and the ginneries, and to incorporate the private sector field agents into the system in much the same as noted above for food crops. This model deserves increased attention, as a way of reorganizing and building greater efficiencies in the entire cotton sector, leading to greater transparency in the way agricultural inputs and knowledge are provided to smallholders.

- Recommendation: The crisis that ensued during the last two years involving unfair competition, side selling and inability to honor contracts

poses a threat to the development of the industry if such practices continue. This issue needs to be monitored carefully by USAID/Zambia/EG management and the PROFIT team. PROFIT has initiated a potentially viable set of interventions (the alliance model) and governance that could alleviate this problem. The model and potential solutions represent fundamental changes in the current practices of supplying inputs and has potential to improve competitiveness and transparency of the sector. At this stage it is important for PROFIT to maintain the current level of engagement and to scale up, if resources permit within the timeframe of the project. If this new model does take hold within the industry, then scaling up and continued efforts should be carried forward into the next strategy period. PROFIT projects that scaling up activities will result in 1,050 third party services providers (up from 750 without acceleration), and cotton sales from smallholders increasing to \$32.3 million (up from \$30 mil).

Livestock Sector: The livestock sector contributes to over 40% of agricultural GDP. It provides the single largest contribution to protein in the diet of most Zambian consumers. Livestock also provides a traditional risk aversion strategy for smallholders, including those who also grow food crops. While estimates vary regarding population of cattle, according to sources of information, Land o' Lakes indicates that the number of cattle has decreased over the last 10 years (4.2 million to 2.8 million) due primarily to disease. Smallholder livestock producers especially experience very low productivity, due to the high prevalence of disease and the lack of veterinary services.

PROFIT has initiated a program to improve private sector veterinary services to small producers. The PROFIT model works with private vets and community selected Community Livestock Workers (CLWs), to carry out a Herd Health Plans (HHP) on a contract basis with livestock producers. The HHP provides quality services and product sales on a preventive medicine platform. PROFIT has assisted with community-based promotion campaigns and efforts to increase the number of qualified vets. It is working with the University to change the curriculum to insert business skills training so that private vets will have the business acumen necessary to enter into private practice. The project is also placing new vets with experienced private sector vets to apprentice under them in the HHP.

While this is a fairly new initiative, excellent progress has been made, that demonstrates demand and willingness of small livestock producers to pre-pay for animal health services. PROFIT is also addressing key constraints with respect to the enabling environment, such as removing restrictions on the importation of medicines, creating private veterinary laboratory services and working with the University to increase the number of private veterinarians. The model has gained impressive traction with beneficiaries within the value chain, and has had a major impact in reducing mortality (by 40%) and morbidity (by 70%) for

livestock on HHP contracts. Although the number of farmer clients in the program is still relatively small, there is high potential for scaling up. A level of momentum has been reached to warrant a much larger level of effort, in order to deepen the program in existing areas and to expand the program to other areas.

- Recommendation: This initiative is reaching only a small portion of the livestock sector, and economies of scale have not been obtained to ensure broad impact. Based on the model's success, the activity should be included in the burn rate acceleration of PROFIT to allow scaling up the activity to deepen the impact of the program in existing areas and, if possible, to expand to other areas. In addition, assuming progress continues to be made, USAID/Zambia/EG should carry this program forward into the new program. According to PROFIT's projections, scaling up this activity now with continued efforts over the longer term could result in an increase of HHP contracts with farming groups from 6,600 to over 112,000 by 2014.
- Recommendation: Some sensitivity exists with MACO regarding the provision of private veterinary services, particularly in districts where government vet assistants are operating. On the positive side, MACO has confirmed that government policy mandates the development of private veterinary services and that government vet assistants should focus on regulatory functions, surveillance and monitoring. PROFIT has done a good job of keeping MACO informed about the PROFIT program. Nevertheless, it will important to maintain a regular system of coordination with MACO and, in particular, to enhance coordination and information sharing with provincial/district level government vet assistants and officials.

Tourism, honey, horticulture: PROFIT made useful interventions in other sector and commodity areas, particularly tourism, honey and horticulture. There is little evidence that these areas, with the possible exception of horticulture, will provide the broad impact expected. Horticulture is important as part of the diversification of smallholder risk management and there is evidence that horticulture demand has been increasing in local urban markets, based on FSRP research, and in regional markets as processed products. But the interventions in these commodities demonstrate that the PROFIT model for service delivery is appropriate for many commodities (commodity neutral).

If USAID/Zambia/EG were to have a higher level of funding, there may be scope for maintaining these areas of focus. However, with limited funding, it will be important to focus on those sectors with high potential for broad sector or sub-sector impact.

- Recommendation: PROFIT should develop an exit strategy for closing out these areas by the end of the project, with the possible exception of

horticulture. It appears that urban demand for fresh produce and for processed fruits and vegetables is beginning to outstrip supply. Thus, it would be useful for PROFIT and FSRP to further analyze the case for addressing the economics horticulture, particularly as it relates to smallholder production in rural areas further away from urban markets to determine potential value chain competitiveness. Transportation costs, cold chain requirements and processing are key aspects for further analysis.

Value Chains and Other Commodities: Based on considerable empirical evidence across the African landscape, IEHA gives major emphasis on achieving broad-based growth with impact on large numbers of beneficiaries by focusing on productivity and market access of the important food staples and livestock sectors. In the case of Zambia, it is clear that low productivity of basic food crops, including the lack of efficiencies and related high transaction costs involved in value-addition and market access are key constraints limiting higher growth rates in the agriculture sector. In this context, USAID/Zambia EG program is well positioned to build upon its current successful program interventions to reach a significantly higher level of impact and beneficiary base. To do this, future interventions will need to consider how both input and output markets can be enhanced for commodity value chains that have high potential for sector and/or industry-wide impact.

As noted above, the approach taken by PROFIT does not monitor productivity (yield increases in relation to costs of agricultural inputs) of key food staple commodities that may be impacted by the agriculture inputs initiative. In addition, the design of the PROFIT project is such that only limited attention can be given to increasing market access/output markets. PROFIT relies primarily on lead companies where market access has been established. On the other hand, MATEP does focus on market access but less on downstream productivity. The fit between areas of commodity focus between MATEP and PROFIT are limited by different project objectives.

- Recommendation: USAID/Zambia/EG should begin collecting additional information on food staple commodities, which will be important for designing the future program. PROFIT should attempt to monitor impact of the agricultural inputs interventions on productivity of specific commodities. Such information will be useful to determine broader questions for the next generation of USAID/Zambia/EG interventions. In addition, both existing and additional analyses might be gained from FSRP and MATEP with regard to policy and output markets over the remaining period of the current program. Suggested commodities and value chain analysis could be directed to cassava, groundnuts, soybeans, oilseeds (sunflower).

Finance: PROFIT provides a range of interventions aimed at increasing the availability of finance from commercial banks, focused on promoting alternative financial services and improving credit-worthiness of firms. Some of these interventions are showing promise but progress is slow. On the plus side, efforts to reform credit analyses and approval based on non-traditional collateral, mobile phone financial services, developing value-chain financing, leasing and insurance in the vet sector show some promise and if sufficient traction can be achieved, scaling up these activities would be warranted. On the other hand, attempts to build capacity of banks to adopt new approaches to lending has not yet shown the kind of traction needed to have sector-wide impact, at this point in time. Clearly, the main problem is that banks and the larger financial sector, in general, remain very reluctant to change their traditional processes (collateral requirements) for providing loans, particularly for agriculture. A second problem is that few alternative institutional structures exist to promote alternative financing mechanisms e.g. bond and equities. The reluctance of banks to be more aggressive in the agricultural sector affects the ability to make progress not only for PROFIT, but also for MATEP and the DCA agreements.

- Recommendation: Given the relatively short time frame for the remaining period of the PROFIT project, the various activities in the financial services component should be reviewed with USAID/Zambia/EG staff with a view to focus on only those activities that have the most promise to gain more traction during the remaining period of the project such as mobile banking.

Zambia National Farmers Union (ZNFU): Profit has engaged ZNFU to develop three main capacities: trade and market information systems utilizing SMS and real-time price information, stimulation of agribusiness market opportunities, including trade fairs, and arbitration services for commercial disputes. These activities are appropriate and clearly needed if agribusinesses are to become competitive and viable. The issue is whether ZNFU will take full ownership of the technical assistance and capacity building provided by PROFIT.

- Recommendation: PROFIT has recognized this problem and should continue to work with ZNFU to meet important benchmarks related to taking ownership over the remaining period of the project. An evaluation of ownership and effectiveness of this initiative should be undertaken at the end of the project.

Zambia Agricultural Commodity Exchange (ZAMACE): PROFIT has been instrumental in building the foundation and operational mechanisms for ZAMACE to become a fully functioning commodity exchange. The project has established standards for several commodities, developed short and long standardized contracts, trained arbitrators and initiated work on warehouse receipts. Continued work is needed to aggregate product and operationalize warehouse receipts, however excellent progress has been made that allows the exchange to function immediately. While a number of risks could still delay the exchange from taking

off rapidly, there is high interest by the majority of key stakeholders to make it work. Both government and private sector stakeholders are increasingly coming on board in support of ZAMACE. Others, such as millers are somewhat reluctant. Nevertheless, the case has been made for getting ZAMACE off the ground. Its success will have broad implications for promoting a transparent trading system and price discovery, and moreover, will provide the first demonstration of a functioning exchange in the region.

Banks are still showing reluctance to accept commodity financing, but once the exchange gains momentum, banks are likely to become players. Legislation to provide legal functions as spelled out in the Agricultural Marketing Act and SEC oversight still need to be passed.

A key aspect for catalyzing ZAMACE will be WFP intentions to use the exchange as part of their local procurement. Discussions with WFP clearly indicate their strong commitment to utilize the exchange, and this will help stimulate private traders to use the exchange. The WFP still has to address some of their own internal procedural issues, which would allow them to buy grain more efficiently; it appears that these procedural issues will be worked out fairly soon.

- Recommendation: USAID/Zambia/EG and PROFIT should continue to support ZAMACE, and also continue to lobby for its success at high levels of government and with donors. USAID and PROFIT should also continue to work with WFP as appropriate to utilize ZAMACE. Patience may be required to nurture the process. It is likely to take a couple of years for ZAMACE to become fully operational.

Grant Component: The grant component has been a useful mechanism to support PROFIT objectives. However, some grants have had more impact than others. Some have complemented PROFIT core objectives directly while others were not closely aligned. They also vary considerably in size. The grant to Land o' Lakes, and ATI were to some extent, a function of USAID/Washington's Dairy Directive earmark and/or USAID/Zambia/EG's management concerns. The most successful grants are the Conservation Farming Unit, Forest Fruits, and the VetLab.

Several concerns should be considered by USAID/Zambia/EG regarding future programming of grants. Experience in other USAID projects of a similar nature suggests that more emphasis on smaller grants and the ability to do small subcontracts for short periods of time and with very specific objectives are very useful. Larger grants are more difficult to manage, particularly where the grant involves an institution that has a strong corporate identity to maintain. Specific attention should be given to criteria and management that does not overburden the prime contractor or USAID/Zambia/EG.

- Recommendation: The grant component is a useful mechanism for a project to take advantage of emerging opportunities, and the future program should incorporate this mechanism. The grants should be clearly focused on complementing the core objectives of the project. The grant component within PROFIT represents approximately 40% of the total project's funding. In the future program, the grant component should take a smaller proportion of project funds. Third, more emphasis should be given to smaller, short term grants and/or subcontracts with local entities for very specific activities that can be designed to clearly support core objectives of the project.

HIV/AIDS: To date, PROFIT has received a total of \$850,000 in PEPFAR funds for HIV/AIDS awareness programs. PROFIT has selected a candidate organization to manage the HIV/AIDS awareness program and integrate this into PROFIT's core activities. It will take lessons from regional Tanzania experiences of integrating economic development activities into an HIV/AIDS awareness programs. Through a series of exchanges, PROFIT has begun to integrate its regional experiences with local knowledge from its subcontractor to design a more robust set of activities building on the existing private sector networks. It is not evident that this activity is gaining the traction expected.

- Recommendation: USAID's EG and the HIV/AIDS teams should discuss the need to have more flexibility regarding mechanisms for how PROFIT can implement HIV/AIDS awareness activities, particularly as it relates to the types of private sector entities and their respective demand for such activities.

A.2 Market Access, Trade and Enabling Policies Project (MATEP)

Objectives: MATEP focuses on increasing agricultural exports into regional and international markets by improving efficiencies in trade transactions, improving the enabling environment and building linkages between trading firms. MATEP has five main components: market access; trade and enabling environment; tourism; finance; and HIV/AIDS awareness. MATEP is a \$10 million project covering the period 2005-2010. Of the total, \$2 million is devoted to an investment fund (MIF) managed by the Zambia Agribusiness Technical Assistance Center, ZATAC.

Findings and Recommendations:

Market Access: MATEP focuses on market development and client services to agribusiness firms to increase their exports into regional and international markets. Analysis and experience by the project has increasingly shown that regional markets provide more opportunities for exporters than international markets, at least at this stage of Zambia's export competitiveness. Currently, regional market destinations are primarily South Africa, Democratic Republic of the Congo (DRC), Namibia, Angola and Botswana. While market penetration

has taken place into these regional markets, more work is needed to deepen these regional markets and understand the long term potential for sustaining growth of Zambia's exports into these markets.

Market access activities also include work with value chains, which currently focus on groundnuts, coffee, maize, horticulture/floriculture, cassava, honey, paprika, cotton, and livestock products. It is not clear that all of these value chains represent long-term growth potential in terms of both productivity improvements and export potential. Thus, questions remain regarding the potential for scaling up the level of effort with respect to some of these value chains. MATEP has demonstrated its ability to revise its level of effort to take advantage of opportunities that arise. For example, while work on maize was originally identified in the design of the project, less effort is needed than originally envisaged. At the same time, MATEP has identified new opportunities that were not originally identified, such as market demand in the DRC for groundnuts.

Much of MATEP's level of effort is directed at providing technical assistance to firms at the higher end of the value chain, in order to facilitate "deals" i.e. client services to export firms that are "export-ready", in much the same way that the Trade Hubs operate. On the other hand, PROFIT works downstream with smallholders with less emphasis on market access. While good working relationships have been established between these two projects, the parameters set by project design and contractual deliverables are not conducive to the kind of coordination on value chains that is needed.

- Recommendation: Given that project design and contractual arrangements of MATEP and PROFIT mandate their respective approaches, coordination on value chains is limited. In designing the future program, USAID/Zambia/EG should integrate the market access and trade and enabling environment of MATEP and the downstream value chain competitiveness and productivity objectives of PROFIT into one implementation instrument. In addition, the EG team should focus on value chains that show highest potential for growth, with impacts on large number of smallholders, large demand markets and easy access markets. Experience with the current program, combined with analyses from FSRP, should inform this process.
- Recommendation: Give funding parameters, USAID/Zambia/EG will need to give careful consideration to the cost of technical assistance associated with certain activities and approaches, such as dedicated technical assistance (client services) to individual firms. For the next program, more attention should be given to building local BDS capacity and pulling together information related to key markets for Zambian products that would facilitate firms to access these markets (SPS issues, import requirements, procedures and responsible

organizations, contact points, etc). During the remaining time of the project, MATEP should provide an analysis of how this might be achieved over the longer term.

Trade and Enabling Policy: MATEP has undertaken a very broad agenda to address the enabling environment for exporting, at the domestic, regional and international levels. Efforts include collaboration on trade policy with other partners and local institutions, reducing administrative costs, overcoming barriers to trade, the small claims court and value chains.

Collaboration on trade policy involved working with the Private Sector Development program (PSD), but there was little progress and this work has now terminated. MATEP has worked with MACO, ACF, GTAZ and ZNFU on grain marketing issues and policy development related to the Agricultural Marketing Act, now before parliament. Various issues regarding administrative costs, such as assisting the Zambia Revenue Authority with studies on cargo release times and work with customs officials to improve cross-border movement of goods has provided information into SADC and COMESA. MATEP provided assistance on resolving SPS issues on Zambian exports, including honey, assisted in building trading platforms between Zambia and Angola and worked to develop the Small Claims Court.

Through the MSU sub-contract, a number of studies, surveys and analyses have been undertaken on agricultural growth issues. Such studies have demonstrated their relevance to key policy issues in Zambia. However, MSU comparative advantage lies more closely with food security policy and therefore does not fully add value to MATEP's core objectives of improving the trade enabling environment.

Overall, MATEP has carried out an impressive agenda related to trade and enabling environment activities. However, as is typical with policy reform investments, the "cause and effect" of USAID/Zambia/EG investments on increasing exports is not directly evident. The project has tracked export growth, which is attributed to all components of the project, but it is difficult to determine the impact of any particular activity. A more focused trade enabling environment agenda under the MATEP project, based on a better upfront analysis of the key policy issues, would have allowed MATEP to deepen its interventions on the most high-priority issues, and also to monitor a more direct cause- and-effect relationship between project interventions and increased export growth.

- **Recommendation:** In designing the next generation of programs, trade and enabling environment issues will still need to be addressed as it relates to enhancing Zambia's exports. USAID/Zambia/EG should give attention to a more focused agenda regarding the enabling environment based on lessons learned from MATEP and on the current state of Zambia's policy environment. One way of focusing the trade policy agenda

would be to give increased attention to identifying the most relevant commodity value chains that will underpin Zambia's agricultural growth agenda. It will be important to closely coordinate with other regional USAID projects (COMEPTE, ACTESA, and possibly the new Southern Africa trade program and GFSR) when identifying the Zambian trade policy agenda to ensure strong and complimentary work programs can be developed.

- Recommendation: The MSU subcontract appears to be more of a pass-through to support the FSRP policy activities, rather than a clear contribution to the MATEP trade enabling environment agenda. USAID/Zambia/EG should decide what kind, if any, policy research support may be needed for improving trade policy when designing the future program. .

Tourism: MATEP has attempted to combine a number of activities; including market access, policy, finance and HIV/AIDS to build competitiveness of the tourism industry that will increase competitiveness of the industry and result in an increase in tourist visits and receipts. To do this, MATEP has provided assistance with international marketing, forging alliances, provision of technical assistance to firm level clients, research and skill development within the industry.

Many achievements can be cited regarding MATEP's work in this sector. There is clear positive impact at the firm level, but it is not evident that this is translating into broader sector-wide or industry level competitiveness. The problem can be attributed to the lack of commitment of the various players in the tourism industry to cooperate and to undertake the changes necessary to result in significant industry-wide improvements.

- Recommendation: If funding parameters for the USAID/Zambia Economic Growth Strategic Objective are primarily a function of IEHA funding, the tourism component should be phased out. If other sources of funding are available, such as AGCI, then consideration could be given to tourism. However, given the experience to date with little interest in reforming the sector, it is unlikely that continuing USAID/Zambia/EG support in tourism will achieve sector-wide impact.

Finance: MATEP works with the commercial banks, ZATAC, and with exporting firms to provide new financing arrangements. The goal is to help firms to develop a proven track record of repayment and to graduate them as preferred customers for commercial bank lending. MATEP has three main instruments: 1) short-term export finance with a revolving fund, managed by ZATAC, 2) Medium-term export finance with a revolving fund managed by ZATAC, and 3) Leveraging funding i.e. graduating export firms to commercial banks or other formal sector financial institutions. In this regard, the DCA agreement should provide incentives

for commercial banks to take on firms that have graduated from the MATEP Investment Funds.

For the most part, the two funds have demonstrated expected disbursements and repayments back to the revolving fund is taking place. However, it is too early to know whether the long term outstanding loans will all be repaid. About 12% of loans are currently non-performing. Leveraging is about \$5 million thus far, and most of this (about \$4 million) has come from the a state insurance company, with about \$1 million split between ZATAC's own investment fund and one of the guaranteed banks.

A core objective for MATEP is to increase the ability of export companies to increase and grow their business. A fundamental underpinning for achieving this objective is to increase the availability of finance for exporting firms. The MATEP strategy is sound and there are indications that some progress is being made. However, it is not yet evident that a cultural change is taking place within the commercial banks to take advantage of the MIF facility, even with a DCA arrangement in place. If this finance facility does not demonstrate significant progress in the next couple of years, it will be difficult to demonstrate that impact of the overall MATEP project is being achieved. Viable financing mechanisms are critical for exporting firms and until the commercial banking sector steps up to the plate, this constraint will limit broader impact. A key problem in the commercial banking sector is that most of them will not entertain alternative procedures for assessing credit worthiness, i.e. alternatives to traditional collateral and investing in their own capacity to evaluate alternative lending options.

- Recommendation: As USAID/Zambia/EG designs a examines new program, the issue of developing alternative financial products as a basis for encouraging banks to use different methods of assessing credit-worthiness should be pursued aggressively (e.g. cash flow management, value chain finance, etc.).
- Recommendation: It is too early to evaluate the success of the MATEP Investment Fund in graduating viable agribusiness lending to commercial banks or other commercial financial institutions. There are also some questions that need to be further analyzed with regard to ZATAC's capacity to manage the investment funds. Thus, a focused evaluation of the MIF fund, including ZATAC capacity to manage it, and the overall strategy to catalyze (leverage) more commercial lending should be carried out near the end of the MATEP project.

HIV/AIDS: MATEP implements an HIV/AIDS component utilizing PEPFAR funding. Starting with very modest funding of \$50,000 in the first year, this has increased to \$430,000 in FY 08 funds, for a total of \$910,000. MATEP has worked with experts in HIV/AIDS awareness to develop programs for MATEP

clients. Institutions who have received this assistance include business associations (ZEGA, HCAZ), individual firms, and the Ministry of Labor and Social Services. Other government institutions have asked for this program. The program is highly popular, with rapid uptake because the Zambian business community is clearly aware of the economic impact of HIV/AIDS on their productivity and competitiveness. The program has quickly evolved, including Firms and associations have dedicated their own staff (Awareness Educators) to deepen the program.

- Recommendation: The MATEP HIV/AIDS component has been very successful and is gaining traction with requests for similar assistance from other business associations and also by government. This activity is clearly a success story and the model should be scaled up to the extent possible.

A.3. Food Security Research Project (FSRP)

Objectives: FSRP, implemented by Michigan State University (MSU), has a long-standing presence in Zambia. With funding from USAID/Washington and more recently from USAID/Zambia/EG, the FSRP has contributed a large body of research and empirical evidence to address key policy issues facing Zambian agriculture. The FSRP policy research, analysis and outreach program is one of only a few programs in Africa and has maintained a strong focus on the food policy agenda. The current FSRP program is co-funded by USAID/Zambia/EG and the Swedish International Development Agency (SIDA) at \$8,081,096 during the period of 2003-2010. With USAID/Zambia direct funding, the program has become more focused and FSRP/MSU is much more responsive to the USAID/Zambia/EG program objectives.

Findings and Recommendations:

The FSRP is especially important given the challenges of the policy environment in Zambia, in particular for maize. FSRP has given particular emphasis to the very difficult issues related to fertilizer subsidies, export bans and government grain purchases through the Food Reserve Agency (FRA) and Fertilizer Support Program (FSP). While key stakeholders in the private sector, donors and others are frustrated with the government interventions through these two subsidy programs, the problem would most likely be much worse if FSRP were not present to inform stakeholders and maintain dialogue and pressure on government regarding these policy issues.

Over the years, FSRP has developed very strong credibility with a broad range of stakeholders, including key policy makers in government, donors, the private sector and a number of Zambian institutions attempting to influence the policy agenda. MSU is often called upon directly by policy makers in key government institutions, such as Ministries of Finance and Agriculture, the Central Statistics Office, Parliament, and others to provide analysis and briefings on key issues. In this context, it is important that MSU continue to have direct access to as many

influential stakeholders in various institutions, who can play an instrumental role in reforming their institutions.

At the same time, the issues of capacity building and sustainability within the Zambian institutional framework must be addressed. USAID/Zambia/EG has already adjusted the last funding arrangement and work plan with FSRP to build capacity, particularly within the Agricultural Consultative Forum (ACF). While this approach is sensible, there are issues concerning ACF's institutional viability, their ability to attract funding sources to support their vision, and their ability to play a strong role on behalf of the private sector and civil society to influence policy. (See ACF below). Thus, a predicament exists between building institutional capacity of an institution, such as ACF and/or other Zambian institutions vs. maintaining MSU's proven ability to directly influence key policymakers.

- Recommendation: First and foremost, the FSRP instrument with MSU should be continued into the next USAID/Zambia/EG program. Policy will remain at the forefront of key issues that affect the future growth agenda in Zambia, which will include increased attention to policy related to regional trade. FSRP should also add a livestock component to their research agenda to support PROFIT's efforts in that sector.
- Recommendation: With regard to sustainability and building capacity for influencing policy making within the Zambian institutional context, more attention will needed on how best to move this process forward. It should not be an exclusive function of MSU to undertake this difficult issue. It will require a coordinated approach and commitment by the GRZ, along with a coordinated approach with other donors. More specifically, USAID/Zambia/EG should not be the only source of support for institutionalizing policy research in the Zambian context. Then notion that only one institution, such as ACF, should be seen as the only policy research and analytical body is questionable given the varied and vested interests of different institutions. MSU has taken great pains to maintain a neutral position and is viewed by Zambians as body with no vested interests and, as such, poses little threat to government policy makers.
- Recommendation: The wealth of knowledge developed by FSRP should be a tremendous asset for helping to define priorities during the design of the new EG program. The new program will need to demonstrate how it relates to the increased emphasis on emerging regional issues, particularly agricultural markets and trade, harmonizing policy across borders and identifying growth investments, such as food staples and other value-added investments that can access regional markets. FSRP has contributed analyses on many regional issues and is in a position to assist with this aspect as well.

A.4. Copperbelt Out-Grower Initiative (COI)

Objectives: The COI was set up in 2004 as a Global Development Alliance to address a unique problem of retrenched miners in the Copperbelt mining region. As a GDA, a number of partners were to form the basis for implementation and their respective contributions were to assist mining families to take up agriculture as a livelihood. The program has since been adjusted and is no longer a GDA. It is managed by ZATAC and has a value of \$800,000 through 2010.

Findings and Recommendations:

The COI attempts to address a number of key constraints in an integrated manner to assist former mining households to produce a range of agricultural commodities, utilize irrigation, develop small-scale processing and develop market linkages. This represents a complex set of interventions that involve infrastructure (e.g. irrigation and agro-processing equipment), as well as considerable technical support to provide modern agronomic and farming practices, linkages to market outlets and organization management of farmer groups. ZATAC's role is to provide the management for making all of these various functions happen in an integrated and timely manner. Three communities, consisting of about 60-80 hectares each, with funding of about \$200,000 for each community are the focus for implementation.

Thus far, there is very little evidence that the COI activity is achieving its objective. Part of the problem relates to a very small funding base, given the various issues, including infrastructure, that need to be leveraged. Another part of the problem relates to ZATAC's capability to manage the rather complex set of implementation actions that need to be carried out in a timely manner. Basically, ZATAC's core business is not in line with attempting to manage this activity. It does not appear that this activity will demonstrate a strong outcome, one of which should be to demonstrate a model that could be replicated in other areas.

It should be noted that ZATAC represents a USAID/Zambia/EG success story. It is an institution that has, for the most part, graduated from USAID assistance. Its core business is fairly-well defined and it demonstrates the kind of leadership to become a fully sustainable institution. Nevertheless, ZATAC still struggles to stay focused on its core business because it still needs funding to maintain its operations. Thus, it is tempted to accept funding from donors or others to do work that may not be consistent with its core business.

- **Recommendation:** Managing an activity such as COI is not consistent with ZATAC's corporate business model. Furthermore, the COI has little chance of contributing to a broader sector-wide program that could be scaled up. USAID/Zambia/EG should request ZATAC to develop a clear plan of action, with benchmarks that demonstrate how all implementation actions will be carried out during the remaining timeframe.

A.5. Agricultural Consultative Forum (ACF)

Objectives: The ACF began in the late 1990s with support from USAID/Zambia/EG, Dutch and Norwegian donors. ACF's mission is to be a non-partisan, evidence-based institution that facilitates public-private sector dialogue on key policy issues facing Zambia's agricultural sector. USAID is currently providing \$600,000 as a grant to support ACF through 2010. ACF is also receiving support from SIDA that will be used to hire a research coordinator and partially support MSU's FSRP.

Findings and Recommendations:

ACF's stated objectives are: 1) to provide a forum for dialogue on government policies and programs among key stakeholders; 2) to monitor and evaluate the implementation of government policies and programs and undertake agricultural policy analyses and research; and, 3) to provide an efficient and effective institutional structure responsive to stakeholder needs. The objectives are consistent with objectives provided by FSRP and donor views. However, there is some question, as expressed by MACO, as to whether ACF should be more aligned with MACO to carry out the MACO policy agenda. MACO has at times proposed to put a line item in its budget to support ACF in this regard. For the most part, donors, private sector and non-government institutions support the current approach of ACF as an independent forum without financial support from government.

ACF suffers from a lack of highly qualified researchers who can carry out a policy agenda as envisioned. This is exacerbated by few sources of funding, except that coming from donors. While a few donors besides USAID/Zambia/EG have provided some support to ACF over past years, it has not been consistent nor based on helping ACF address institutional capacity and sustainability. Without USAID support, ACF would not have been able to progress to where they are today. The FSRP has played a key role in providing the technical backstopping for ACF policy work. More recently, SIDA is finalizing an arrangement to support ACF, by which they would provide funding to ACF, who in turn would sub-contract with FSRP to carry out research. This would be seen as a way to put ACF more in the lead on policy, with backup from FSRP. In addition, SIDA funding would support a research coordinator for ACF, who would be responsible for sourcing other such arrangements.

The most recent funding agreement between USAID/Zambia/EG and FSRP/MSU calls for MSU to give increased attention to building ACF capacity and become sustainable. While this emphasis is appropriate, it is not realistic for MSU to carry the entire responsibility. It is encouraging that SIDA has stepped up to assist with the issue of capacity; however, other donors are also needed.

- **Recommendation:** If ACF is to realize its stated objectives, several issues need to be addressed. First, all other donors in the agricultural sector need to find a coordinated approach for supporting the effort to address capacity building of ACF and to build its credibility. Second, ACF will need to have strong and dedicated leadership, combined with credentials, in order to effectively engage with key points in the government. Currently, ACF deals primarily with MACO, but it must also have the stature and capacity to deal with other government institutions, such as Ministry of Finance, Parliament and State House. Third, ACF should develop capacity to attract non-donor resources. Fourth, ACF needs to have high-profile and credible champions on its advisory board. Lastly, ACF should find means to deepen its outreach and credibility with the private sector and civil society.

A.6. Development Credit Authority

Objectives: The USAID/Zambia Economic Growth office manages two loan guarantee programs, one in the housing sector and the other focuses on small and medium size enterprises, valued at \$12 million. Two additional DCA agreements will be signed before the end of December 2008, with two banks for a total guarantee ceiling of \$25 million, both of which will target SME lending.

Findings and Recommendations:

The SME lending guarantee program works with two financial institutions. USAID/Zambia/EG has elected to include two financial institutions to foster competition, which it believes will lead to more attractive loan terms for borrowers. The guarantee is structured so that each of the financial institutions begins with a ceiling of \$2 million. When that ceiling has been reached, the financial institution can request an increase from USAID/Zambia/EG until the overall guarantee ceiling of \$12 million has been utilized. New financial institutions will be able to enter the agreement and utilize the guarantee if they meet the lender risk score assigned by the USAID Office of Development Credit Risk Assessment. USAID/Zambia/EG will establish criteria by which it will determine how much to increase the ceiling (i.e. utilization rate and first phase loan performance). Effectively, only the early, active participants will be able to use the full guarantee availability. Through this competitive approach, USAID/Zambia/EG hopes to encourage rapid utilization and potentially allow for other financial institutions to enter into the guarantee at a later stage.

There were an estimated 2.2 million unemployed in Zambia in 2006. These individuals as well as many small entrepreneurs and subsistence farmers, who may be counted as employed, are prospects for an expansion of SME lending. Borrowers are expected to be classed as SMEs - generally meeting the following criteria:

Medium-sized businesses: A registered business with over 30 employees, \$500,000 in assets, and more than \$125,000 in business turnover.

Small businesses: Not necessarily registered but must have legal registration in Zambia (legal entity) and have between 5 to 30 employees. Besides legal registration, there are no specific legal requirements for borrower status. Thus individuals, cooperatives, partnerships, and limited companies operating directly or indirectly in the agricultural, natural resources and tourism sectors would all be eligible.

These facilities are being established in conjunction with the MATEP and PROFIT projects, which are tasked with working with selected agribusiness or natural resource value chains. The MATEP project focuses on SMEs that are either on the verge of exporting, are expanding exports, or working to add value to exports. The PROFIT project is working to increase the quantity and quality of these cash crops produced by smallholders by working through private sector service providers such as input suppliers and consolidators, with a particular focus on technology. The MATEP and PROFIT projects have funding available for grants and loans (MATEP: \$2 million Investment Fund; PROFIT: \$7 million Grant Fund), that is expected to be used for clients who are not yet ready for commercial funding, or that would be used in tandem with commercial facilities, e.g., a MATEP term loan for a client who has working capital finance from a commercial bank.

The MATEP and PROFIT projects provide technical assistance to the target banks and their clients. Both projects pre-screen and refer clients to the banks, and PROFIT works with the banks on the design of new financial services products, systems enhancements and bank training. Notwithstanding the limited historic interest that the financial institutions have shown for lending to the target market, they are largely considered fairly sophisticated and well managed. The technical assistance provided through MATEP and PROFIT will lower the risks borne by the banks in lending to start-up businesses that have little or no credit history. MATEP and PROFIT also provide business development training to potential borrowers prior to referring them to the banks.

USAID/Zambia/EG is currently developing one additional SME, DCA facilities with a large bank under a single portfolio guarantee - and two smaller banks under a multi-bank agreement. The amount of each facility will be governed by the risk scores assigned by the DCA office's risk assessment team. Under the multi-bank agreement, for the first time, the Mission's Health Team will share in some of the costs and access approximately \$2,000,000 in guaranteed loans.

- Recommendation: Assuming the DCA program shows progress, it is likely that it will be an important part of the overall USAID/Zambia/EG strategy for increasing commercial lending for SMEs during the future USAID program. It will be important to ensure that a parallel finance technical

assistance component be incorporated into the new program. Continued efforts will be needed to assist banks with alternative financial product development appropriate for SME financing.

B. PL 480 Title II Programs

Objectives: The Title II programs in Zambia consist of a DAP implemented by Land o Lakes (LOL) and focuses on dairy (end date with a no-cost extension is now 2009) and a relatively new Multi-Year Assistance Plan (MYAP) for the Consortium for Food Security, Agriculture, AIDS, Resilience and Marketing (C-FAARM). The MYAP is implemented by Catholic Relief Service (CRS), CARE, World Vision (WV) and LOL.

Findings and Recommendations:

The DAP and MYAP are not managed by the Economic Growth office, which poses some challenges for management to improve the linkage between Title II with IEHA objectives. It will be increasingly important that Title programs demonstrate an implementation strategy that transitions the vulnerable into a commercial farming context. Linkages between Title II programs and other projects such as PROFIT need to be established. Thus, forging management connectivity within USAID/Zambia/EG will be important.

B.1 LOL DAP: LOL monetized wheat with a value of \$13 million for a dairy development project (2004-2009). The LOL DAP targets vulnerable farmers with its dairy cattle distribution scheme, and forms them into groups within communities. The program focuses on increasing dairy productivity and improving access to markets. LOL has established cooling centers, or where they already exist, strengthen the farmers' cooperative that manages the center. The DAP also is working to link farmers to veterinarians for animal health service provision. LOL assists farmers to link their cooling centers to milk processors and have also helped processors improve their collection by cost sharing on transport equipment.

The program aims to distribute 1,000 bred heifers to 1,000 households. As a prerequisite to receiving a bred heifer, the household goes through a benchmarking process that includes training, planting and preserving adequate forage, provision of water and building stabling. When the heifer calves, the female offspring is given to the next eligible household, thereby "passing the gift". The program benefits 1,000 direct beneficiaries (those who received the first round of distributions), and indirectly benefited 3,000 households or 18,000 persons. The benefits are increased income from milk sales, and improved nutrition in the home and in the community where some of the milk is sold. The DAP also provides seed capital to the cooling centers in the form of a liquid nitrogen tank and 100 straws of semen for breeding the cows. This will improve the potential for increased productivity. Farmers pay for artificial insemination (AI) and other health services.

One of the issues with the passing of the gift schemes, particularly with dairy cattle, is that the second round of recipients receives a young calf (after almost 1 year of the first distribution). They must feed and care for the calf for at least one year, usually more, before she can be bred, and then wait another 9 months until calving before they get milk production. The first round gets their benefits in less than 9 months while subsequent distributions take close to two years before the benefit stream starts.

While LOL has endeavored to ensure sustainability of the program by lining farmers to private sector input suppliers, it is not clear these relationships will continue after the end of the project. AI services are rendered by trained farmers, and the supply chain for both semen and liquid nitrogen are from local agro-vets. However if demand is not sufficient, this may not be sustained. LOL maintains that because of the shortage of bulls and the expense of keeping bull, farmers are likely to continue with AI even after the project.

B.2 LOL MYAP: LOL is a member of the C-FAARM consortium with a specific focus on dairy development. The MYAP provides \$4.5 million of Title resources and \$0.5 m of DA resources. LOL uses very similar approaches in both the DAP and this MYAP, using Community Animal Health Workers to provide services to farmers and to link them to milk centers (where milk is bulked and chilled in cooling tanks). In time, the CAHWs will be linked to vets in order to provide a wider range of services that CAHWs are not permitted to carry out. LOL is facing challenges in making these services attractive to vet due to lack of business acumen (most have been or are government vets), farmers are used to free handouts and they do not trust service providers to deliver quality services. The MYAP has not been operational for very long, so it is difficult to assess how well the approach will be accepted. There is no geographic overlap with the LOL DAP.

- Recommendation: LOL needs to develop an exit strategy in this last year of the DAP to ensure that key activities will continue after the project ends. As part of the close out plan, LOL should discuss with PROFIT to see if the HHP approach could be developed for the DAP targeted farmers, and if PROFIT might have a role in ensuring sustainability of the activities. USAID/Zambia/EG should work with the USAID/Zambia Title II manager to facilitate this process.

B.3 C-FAARM MYAP: The Consortium for Food Security, Agriculture, AIDS, Resiliency and Markets program is a \$30 million, five year Multi-Year Assistance Program (MYAP) under the PL 480 Title II program. It follows on from the previous Title II Emergency program that responded to a flood disaster. The Consortium is comprised of Catholic Relief Services, CARE, World Vision and LOL. The project assists vulnerable communities in six districts in southern and

western provinces of Zambia. It addresses underlying causes of chronic hunger in targeted rural areas by increasing food security and community resiliency. C-FAARM has three components:

- Agriculture and market linkages
- Nutrition and health
- Community relief action plans

CRS operates through local partners as a way to build sustainability in communities after the project ends. Local partners are often the dioceses, and CRS works with them to build their capacity to carry out development projects. C-FAARM promotes diversification of crops, increased productivity and facilitating market linkages. SO 5 has had discussions with C-FAARM to try to align development approaches with best practices in terms of input supply chains and particularly market-based approaches to agricultural production. Traditionally, Title II programs have not focused on market linkages for their target communities.

C-FAARM selects communities based on 1) being food insecure and 2) market potential and access. The latter criterion is based on the community's apparent openness to produce for the market and the community's past performance in previous projects. The project targets families who are vulnerable but viable, having some productive assets.

C-FAARM at the start up, conducted a survey to identify market opportunities such as supermarkets, agri-businesses who sell on to supermarkets and institutions such as schools and hospitals. The project also hosted a Business Forum that invited businesses from the district and cooperatives to identify existing and potential demand. Seed suppliers were also encouraged to bring their agents to the targeted communities.

At the same time, C-FAARM does an initial direct seed distribution to communities, and farmers repay at harvest time. The plan is to transition these farmers to direct purchases once they see positive results in production.

In addition to increasing use of quality seeds, C-FAARM works with lead farmers providing demonstration plots and extension messages. Conservation farming techniques of pot holing, micro-dosing of fertilizer and minimum tillage are promoted. For the latter, the lead farmer is provided a ripper to share among other families in the program.

LOL focuses exclusively on the program's dairy component, covered above. It receives \$4.5 million from Title II, and SO 5 provided \$500,000 in DA resources.

In recognition of the need to converge Title II agricultural interventions with IEHA approaches, the EG team and the Title II program manager have worked together to ensure a consistency in approaches to improving agricultural

productivity and access to markets. C-FAARM has made efforts to change from the traditional approaches used in Title II programs where the PVO provides goods and services to the target communities, and very little if any work is done to access markets. It is not yet clear at this early stage of the project if C-FAARM will attract private sector firms to provide services (seed supply, rippers, extension advice) to the target communities.

A particularly difficult challenge with CRS's approach to work through local partners is their lack of experience and understanding of development and approaches to sustainability. Dioceses often provide services to these poor communities without addressing long term sustainability; shifting their approach to a business and market oriented one will take time and capacity building.

Recommendation: The EG team should continue working with the Food for Peace Manager and Title II cooperating sponsors who are implementing agriculture activities to align the approaches with best practices and with IEHA objectives. There needs to be more information sharing and commitment to use best practices or promising new approaches (for example, PROFIT's work on value chain development, BDS).

C. Public Outreach

Despite having quality research findings on critical food security and poverty in Zambia, GRZ decision makers are not making use of this information. As in many African countries, food policy is highly sensitive and political, and like other countries, Zambia is "maize-centric". Maize shortages and/or price hikes in these countries can result in bringing down government. Maize is the king maker and king breaker – and politicians favor populist maize policies to gain political support.

The challenge therefore is to not only change the decision makers' perceptions about maize policy, but to also build their constituencies awareness and understanding of the issues and consequences of policy choices.

The most common approached to public outreach on policy issues under SO 5 are:

- Agricultural Consultative Forum:
 - o convenes meetings and workshops encourage networking among stakeholders and to share information;
 - o Policy Advisory Notes or recommendations, thematic papers that result for ACF meetings. The government is not always the sole recipient of PANS. Other documents are sent to relevant stakeholders.

- o monitoring and evaluation activities, such as monitoring implementation of the FNDP and other poverty alleviation programs;
- o Annual review of the GRZ national budget to determine if it supports the development plans (FNDP)
- o Formation of task forces such as the Accelerated Cassava Utilization group
- FSRP:
 - o Collaboration with MACO, Ministry of Finance, Office of the President
 - o Presentations and meeting with the Parliamentary group for Agriculture and Lands
 - o Discussions to stakeholders (millers, traders,)
 - o Use of Policy Synthesis Notes that provide information in a format useful to busy decision makers.
 - o web page that posts all research papers, policy notes
 - o presentations on research findings to donors and international organizations (WFP, FAO, International Fertilizer Development Center)
 - o interaction with other organizations with outreach or influence such as the Jesuit Center for Theological Reflection, ZNFU, Zambia Land Alliance.
 - o Articles in the press, possibly interviews with the press
- MATEP:
 - o Private Sector Development program set up by GRZ and private sector to address constraints faced by private sector. MATEP provided secretariat support for two policy groups.
 - o Close collaboration with GRZ staff to develop issues papers on priority constraints in trade, to draft or revise Acts (Agriculture Marketing Act) , to carry out studies on possible trade constraints (non-compliance with SPS)
 - o Study tours to highlight successes in other countries (SPS study tour to Kenya)
 - o Policy Experiment on maize. Collaboration with World Bank, MACO, ACF to carry out a role play to demonstrate the impact of unpredictable government policy affects actors in the whole value chain.

The EG team and their implementing partners have invested significant time and effort to engage with the relevant GRZ institutions, and while the results are quite mixed, the efforts must continue. The challenge is to find more and different pressure points that will resonate with the decision makers at the highest levels.

Points to keep in mind:

- Ministries of Agriculture rarely have much clout in determining budget allocations for the sector. Decisions are made by Ministries of Finance and in some cases (Zambia), State House.
- Decision makers are more likely to listen to farmers and urban consumers, as they are a large constituency (especially maize farmers) and voters.
- It is not only the MPs on the Agricultural Committee who must be brought along in the policy dialogue, but MPs from regions that will be affected by recommended policy changes.

The current approaches USAID/Zambia/EG and its partners use are very good and are necessary to bring along key stakeholders in lower levels of government, donors, NGOs and private sector actors. But additional strategies have to be taken up to reach the high levels of government, the middle working class, urban consumers and farmers.

Some possible avenues to reach a wider scope of farmers is extensive use of radio and press, with messages tailored to be relevant to constraints faced by farmers and consumers. Talk shows and debates on food security and topical agricultural issues can be effective in reaching urban populations. This may require outsourcing to a firm with experience in developing messages for these media.

Recommendation: USAID/Zambia/EG will need to generate donor-wide support to ACF to build its capacity to effectively and dynamically carry out its mandate as neutral entity and an organization of agricultural stakeholders.

Recommendation: USAID/Zambia/EG should begin to work with FSRP and ACF to identify and cultivate other mechanisms to reach other stakeholders, particularly farmers and urban consumers with empirically based information on policy issues. Print and radio media could be used. Under the future program, resources should be allocated to this outreach effort, and USAID may want to consider working with an organization with capability in communication and outreach strategies.

Recommendation: USAID/Zambia/EG should work with concerned donors to engage more actively with key GRZ officials, and move beyond MACO to include Ministry of Finance, Office of the President, Ministry of Trade, Commerce and Industry in these efforts.

D. EG Team management of the program

Overall Management: The EG program is highly focused and well managed. The team has maintained its focus and has not let the program deviate from its

principle objectives. The team has been very creative at leveraging funding from various sources and using them to further the objectives of the program. They have also been able to use directed earmarks such as the dairy directive to further the objectives of the program rather than adding on side activities with little relation to the core program. The team has made an effort to work with Title II agriculture programs to decrease the divergence in approaches of USAID/Zambia/EG-funded activities.

Annual work plans: Implementing partners submit annual work plans in draft to their respective CTOs for review and comment before they are finalized. The SO 5 team believes that these are most useful for the implementing partners as it provides a detailed road map for the next year of implementation. The plans are very detailed, but can be revised with USAID/Zambia/EG approval, as implementation proceeds to reflect changing circumstances.

Reporting requirements. The DAI contract requires the contractor to submit monthly reports on implementation. This level of reporting seems unnecessary and wasteful. Grantees and contractors alike submit quarterly and annual reports to CTOs.

- Recommendation: Since this is a contractual requirement in the current contract, this cannot be discontinued. In the future, monthly reports should be eliminated from reporting requirements

Monitoring. CTOs, often with the EG Team Leader in attendance, meet with implementing partners on a bi-weekly basis to discuss current issues, resolve problems and helps keep USAID/Zambia/EG staff abreast of implementation progress. Initially, quarterly meetings were organized to bring all the projects together to ensure coordination of activities and to share information. These were discontinued since project staff set up their own coordination mechanisms without the need for formal quarterly meetings.

- Recommendation: The EG team should try to get to the field more often to monitor activities in the field and gain a better understanding of the successes and constraints, and to meet with district GRZ staff.

PMP and OP results against targets. Most of the programs are achieving or exceeding PMP and OP targets. Some programs do not have meaningful indicators (ACF, COI), and in the future program this should be rectified for ACF. There are no clear indicators for productivity in the current PMP. Currently the EG team does not appear to track progress on policy change.

- Recommendation: For the future program, indicators for agricultural productivity and smallholder access to markets needs to be tracked to demonstrate contribution to IEHA's objectives. A system of weighted benchmarks could be set up so that the program can take credit even for small, slow progress. The indicators for ACF could be linked to the policy progress benchmarks.

Staffing. Although there are only five contracts/agreements, the EG program is management intensive. In addition to the required project oversight and reporting requirements, the EG team also manages the “invisible” (no contract or agreement) DCA portfolio. The EG program requires regular contact with a wide range of government, NGOs and private sector partners and stakeholders as well as donors. Policy dialogue is intensive, reiterative and must be carried out by a range of USAID/Zambia officials. The FSNs play a key role in this due to their personal contacts and understanding of the Zambian context. The EG Team leader plays an important role in elevating the discussions for increased impact. One EG staff conducts the Initial Environmental Examinations for all the SO teams in the mission, and collaborates with the Title II program. The Title II program will in the near future be brought under the GDO, and it is expected that the collaboration will be intensified as the mission attempts to better align program approaches. There is one vacancy in the EG Office that will need to be urgently filled. In addition, the private sector development activities now under the GDO officer will be off loaded to the EG team, and it is likely that the EG program will receive a large increase in funding in the near future.

- Recommendation: The vacant FSN slot should be filled as soon as possible. With the increased responsibilities of closer work with Title II, new private sector responsibilities and increased future funding, the EG team should consider pressing for an additional FSN position. Considering the existing skills, it may be appropriate to add finance and banking skills with the new position.

IV Recommendations

A. For remainder of current program

For the remainder of the current EG program, USAID/Zambia should maintain the projects as they are, with some adjustments.

PROFIT:

1. Accelerated Burn Rate Proposal: The EG team has made a strong case for shortening the implementation period for PROFIT and FSRP, and putting the full funding level into this shortened period. If funds allow, the FSRP activities under MATEP should be accelerated. Scaling up also could also imply that other activities could be scaled down particularly if they will not be carried forward into the new strategy period. Increasing the burn rate will, *inter alia*:

Activity	Current LOP (4/2010)	Accelerated Scenario (12/2009)	Taken to Scale thru New program (2014)
HHP contracts	8,500	19,000	112,089
Ag Inputs – # farmers served	85,000	121,000	363,917
Marketing – MT maize	1,500 MT	10,000 MT	104,858 MT
Farmgate sales - \$	\$3.8 million	\$9.15 million	\$57.8 million

2. PROFIT should incorporate monitoring and documentation that shows impact of agricultural inputs activity on productivity of the targeted smallholder crops and on smallholder access to markets. This is an important IEHA indicator.
3. Roll out the new PROFIT agricultural inputs model and continue assisting to improve transparency for the cotton industry. These efforts should increase productivity as well as to reduce predatory behavior of rival ginneries and side selling.
4. Establish clear benchmarks for the ZNFU grant from PROFIT with the objective to ensure ownership by ZNFU by end of the PROFIT project.
5. Continue work on promising financial products, including mobile banking, but cut back on activities that to date have had little impact or demand.
6. Continue to financial support to ZAMACE as well as needed technical assistance to ensure its success. Maintain close collaboration and possible assistance if needed to ensure that WFP is able to utilize ZAMACE. Making ZAMACE work will continue to be a priority for the future strategy.

7. Increase USAID/Zambia/EG and PROFIT information sharing with MACO at national and district levels (agricultural inputs and HHP), to keep the key staff abreast of project activities and results. Use these to promote the unique and successful approaches of USAID/Zambia/EG's private sector approach and for avoiding any potential conflict with government extension activities.
8. Phase out (including exit strategy) for tourism activities in MATEP and PROFIT by end of project.

MATEP:

9. Conduct a special evaluation on the MATEP MIF fund with the objective to examine ZATAC capability for future management and to determine if the MIF fund should be continued into the future and, if so, how it should be managed.
10. Scale up HIV/AIDS activities under MATAP if funds become available from PEPFAR.
11. MATEP should develop a strategy to build capacity of local BDS or other appropriate entities in Zambia that can begin to take over the client services to individual firms provided by MATEP technical assistance. The objective should be to commercialize (fee based) this activity. This may require a longer term effort into the future strategy.

FSRP:

12. For the shortened FSRP activity should work more intensively with ACF to start building their foundation to become a stronger player in policy dialogue. FSRP will be able to engage more Zambians for research and outreach activities. FSRP should intensify their outreach efforts to get out the results of their past year of research and analysis. They should add livestock to their research agenda.
13. USAID/Zambia/EG should begin to work with FSRP and ACF to identify and cultivate additional mechanisms to reach other stakeholders, particularly farmers and urban consumers with empirically based information on policy issues.

ACF:

14. Working with other donors, accelerate efforts to develop a coordinated approach and broad donor support to build capacity and sustainability of ACF. While part of this effort falls to FSRP and SIDA at present, other donors need to be involved. USAID/Zambia/EG is in a good position to provide a leadership role. Issues include ACF leadership, the independence of ACF, qualified researchers, finding credible champions within Zambia, and funding.
15. USAID/Zambia/EG should continue working with donors and ACF to closely monitor the GRZ's performance of FNDP implementation, and press for

inclusion of more agricultural-sector indicators in the PAF. ACF should be supported to carry out their role in monitoring the implementation of FNDP.

COI:

16. Develop a corrective-action plan, establish benchmarks and develop an exit strategy if an early close-out of the COI project is required.

Title II

17. USAID/Zambia/EG should work with the USAID/Zambia Title II Manager to develop a close out strategy for the LOL DAP. Consideration should be given to whether PROFIT's model for service provision should become part of the close out plan.
18. USAID/Zambia/EG should continue working with the USAID/Zambia Food for Peace Manager and Title II cooperating sponsors to align the approaches with best practices and with IEHA objectives. The PROFIT models should be used to help this process.

Donor Coordination:

19. With other donors, work with various GRZ ministries to highlight importance of CAADP, of undertaking a quality process and of using existing analysis to inform the choices for CAADP investments. Continue pressing for establishing quality indicators and more appropriate budget allocations in CAADP.
20. USAID/Zambia/EG should work with concerned donors to engage more actively with key GRZ officials, and move beyond MACO to include Ministry of Finance, Office of the President, Ministry of Trade, Commerce and Industry in these efforts.
21. USAID/Zambia/EG should continue efforts to leverage other donors' funds, promote successes particularly from PROFIT's innovative approaches, support for ACF, and continue USAID's intellectual leadership among donors to intensify dialogue with a wider range of GRZ ministries on budget allocations and maize and fertilizer programs.

CAADP

22. USAID/Zambia/EG should work with donors to dialogue with MACO and with other key GRZ officials on the importance of pursuing and committing to the CAADP process, and to improve consultations with all the stakeholders.
23. USAID/Zambia/EG should continue its efforts with donors and GRZ to tighten up the CAADP process and to impress on both the need to insert quality indicators on such CAADP targets as the percent of GRZ budget allocated to

agriculture. This will be critical to ensuring that programs such as FSP and FRA do not continue or even expand under CAADP.

EG Program Management

24. The FSN vacancy should be filled as soon as possible
25. If the program receives increased funding, an additional FSN position should be created to handle additional management requirements. Consider adding finance/banking talent to the team.
26. The EG team must ensure that there is no gap between the end of the current set of projects and the new program.

Design

27. In preparation for upcoming design, start analyses on potential staple food value chains and export potential value chains. The staple food crops will be important in terms of continued funding from IEHA and potential new funds from GFSR. (see point 1 above). In this regard, FSRP/MSU should be a primary source of information and any additional analyses.

D. M&E, Gender and HIV/AIDS

M&E

The EG team should begin monitoring changes in smallholder productivity and market access for smallholder producers that are important to achieving IEHA objectives. There should also be more attention to “get behind the numbers” to understand the basis for the achieved impact, and this should be built into future contracts/agreements along with budget allocations.

Gender

Mainstreaming gender is a challenge for the set of activities being implemented under the EG program because of its business and market driven approaches. To be successful in developing agriculture on a commercial basis, clients must self-select rather than the traditional approach of projects determining who will participate. The EG program does not target smallholders as a group, but develops systems to provide services to the agricultural sector, small and medium farmers and businesses.

1. PROFIT has indicated that they will be undertaking a survey to better document and understand the impact of their activities. These surveys should include a component to look specifically at impact on men and on women to ascertain and understand differences.
2. Explore the possibility of adding small stock to the HHP. There may be scope for increased women's participation in the HHP with the inclusion of poultry and small ruminants since women are more likely to manage these livestock.

3. Continue work on mobile banking. The work on mobile banking also offers promise for increasing women's access to savings services that can become the basis of investment in such things as agricultural inputs and animal health services.

4. In the future program, value chain analysis should put more effort to identify the role of women within the value chain, and identify their constraints. Project level M&E systems should also be structured to assess and understand gender differences in impact.

HIV/AIDS

1. If PEPFAR funds continue to be available, continue the workforce based activities for HIV/AIDS awareness.

2. If PEPFAR funds become more flexible, there is scope for the EG program to scale up fortified food products, labor saving technologies and others that would focus on skills and comparative advantage of the EG portfolio.