

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB3072

Project Name	Commercial Agriculture Project
Region	AFRICA
Sector	General agriculture, fishing and forestry sector (60%);Irrigation and drainage (40%)
Project ID	P102459
Borrower(s)	GOVERNMENT OF ZAMBIA
Implementing Agency	
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

Development Issues. Zambia is a land-locked nation with a total land area of about 750,000 km and a population estimated at about 10.5 million people. Zambian economy has been long dependent on copper mining¹. During 1999–2005 real GDP grew at an average rate of 4.6 percent a year. This relatively strong performance, however, has not translated into significant declines in poverty. In view of this weak growth-poverty relationship and the general volatility of copper prices, the key development issue facing the country is to diversify from copper mining into alternative, more shared sources of growth.

Agriculture has emerged as one of the alternative sources for shared growth and poverty reduction. The country is endowed with a large land resource base of 42 million hectares of which only 1.5 million hectares is cultivated every year. Moreover, there are abundant water resources that could be used profitably for irrigation. Agriculture contributes 18.6% to GDP and about 10% of export earnings. The sector provides employment to some 70 % of the labor force.

There has been a good growth in both crop production and the value of exports from Zambia over 2000–2005 period. Much of the growth has come from the commercial farming sector, but smallholder production of maize and some export crops has also been encouraging. Growth in the crops that are locally marketed (i.e. maize, wheat, cassava, groundnuts, sweet potato) or for stock-feed (i.e. soybeans) has been particularly good. Agricultural exports showed considerable expansion until the sudden appreciation of exchange rate in 2005. The main agricultural exports from Zambia are cotton, tobacco and sugar, which make up about two-third of total agricultural exports. Exports of Virginia tobacco and coffee have shown exceptionally high growth rates, whilst the growth of the other export crops has been slower.

¹ With the decline in world copper prices Zambia witnessed a radical decline in per capita incomes from US\$752 in 1965 (independence) to US\$440 in 2004.

Zambia has a dynamic commercial farming sector which has a capacity to adopt and capitalize on market opportunities locally, regionally and internationally. The commercial farming sector includes 600-750 large scale commercial farms (LCFs) which generally use modern irrigation technologies (center pivots, drip, etc.) and possess good farming and management skills. Most LCFs are located along major transportation routes and near population centers and occupy state land under long-term leases. In addition there are some 40,000-60,000 emergent commercial farmers (ECF) who occupy both state land under long-term leases and land held under traditional tenure systems. ECFs are more commercially oriented than the typical smallholders and grow staple foods and cash crops such as cotton, sugarcane, and Burley tobacco. Together, LCFs and ECFs have made a significant contribution to rural job creation². Smallholders, on the other hand, produce the majority of cotton, Burley tobacco, groundnuts, cassava and groundnuts.

Commercial farmers and agribusinesses are increasingly ready to work with medium and small scale producers. This cooperation between commercial farmers and smallholders may be a mutually beneficial strategy. Smallholders benefit from receiving inputs and sometimes they are able to market their output through the commercial farmers. They also learn modern farming techniques and management skills. In return, commercial farmers are able to improve their economies of scale through purchasing crops from neighboring smallholders, particularly for value-added activities (e.g. milling maize, processing bio-fuel). Moreover, there is a potential to include smallholders into commercial irrigation systems in order to reduce the unit cost of water. These positive spillover effects from commercial farming to smallholder sector are evidenced by the increasing willingness of Traditional Chiefs to give up customary land for the development of commercial farming, which is based on the broad belief that development of commercial farming will also benefit smallholders. Having good cooperation between farmers also makes for a more secure and stable environment in the light of high cost of maintaining property rights of land in Zambia.

The key constraints for the sector to reach its potential and increase its contribution to shared growth and poverty reduction include: (i) Macroeconomic instability, in particular exchange rate instability, (ii) Shortage of long-term finance on appropriate terms, (iii) High transport costs and shortage of electricity, (iv) Low levels of irrigation development, and (v) Access to land, land tenure and transferability.

Constraints (i) – (iii) are being addressed under existing Bank and donor operations. The Bank and IMF continue to closely monitor the country's macroeconomic situation and provide the Government with technical assistance on the management of exchange rate fluctuations. Bank is also supporting the Government in carrying out broader financial sector reforms through its Financial Sector Development Plan (FSDP). Several donor funded projects are trying to improve the access to term-capital in agriculture through targeted lines of credit, such as IDA funded Agricultural Development Support Project (ADSP) and IFAD's Rural Finance Program. The ADSP is also supporting rehabilitation of rural road network in high potential agriculture areas. IDA funded Road Rehabilitation and Maintenance Project (RRMP) supports rehabilitation of main trunk roads and bridges. The EU and GTZ also provide substantial resources for road rehabilitation in Zambia. A number of donors are supporting smallholder commercialization (IFAD, AfDB, SIDA, USAID, IDA).

² It is estimated that an average commercial farm creates about 100 permanent jobs and up to several thousand seasonal jobs in more labor intensive sub-sectors (i.e. coffee, sugar, tobacco, vegetables). Well established commercial farmers provide their workers with various social services such as decent accommodation, schools and clinics.

The residual binding constraints of (iv) and (v) include the following issues:

Low Levels of Irrigation Development. Zambia's irrigation potential has been estimated of over 650,000 ha of which some 528,000 ha is unused (about 80%). Of the 119,500 ha put to irrigation annually, over 90,000 ha is classified as dambo/recession irrigation, most of which is used for informal irrigation by smallholders carried out on opportunistic basis rather than a formal structured scheme development. The remainder of irrigation areas, about 27,500 ha, is developed under large-scale commercial farming. The competitiveness of commercial agriculture in Zambia is heavily dependent on irrigation. Without irrigation farmers are generally constrained to growing low-value crops that give problems of variable yields and quality as well as low profitability. Incremental increase of crops such as coffee, sugar, Virginia tobacco and wheat in rotation with maize and soybeans, is only possible under irrigated conditions. The AfDB is planning to support small-scale smallholder irrigation development through its new Smallholder Irrigation and Marketing Infrastructure Support Project (SIMISP). However, no donor supports the development of large scale collective water mobilization and supply irrigation and/or multi-purpose schemes which would benefit all types of farmers.

Access to Land, Land Tenure and Transferability. While Zambia is a land abundant country, only 15% of its 42 million hectares of arable land is currently being utilized for agriculture. The process of opening up new areas for commercial agricultural investments has been slow largely because of an inefficient national land administration system with very slow land allocation and registration processes. There is a backlog of more than 2,000 applications for land allocation and registration. Discouraged by the slow process of land acquisition, many investors prefer to buy land which is already registered and has a title. In order to open up new areas for commercial development, the Government has embarked on Farm Block Development (FBD). FBD involves opening up large, undeveloped rural areas with commercial agricultural potential by converting customary land to statutory land and investing in complementary infrastructure to attract investors. FBD involves a core venture linked with large, medium and small-scale farms through outgrower arrangements with the objective of achieving economies of scale³. However, evidence from some existing farm blocks, particularly Nansanga, indicate that public investments in road infrastructure and electricity, and the advent of commercial farmers in the area do encourage land speculation and illegal settlements which generate increased volumes of land transactions and land disputes that are beyond the capacity of traditional leaders and district councils to manage. There is therefore a need to address not only inefficiencies in the national land administration system but also the lack of capacity in land allocation and registration at local level. In spite of these challenges in land administration, there are no donors involved in the land sector, except Oxfam (UK) which has been funding the participation of the Zambia Land Alliance in the consultation process over the draft land policy.

Government Strategy. The Fifth National Development Plan (FNDP) (2006-2011) has identified agriculture and rural development as one of its development priorities. The key interventions in agriculture will be the improvement of agricultural productivity, reviving and strengthening agricultural extension services, enhancement of animal health and livestock production and technology transfer. The FNDP is also giving high priority to the development of irrigation infrastructure and commercialization of agricultural land through the FBD program.

³ The Government has identified nine farm blocks under its FBD Plan, one in each of Zambia's provinces. Under phase 1, it plans to develop the Nansanga (Central Province), Kalumwange (Western Province), and Luena (Luapula Province) farm blocks.

The GRZ has developed a new Irrigation Policy and Strategy (2004) and embarked on a comprehensive National Irrigation Plan (NIP) to revamp the country's irrigation sector. The NIP is well integrated into a broader water resources action program through which the GRZ is now placing great emphasis on developing and managing more sustainably the country's water resources. Recognizing that irrigation is a high input and intensive enterprise, the NIP from the outset points out the fact that its interventions should be inclusive in targeting all categories of producers, whether they are smallholders, emerging commercial or large scale commercial farmers, living within areas of high potential for irrigated agriculture. It also calls for a much greater focus on public-private partnerships, on small-large scale farmer cooperative arrangements, and market development opportunities where the country has a competitive edge either for import substitution or for exports.

The Government has started to implement the NIP by allocating greater budget support for public good components of irrigation investments to all farm units whether traditional, emerging or commercial. It has also created Irrigation Development Fund (IDF) which would be a source of credit to finance investment in irrigation sub-projects by farmers and private industry operators for irrigation equipment and on-farm land and irrigation development and/or improvement works.

Rationale for Bank Involvement. There are at least three reasons why the Bank should support this operation. First, the Government of Zambia has requested its support for the development of irrigation infrastructure. The Government has demonstrated a clear vision and commitment to the development of the country's irrigation sector through the development of coherent and complementary strategic, policy, financial and operational oriented plans such as FNDP and NIP. The main thrust of placing irrigation in the context of its linkages not only to water management and agricultural development but also to markets and to "public-private-producer" (all producers) development partnerships is fully consistent with the findings and recommendations of the World Bank's new agenda for re-engaging in agricultural water management in Africa.

Second, as one of the lead donors, the Bank continues to play a significant role in ensuring a more harmonized approach in agriculture sector development among Cooperating Partners (CPs). There are opportunities to use the proposed Bank financial support and technical skills to mobilize additional resources from other CPs and private sector, as well as a possibility to influence the public expenditure structure towards more productive expenditures, including irrigation and land development and administration.

Third, addressing the issues of agricultural commercialization and rural development requires holistic solutions which go beyond the agriculture sector domain. These include issues that are part and parcel of broader "investment climate" and macro-economic issues. The Bank has the technical and analytical capacity to address the wide spectrum of issues which complement direct investments into agricultural productivity enhancement (i.e. PSD reforms, financial sector and macroeconomic policies). Furthermore, the Bank is in a unique position to address agricultural development through a comprehensive rural development platform which combines improved service delivery and market development with infrastructure and natural resource development.

2. Proposed objective(s)

The project development objective is to improve the supply response to market opportunities for specifically targeted commercializing smallholders through public-private partnerships with

commercial farmers. This will be achieved by improving smallholder and commercial farmer access to irrigation and market information, and by strengthening land administration and land use planning.

3. Preliminary description

The proposed project would support the following components:

Irrigation Development. The proposed project will assist the Government in the implementation of priority irrigation development activities under the NIP and to achieve its targets under the FNDP. The main thrust of the project is based on comprehensive approaches which link water management to specific market opportunities. Given the general scarcity of resources for irrigation development, creative approaches and partnerships are needed for irrigation development. This will mean that the Government and CPs need to work directly with the private sector as implementing partners. The project would aim to support development of the irrigation sub-sector through at least three entry points.

First, through investments to support civil works and equipment for water mobilization, conveyance, delivery to and rehabilitation or improvement of collective or individual irrigation schemes. The IDA funds would be designed so as to match or complement funding of MACO public investment budget, and of the IDF. The proposed investments would include collectively managed sub-projects for small and medium size outgrowers, development of the irrigation schemes for priority farm blocks, and those proposed by large scale commercial farmers which serve equitably all concerned water catchment users through the public-private farmer partnerships for the financing, construction and management of collective water mobilization and supply irrigation and/or multi-purpose schemes.

Second, through institutional and social development activities that help to: (i) Implement some of the NIP's more critical interventions (i.e. establishment of cost effective and sustainable irrigation development funding and management mechanisms); (ii) Pilot the implementation of some of the provisions of the new Water Resources Management Bill (to be enacted) as they relate to irrigation, such as the establishment of catchment or sub-catchment councils and water users associations; (iii) Technical assistance and advisory services for eligible public-private-farmer partnerships; and (iv) Support MACO core functions as they relate to irrigation and water resources management (i.e. inventory of existing irrigation schemes; needs assessment of water resources availability; feasibility and design studies; data and policy analysis; monitoring and evaluation; capacity building and training, etc.).

Third, through supporting the private sector in the development of a proper and efficient supply of irrigation equipments for all types of farmers, with a particular focus on ECF and smallholders.

Land Administration and Land Use Planning. To address issues in land access and land tenure and transferability in the broader context of commercial agriculture development, the following types of interventions are suggested: (i) streamlining and simplification of land allocation and registration to cut processing time and costs; (ii) modernization and strengthening of national level land administration services to increase efficiency and transparency in physical and land use planning, surveying, registration, valuation, arbitration and land information system (LIS) and the management of state lands; and (iii) decentralization of land administration to selected provinces, districts and

municipalities with high growth potential to handle increased volumes of land transactions and disputes.

Furthermore, the proposed project would support technical assistance and professional services for surveying and land use planning; equipment and materials for services such as land use planning and surveying; land information capture and presentation in the form of digital data and maps; IT equipment for LIS; office buildings especially for decentralized land administration; buildings and equipment for supporting land transactions and the management and storage of land records; logistical equipment and vehicles to support field activities; and incremental operational expenditures such as support for Land Tribunal activities to eliminate a back-log of land cases. Spatial land use planning database will be developed which would combine various spatial data layers (i.e. soil productivity, vegetation cover, land use, water courses, hydrology analysis, areas prone to flooding and drought, roads and other infrastructure, settlements, crop distribution, domestic and export market access indexes) and convert them into a dynamic and flexible planning tool, which could be used to prioritize areas of high commercial agricultural potential for infrastructure development.

Market Development and Information. Zambia faces high transport cost to global export markets. The project would provide resources for agricultural and marketing support activities which are related to the development of commercial agriculture opportunities, and which complement the proposed investments into irrigation development and land administration. This will include identification of opportunities to access regional markets, domestic markets (i.e. stock-feed based industries) and import substitution (i.e. bio-fuel industry). Technical assistance will be provided for market analysis, strategic planning, prioritization of public sector policy initiatives for competitive agriculture development, and addressing existing policy and regulatory constraints. Some support could be also provided for the technical assistance for the FBD to ensure the adequacy of the planning and design process involving private sector partners, and support Zambia Development Agency's (ZDA) efforts to promote investment in agro-processing to potential investors.

Results Framework. The project is designed to improve the economic well-being and livelihoods of commercializing smallholders. The key expected outcomes are improved access to markets, changes in cropping patterns, adoption of sustainable production systems, increased yields and improved farmer incomes. A Results Framework (RF) will be designed to capture these results through measurable indicators. In particular, the indicators will have baseline values and specific targets that will measure the causal relationships between expected results/outcomes and the interventions of the project. A robust M&E system will be set up to track data throughout the life of the project. A detailed RF will be developed during the identification mission with the help of an M&E Specialist.

Project Components	Indicative Cost, US\$m Bank financing
Irrigation Development	23.0
Land Administration and Land Development	5.0
Market Development	1.0
Project Management	1.0
TOTAL	30.0

4. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	10
International Development Association (IDA)	30
Total	40

5. Contact point

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